

# City Fiscal Conditions and Responses

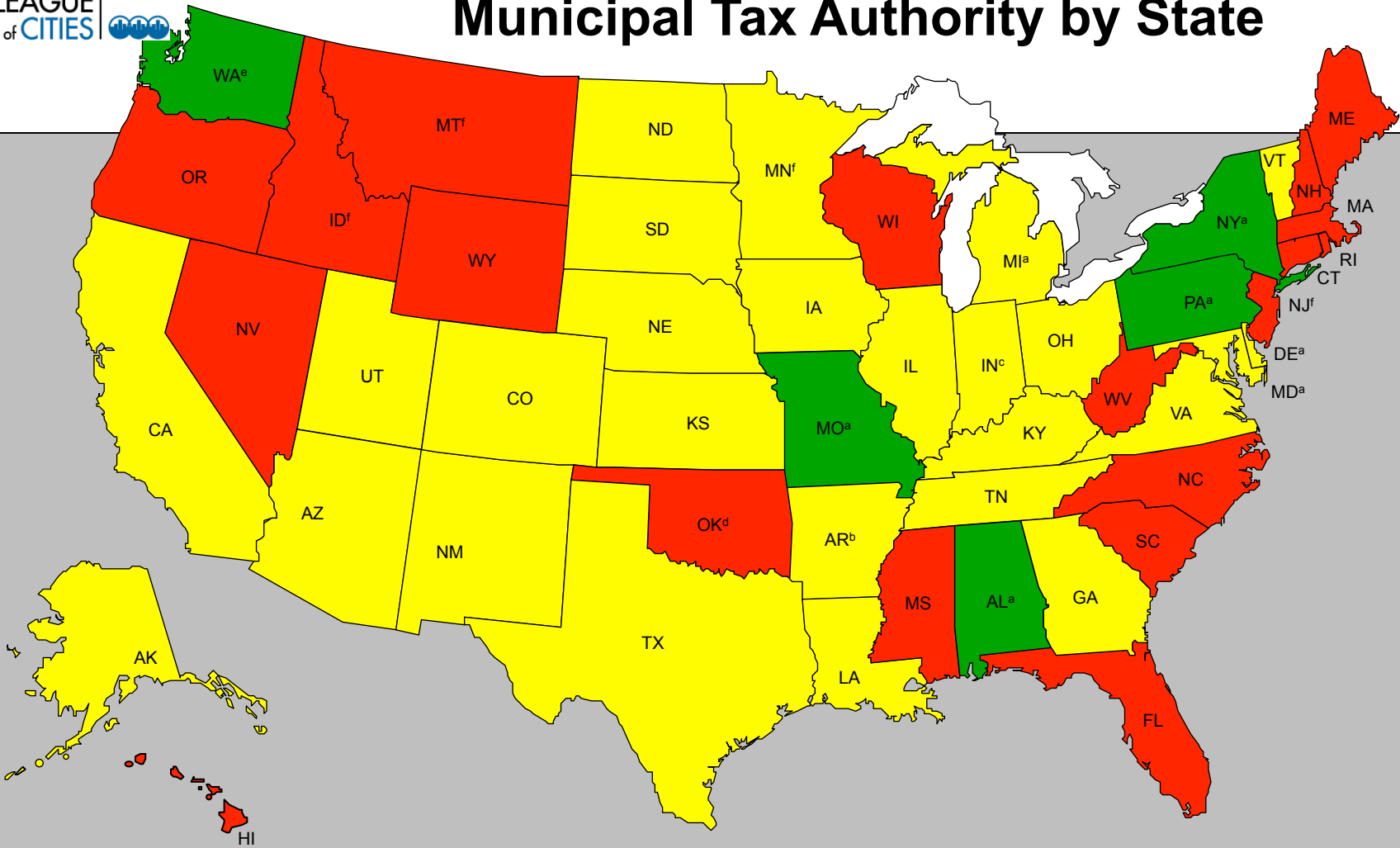
11<sup>th</sup> Annual Lent Upson Lecture  
October 21, 2010  
Wayne State University  
Detroit, Michigan

Chris Hoene  
Director, Center for Research & innovation

- **LEARN** about cities
  - **INNOVATE** through best practices
  - **SHARE** practices with networks of city leaders
  - **LEAD** by taking action
- **Programs**
    - Finance
    - Economic Development
    - Sustainability
    - Community Development
    - Infrastructure
    - Immigration

*“An Action Tank for Cities”*

# Municipal Tax Authority by State



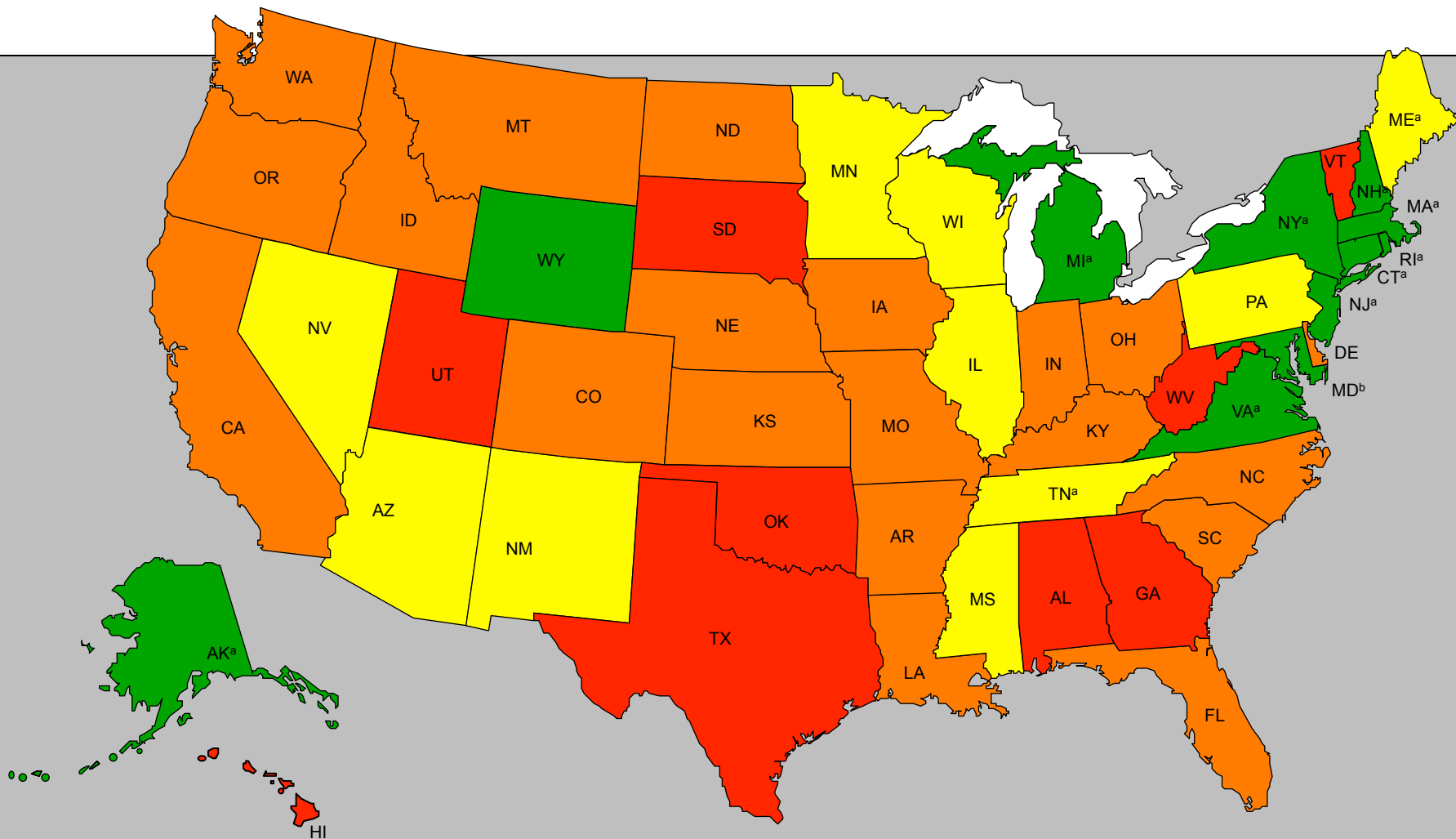
**a** Income or sales tax for selected cities. **b** Cities can levy a local income tax, but no locality currently does so. **c** A local income tax under certain circumstances. **d** Sales tax only; cities can levy a property tax for debt-retirement purposes only. **e** Cities can impose the equivalent of a business income tax. **f** Sales taxes for selected cities and/or restricted use only.

Property + sales + income

Property + sales OR income

Property or sales only

# State Aid to Cities, % of General Revenue

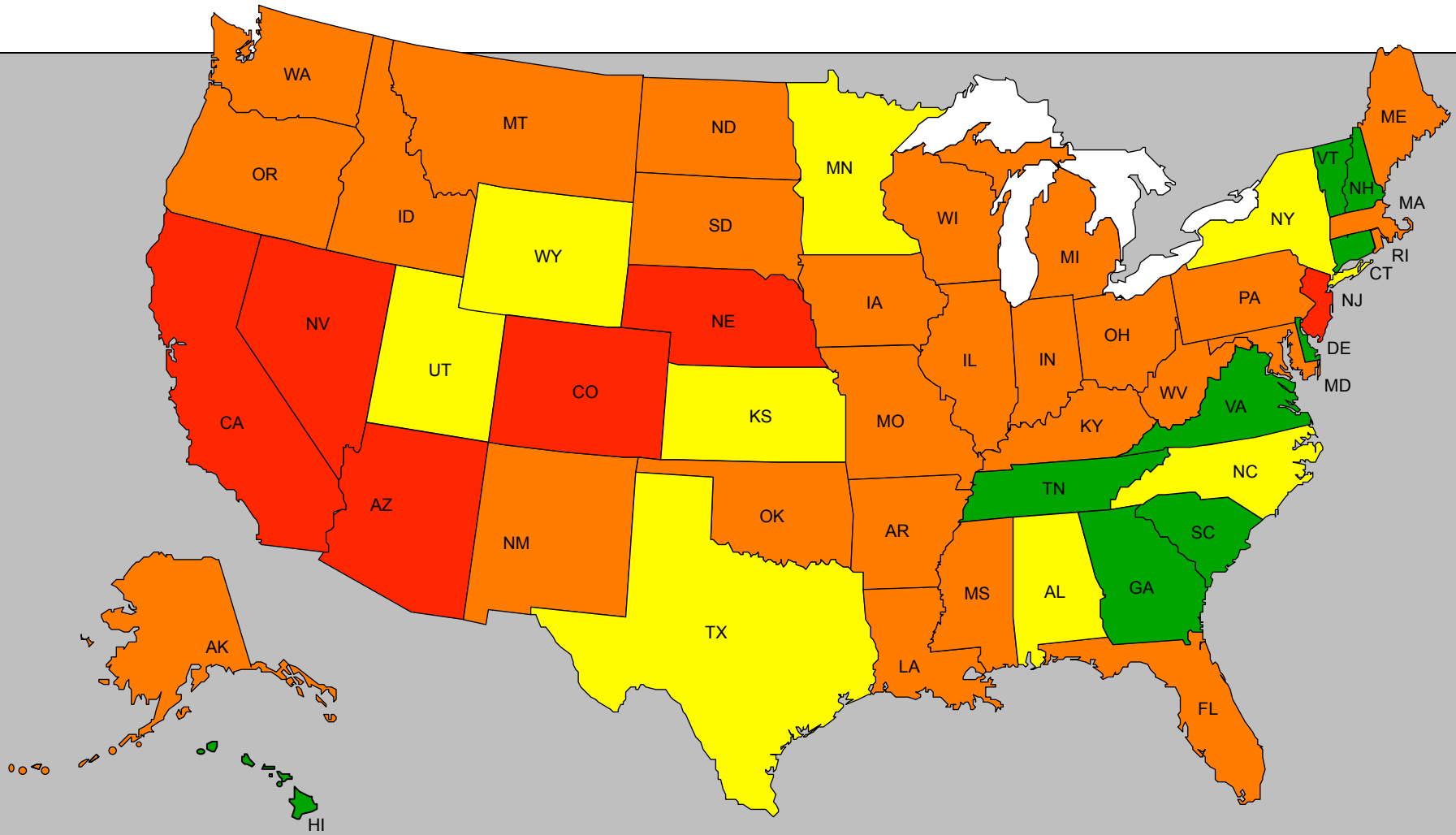


<sup>a</sup> City authority for schools/education. <sup>b</sup> City authority for schools/education for Baltimore city-county only.

Mean: 19% Standard Deviation: 12%



# Local Tax & Expenditure Limits (TELEs)



No TELEs

Non-binding property tax limit

Binding property tax limit

Binding property tax limit + general rev/exp limit

- Annual Survey of City Finance Officers
  - Conducted annually since 1985
  - Sent to 1,100 cities
    - All cities > 50,000
    - Random sample < 50,000
    - 338 responses in 2010
  - Combination of financial data, fiscal actions, and CFOs perceptions
  - Conducted in collaboration with Michael A. Pagano and Univ. of Illinois-Chicago

NATIONAL LEAGUE of CITIES Research Brief on America's Cities

By Christopher W. Hoene & Michael A. Pagano<sup>1</sup>

OCTOBER 2010

## City Fiscal Conditions in 2010

The nation's city finance officers report that the fiscal condition of the nation's cities continues to weaken in 2010 as cities confront the effects of the economic downturn.<sup>2</sup> Local and regional economies characterized by struggling housing markets, slow consumer spending, and high levels of unemployment are driving declines in city revenues. In response, cities are cutting personnel, infrastructure investments and key services. Findings from the National League of Cities' latest annual survey of city finance officers include:

- Nearly nine in ten city finance officers report that their cities are less able to meet fiscal needs in 2010 than in the previous year;
- As finance officers look to the close of 2010, they report declining revenues and spending cutbacks in response to the economic downturn;
- Property tax revenues are beginning to decline in 2010, after years of annual growth, reflecting the gradual, but inevitable, impact of housing market declines in recent years;
- City sales tax revenues declined dramatically in 2009 and are declining further in 2010;
- Fiscal pressures confronting cities include declining local economic health, public safety and infrastructure costs, employee-related costs for health care, pensions, and wages, and cuts in state aid;
- To cover budget shortfalls and balance annual budgets, cities are making a variety of personnel cuts, delaying or cancelling infrastructure projects, and cutting basic city services; and,
- Ending balances, or "reserves," while still at high levels, decreased for the second year in a row as cities used these balances to weather the effects of the downturn.

### MEETING FISCAL NEEDS

In 2010, nearly nine in ten (87%) city finance officers report that their cities are less able to meet fiscal needs than in 2009 (See Figure 1). City finance officers' assessment of their cities' fiscal conditions in 2010 is essentially at the same level as their 2009 assessment, when 88 percent of city finance officers said their cities were less able to meet fiscal needs than in 2008. Concern about cities' fiscal health remains at the highest level in the history of NLC's 25-year survey. Finance officers in cities that rely upon property taxes and sales taxes – the two most common local tax sources – are equally likely to say that their cities are less able to meet fiscal needs in 2010

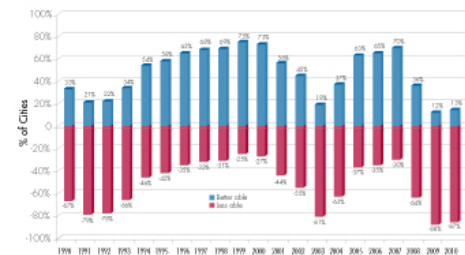


Figure 1. Percent of Cities "Better Able/Less Able" to Meet Fiscal Needs in FY 2010

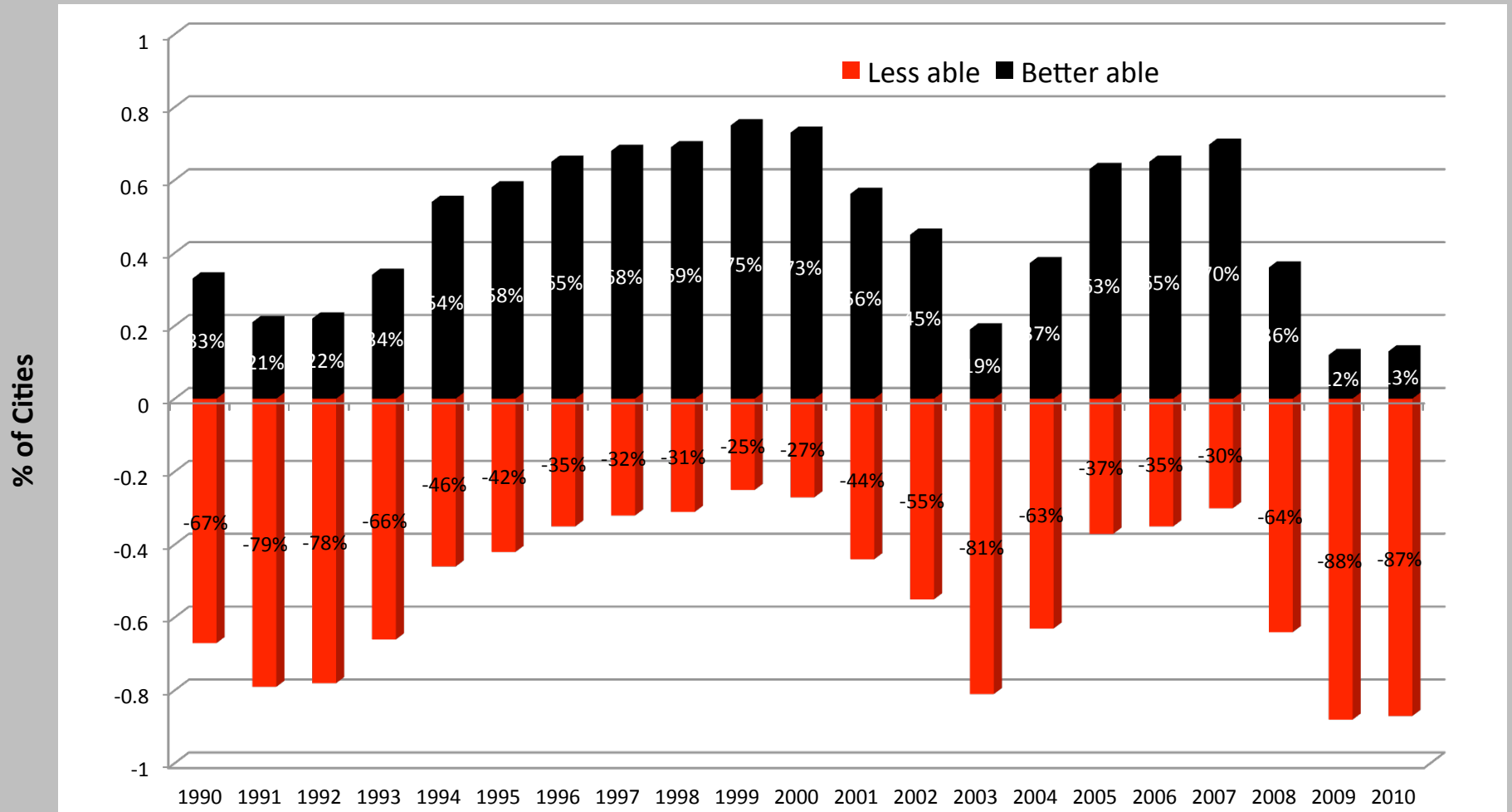
<sup>1</sup> Christopher W. Hoene is Director of the Center for Research and Innovation of the National League of Cities. Michael A. Pagano is Dean of the College of Urban Planning and Public Affairs at the University of Illinois at Chicago. He has written the annual City Fiscal Conditions report for NLC since 1991. The authors would like to acknowledge the 338 respondents to this year's fiscal survey. The commitment of these cities' finance officers to the project is greatly appreciated.

<sup>2</sup> All references to specific years are for fiscal years as defined by the individual cities. The use of "cities" in this report refers to municipal corporations.

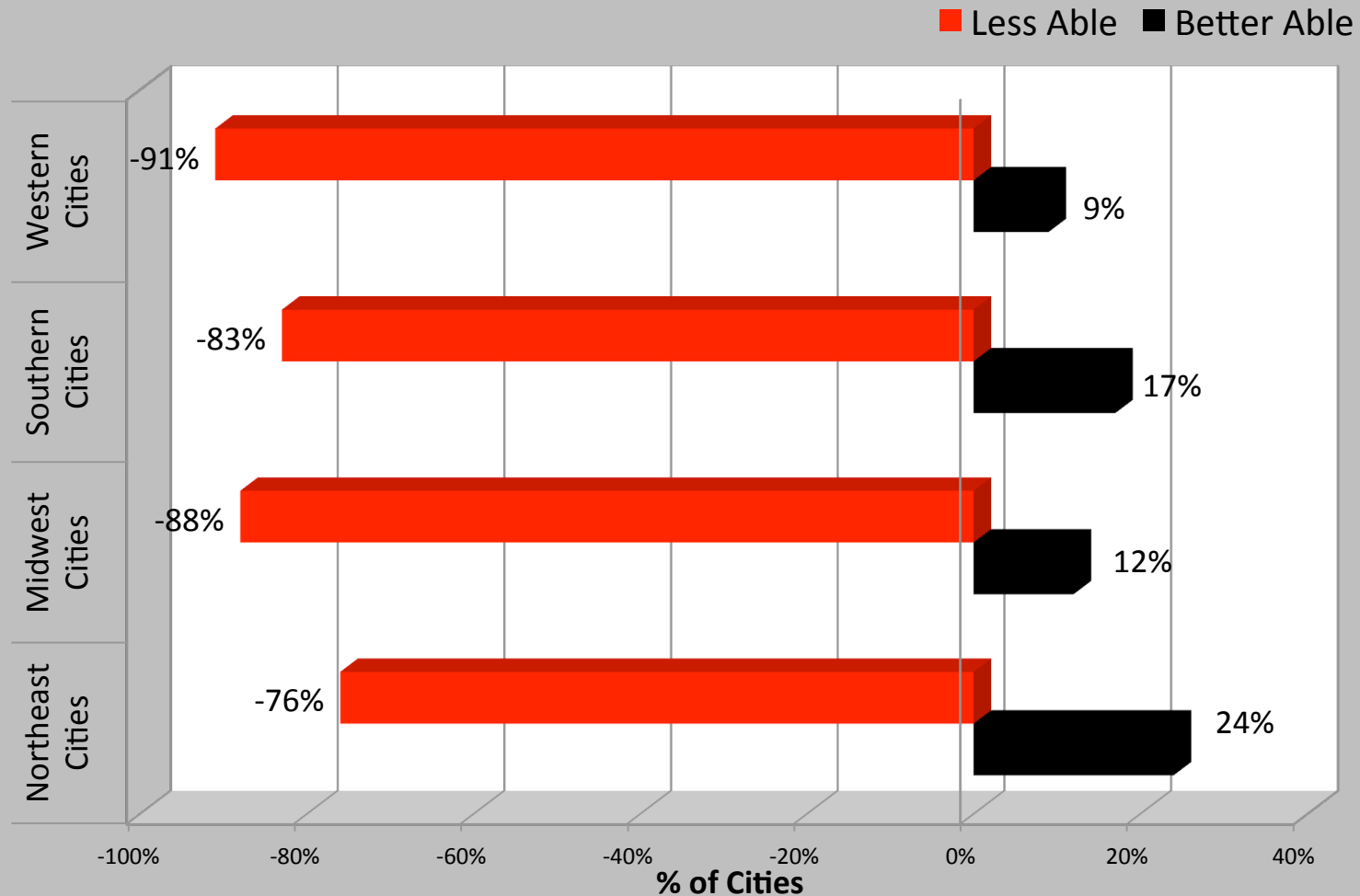
The City Fiscal Conditions Survey is a national mail and online survey of finance officers in U.S. cities conducted in the spring-summer of each year. This is the 25th edition of the survey, which began in 1986.

# Ability to Meet Fiscal Needs

% of Cities "Better Able/Less Able" to Meet Financial Needs in FY 2010



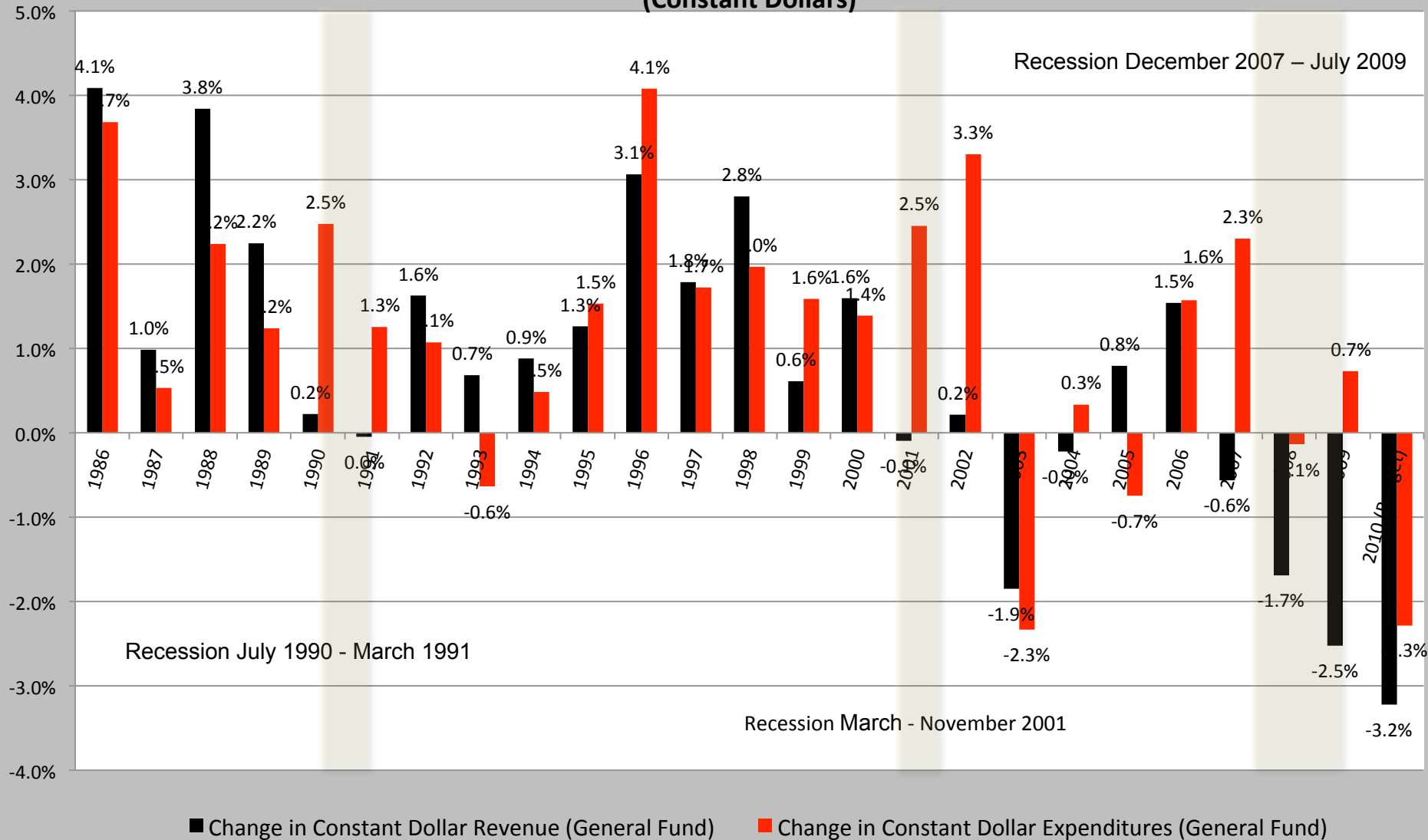
% of Cities "Better Able/Less Able" To Meet Financial Needs in FY 2010, by Region



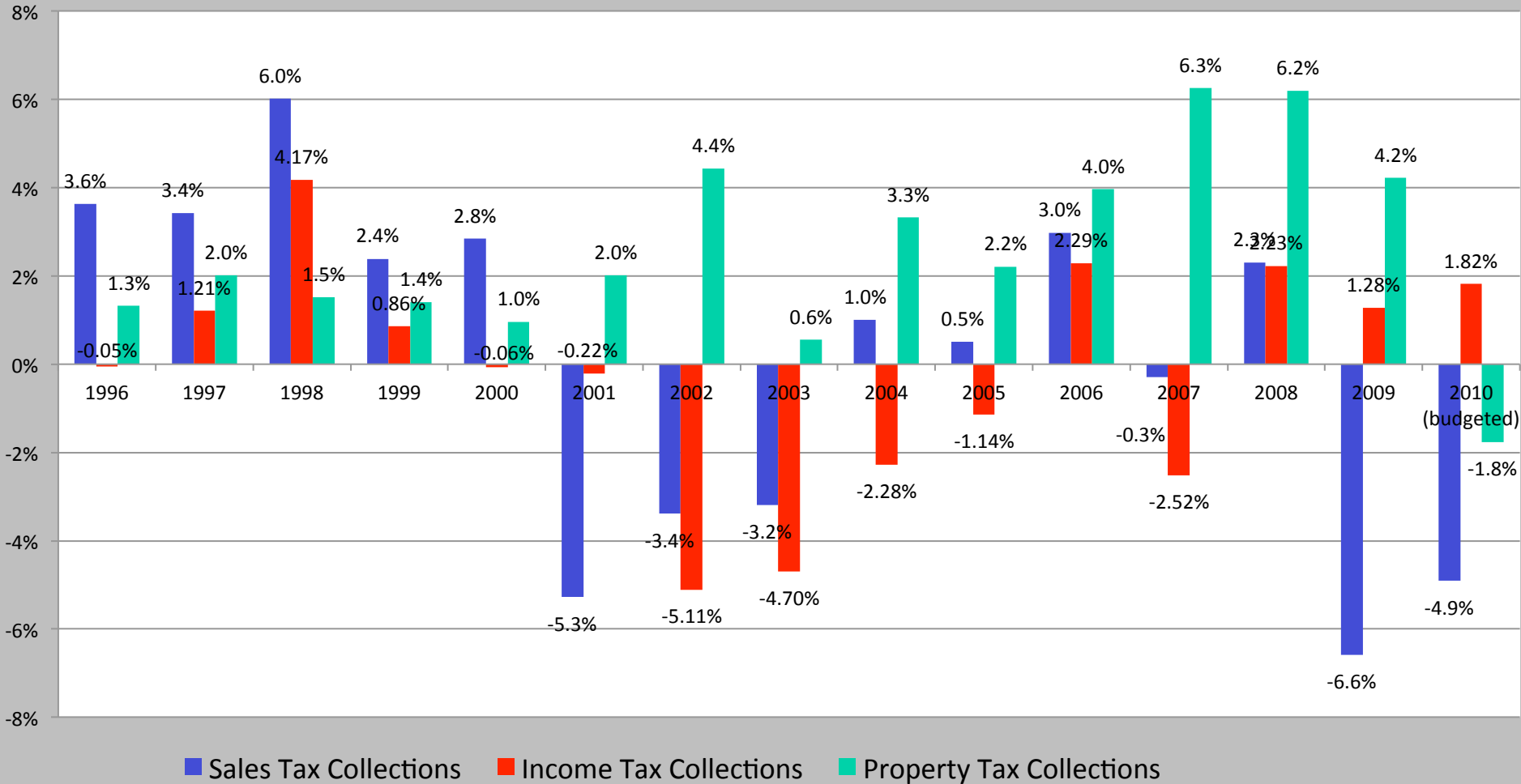


# Revenue & Spending Trends

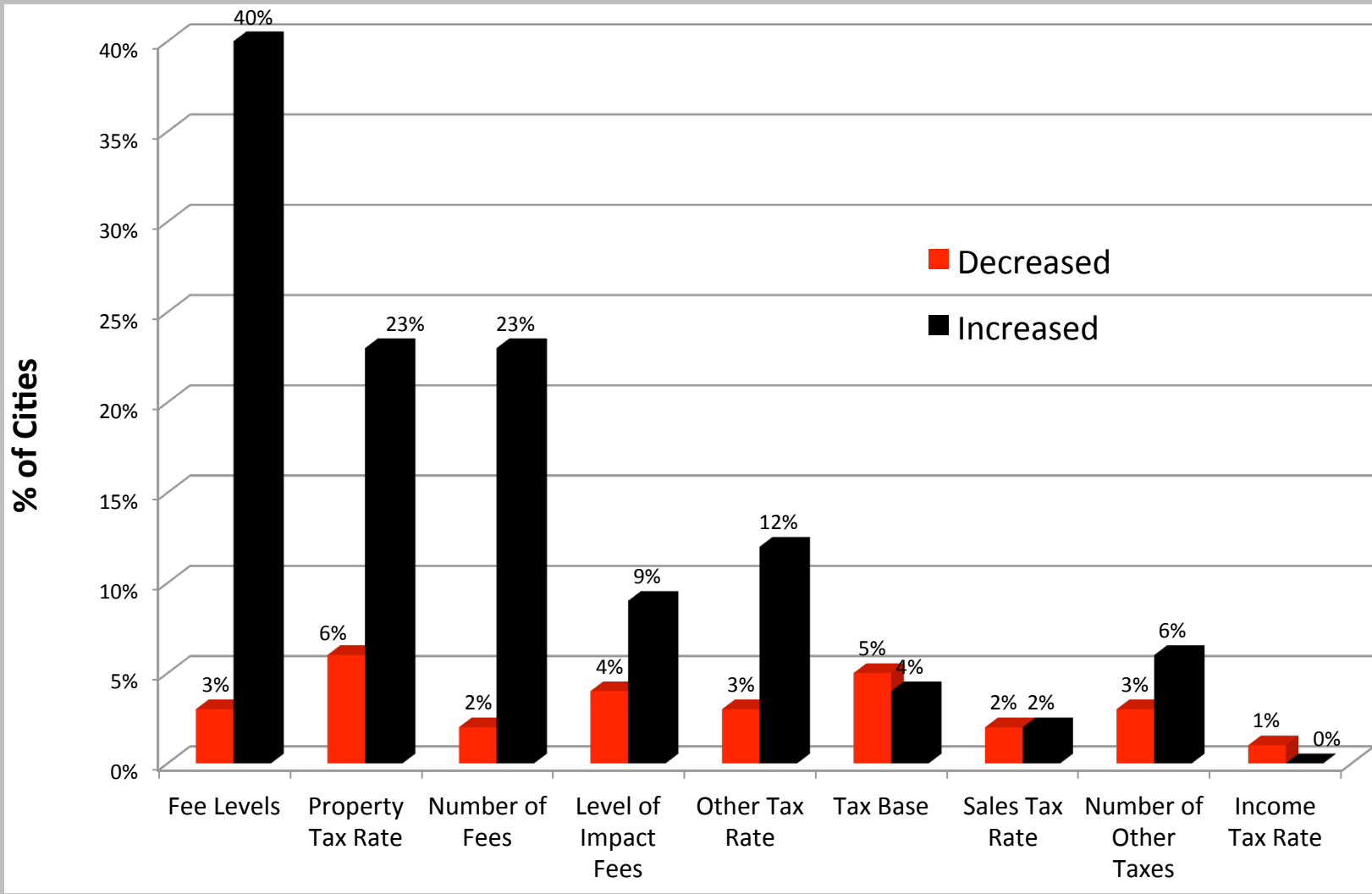
**Year-to-Year Change in General Fund Revenues and Expenditures  
(Constant Dollars)**



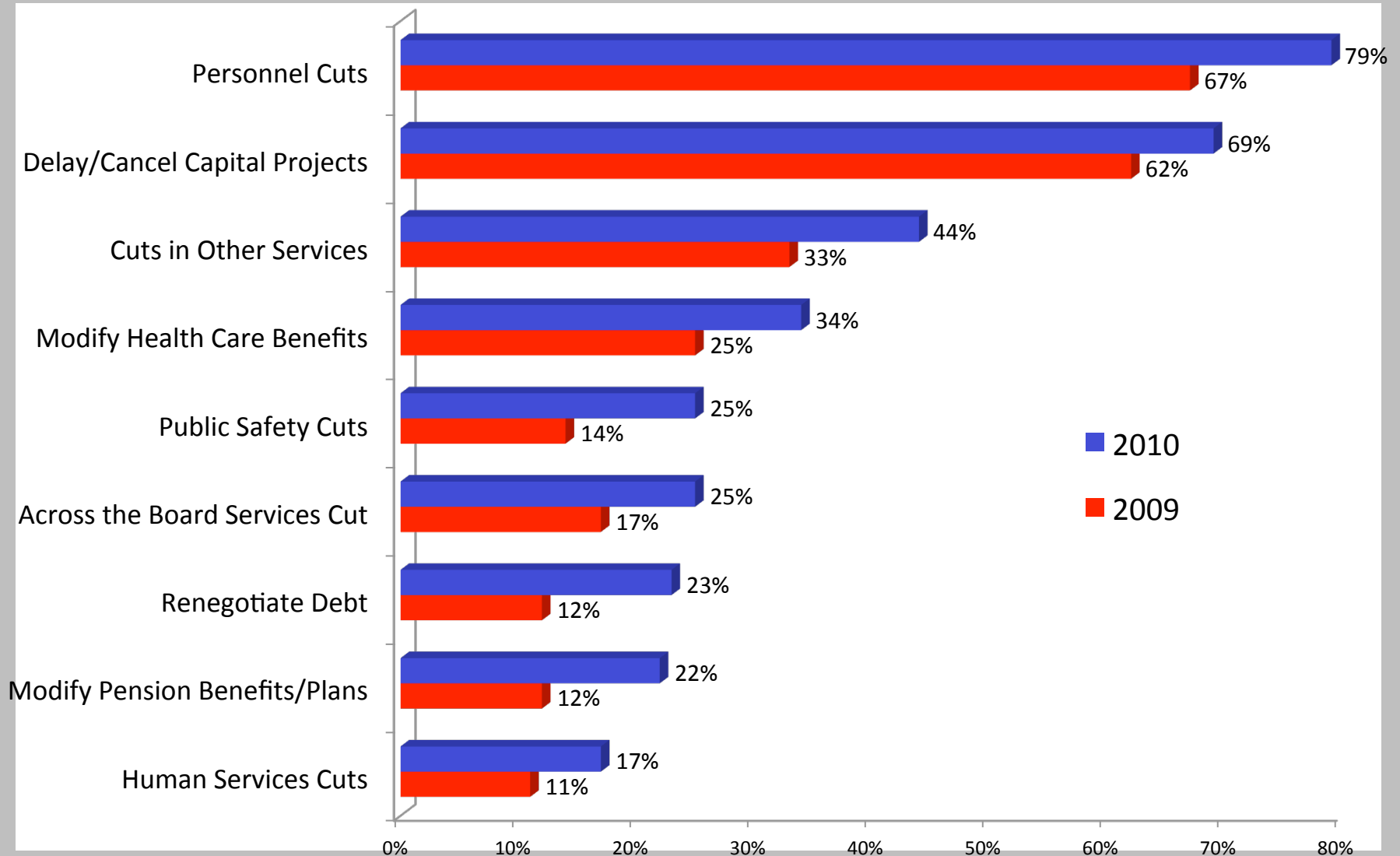
Year-to-Year Change in General Fund Tax Receipts  
(Constant Dollars)



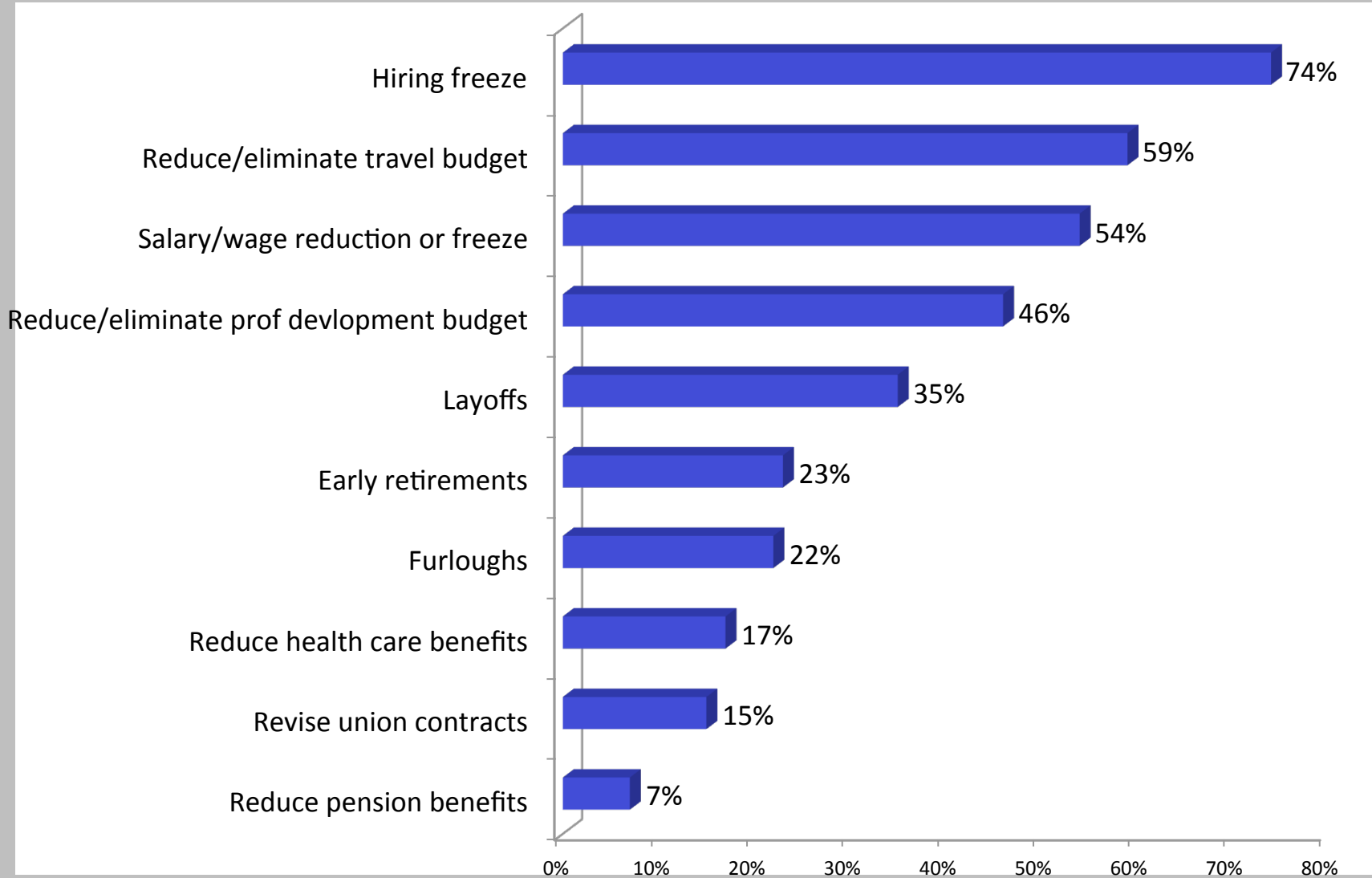
# Revenue Actions in 2010



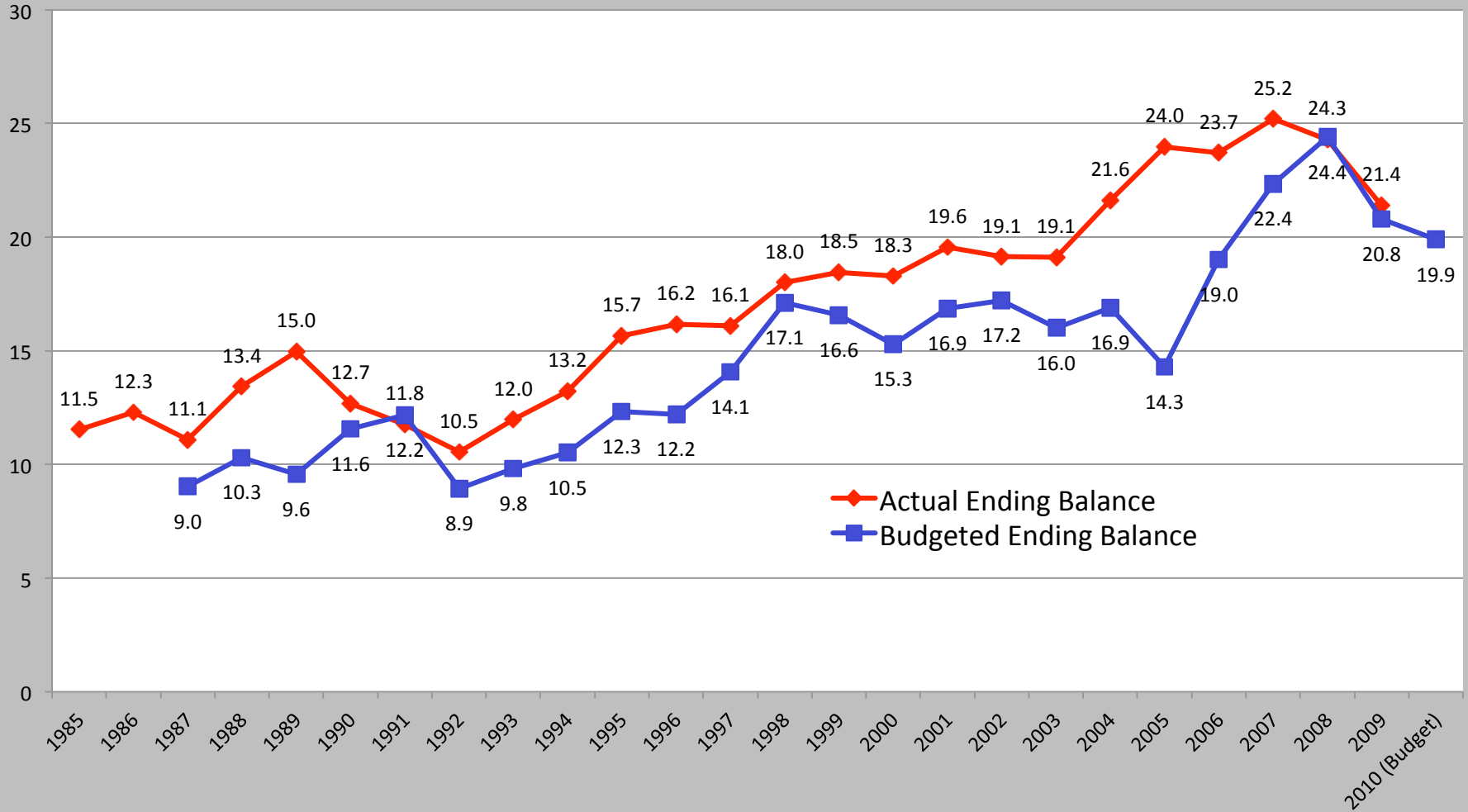
# Spending Cuts in 2009 & 2010



# Personnel Cuts



Ending Balances as a Percentage of Expenditures  
(General Fund)



- Bulk of the property tax revenue hit comes 2010-12
- ARRA “cliff” after 2010 means short-term federal help for states and localities declines
- States likely to cut aid and transfers to cities
- Projected revenue shortfall for the municipal sector  
**= \$55-85 billion from 2010-2012**
  - Estimate based on 3-5% decline in revenues, and
  - 10-15% decline in state aid and transfers

# Wow. That's depressing...





# Opportunities Amid Crisis

- Protecting investments in “Place”
  - Example: MML’s *Prosperity Agenda*
- Engaging the public in decisions about services provided and funded in the future
  - Example: [www.outsidetheox.org](http://www.outsidetheox.org)
- Demonstrating leadership
- Improving fiscal management

**Place:** where people choose to live, learn, work & play.

- Transit (transportation alternatives)
- Downtowns and neighborhoods
- Mixed-use development
- Entertainment districts and options
- Green/outdoor space
- Economic development focused on “growing your own” and entrepreneurship

**Choice & Diversity:** transportation, jobs, housing, and entertainment...homogeneity is the enemy of growth.

- Take the choices to the people
- What kind of city/community/places do residents want?
- Challenge old notions of “core services”
- Put choices squarely on the table for residents to discuss, engage on, and own
- Use the crisis as an opportunity to create sustainable public engagement mechanisms and processes

Example: League of Minnesota Cities

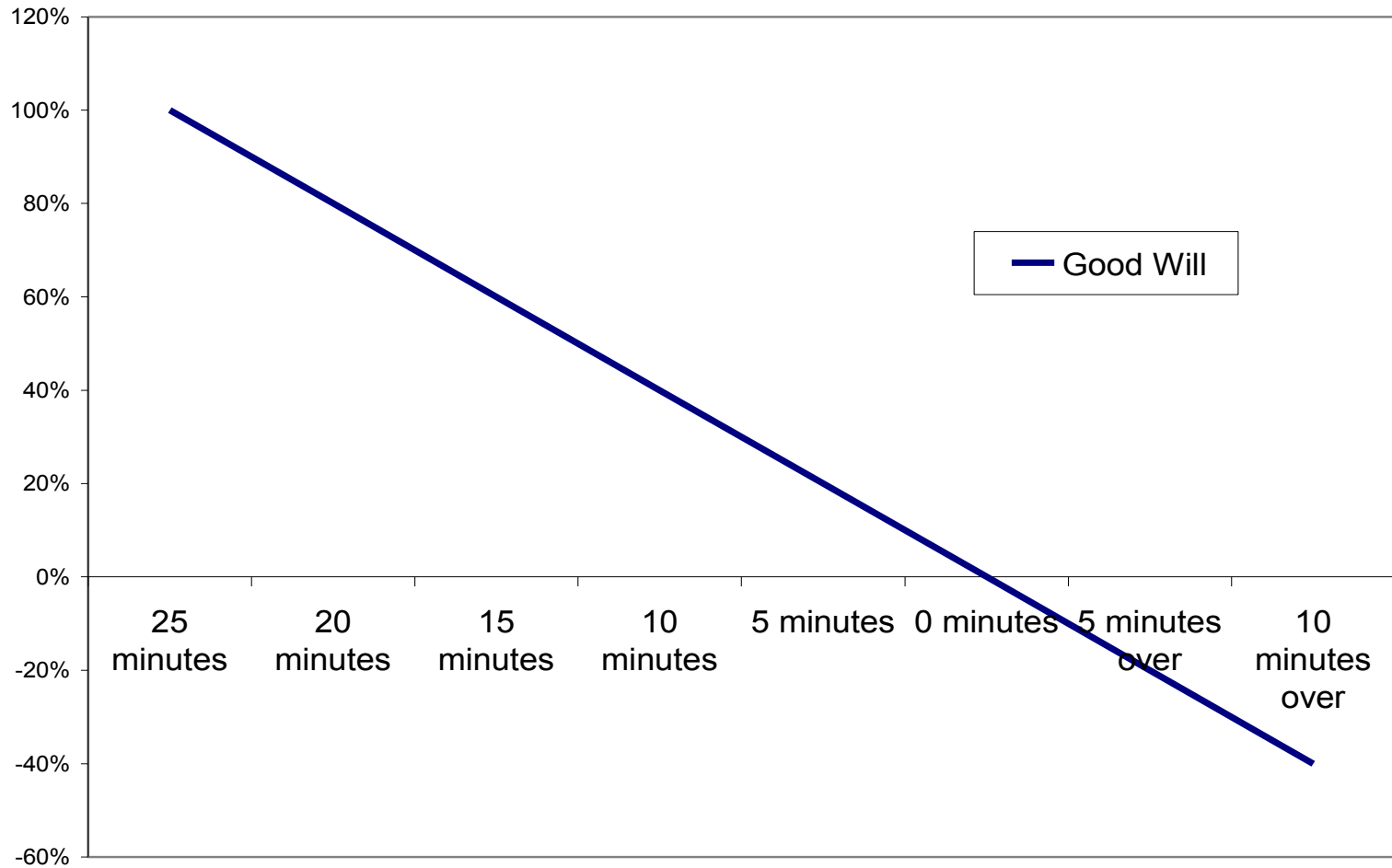
[www.outsidetheox.org](http://www.outsidetheox.org)

- Effectively use the bully pulpit – put choices squarely on the table, explain how conditions have changed.
- Be visible and proactive (don't wait for the data)
- Manage across – agencies/departments, jurisdictions, sectors, and stakeholders
- Adapt...challenge legacy systems and issues.

- Longer-term (multi-year) financial planning and budgeting
- Service alternatives and consolidation
- Stewardship, cost containment, and efficiencies
- Better pricing of services
- Restructuring public sector employment – compensation and benefit systems

# Presentation Time vs. Good Will

Presentation Time and Audience Goodwill



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