City Fiscal Conditions and Responses

11th Annual Lent Upson Lecture
October 21, 2010
Wayne State University
Detroit, Michigan

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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”
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.
State Aid to Cities, % of General Revenue

Mean: 19%     Standard Deviation: 12%

- > 31%
- 19% – 30%
- 7%–18%
- < 7%

a City authority for schools/education. b City authority for schools/education for Baltimore city-county only.
Local Tax & Expenditure Limits (TELS)

- **No TELS**
- **Non-binding property tax limit**
- **Binding property tax limit**
- **Binding property tax limit + general rev/exp limit**
City Fiscal Conditions

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
Ability to Meet Fiscal Needs

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

-67% 21% 22% 34% 54% 58% 55% 58% 59% 75% 73% 66% 5% 9% 7% 33% 3% 6% 6% 2% 3%
-79% -78% -66% -46% -42% -35% -32% -31% -25% -27% -44% -55% -81% -63% -37% -35% -30% -64% -88% -87%
% of Cities "Better Able/Less Able" To Meet Financial Needs in FY 2010, by Region

- Western Cities: -91% Less Able, 9% Better Able
- Southern Cities: -83% Less Able, 17% Better Able
- Midwest Cities: -88% Less Able, 12% Better Able
- Northeast Cities: -76% Less Able, 24% Better Able
Revenue & Spending Trends

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

- **Recession July 1990 - March 1991**
- **Recession March - November 2001**
- **Recession December 2007 – July 2009**

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

- Sales Tax Collections
- Income Tax Collections
- Property Tax Collections
Revenue Actions in 2010

- 40% Fee Levels
- 23% Property Tax Rate
- 23% Number of Fees
- 9% Level of Impact Fees
- 12% Other Tax Rate
- 5% Tax Base
- 2% Sales Tax Rate
- 3% Number of Other Taxes
- 1% Income Tax Rate

Red bars indicate a decrease, black bars indicate an increase.
Spending Cuts in 2009 & 2010

- Personnel Cuts: 2010: 79%, 2009: 67%
- Cuts in Other Services: 2010: 44%, 2009: 33%
- Modify Health Care Benefits: 2010: 34%, 2009: 25%
- Public Safety Cuts: 2010: 25%, 2009: 14%
- Across the Board Services Cut: 2010: 25%, 2009: 17%
- Renegotiate Debt: 2010: 23%, 2009: 12%
- Modify Pension Benefits/Plans: 2010: 22%, 2009: 12%
- Human Services Cuts: 2010: 17%, 2009: 11%
**Personnel Cuts**

- **Hiring freeze**: 74%
- **Reduce/eliminate travel budget**: 59%
- **Salary/wage reduction or freeze**: 54%
- **Reduce/eliminate prof devlopment budget**: 46%
- **Layoffs**: 35%
- **Early retirements**: 23%
- **Furloughs**: 22%
- **Reduce health care benefits**: 17%
- **Revise union contracts**: 15%
- **Reduce pension benefits**: 7%
Outlook for 2010-2012

- 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

• Demonstrating leadership

• Improving fiscal management
MML – “Creating Places of Prosperity”

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.
Public Engagement

• 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
• 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.
Fiscal Management

• 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

-60%  -40%  -20%  0%  20%  40%  60%  80%  100%  120%

25 minutes  20 minutes  15 minutes  10 minutes  5 minutes  0 minutes  5 minutes over  10 minutes over

Good Will
For more information…

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