Cities' Shifting Fiscal Circumstances Through the Decades

Michael A. Pagano
College of Urban Planning and Public Affairs
University of Illinois at Chicago
MAPagano@uic.edu

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Overview of the Great Recession and Its Impact on City Finances

- Not since the Great Depression …
- Cities' finances lag the economy's business cycles by up to 3 years
- Yet, variation in fiscal impact based on city revenue composition, "cushion" (reserves), and long-term obligations.
- Cities are required to balance their budgets and take appropriate fiscal policy actions.
- Cities can learn from similarly-situated cities

NATIONAL LEAGUE of CITIES | Research Brief on America's Cities

By Michael A. Pagano & Christiana McFarland[1] OCTOBER 2013

City Fiscal Conditions in 2013

The nation's city finance officers report that the fiscal condition of cities in 2013 is improving, although they are continuing to confront the prolonged effects of the economic downturn.[2] Recovering local and regional economies experiencing slowly improving housing markets and increased consumer spending are strengthening local tax bases and economic outlooks. However, high levels of unemployment, uncertainty about federal and state actions, and long-term pension and health benefit obligations continue to constrain the fiscal outlook for many cities. Cities operate under an annual balanced-budget requirement, which requires that they actively consider adjustments to their fiscal powers - both revenues and expenditures - over the course of the fiscal year.

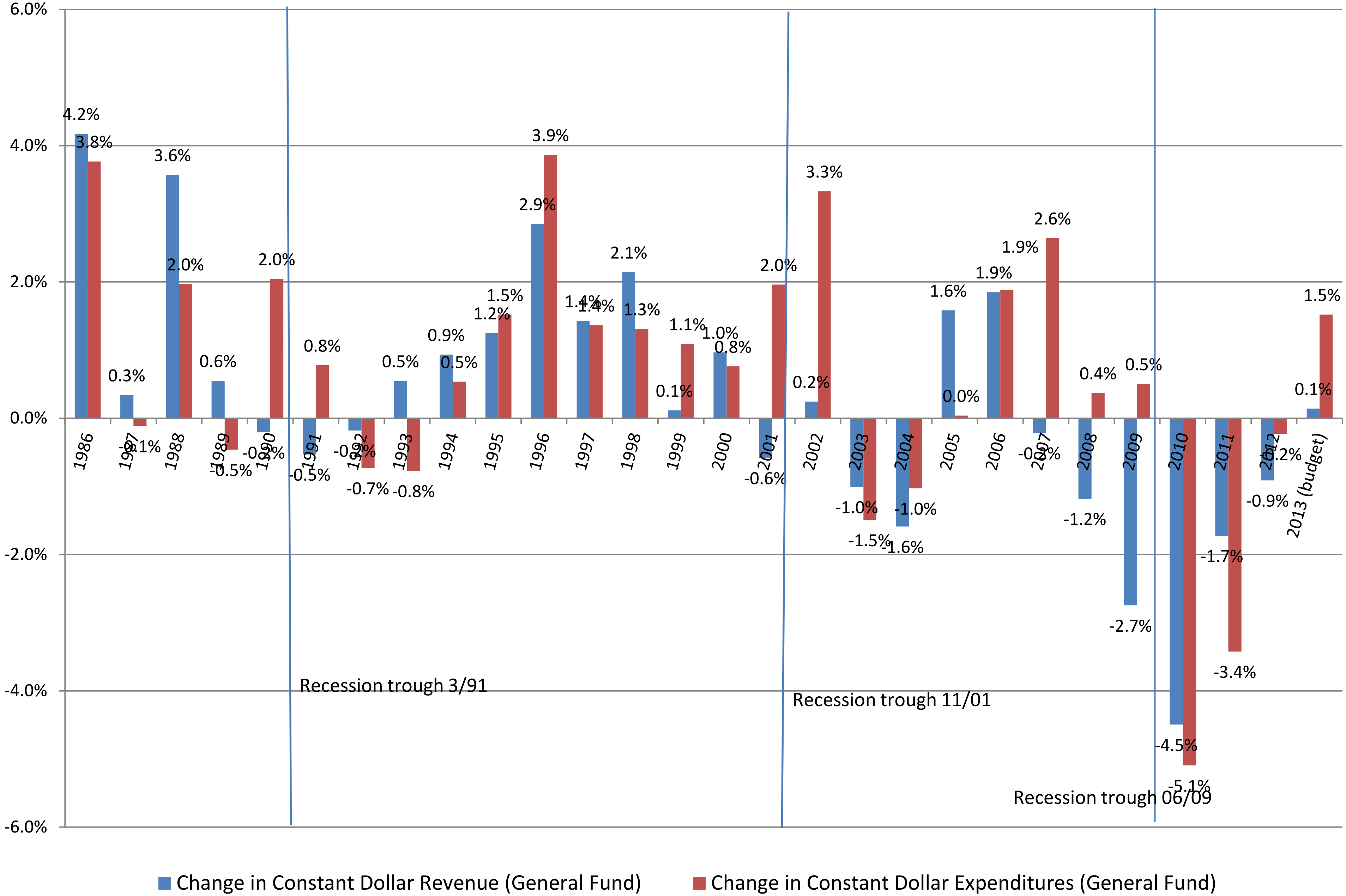
The National League of Cities' (NLC) latest annual survey of city finance officers finds that:

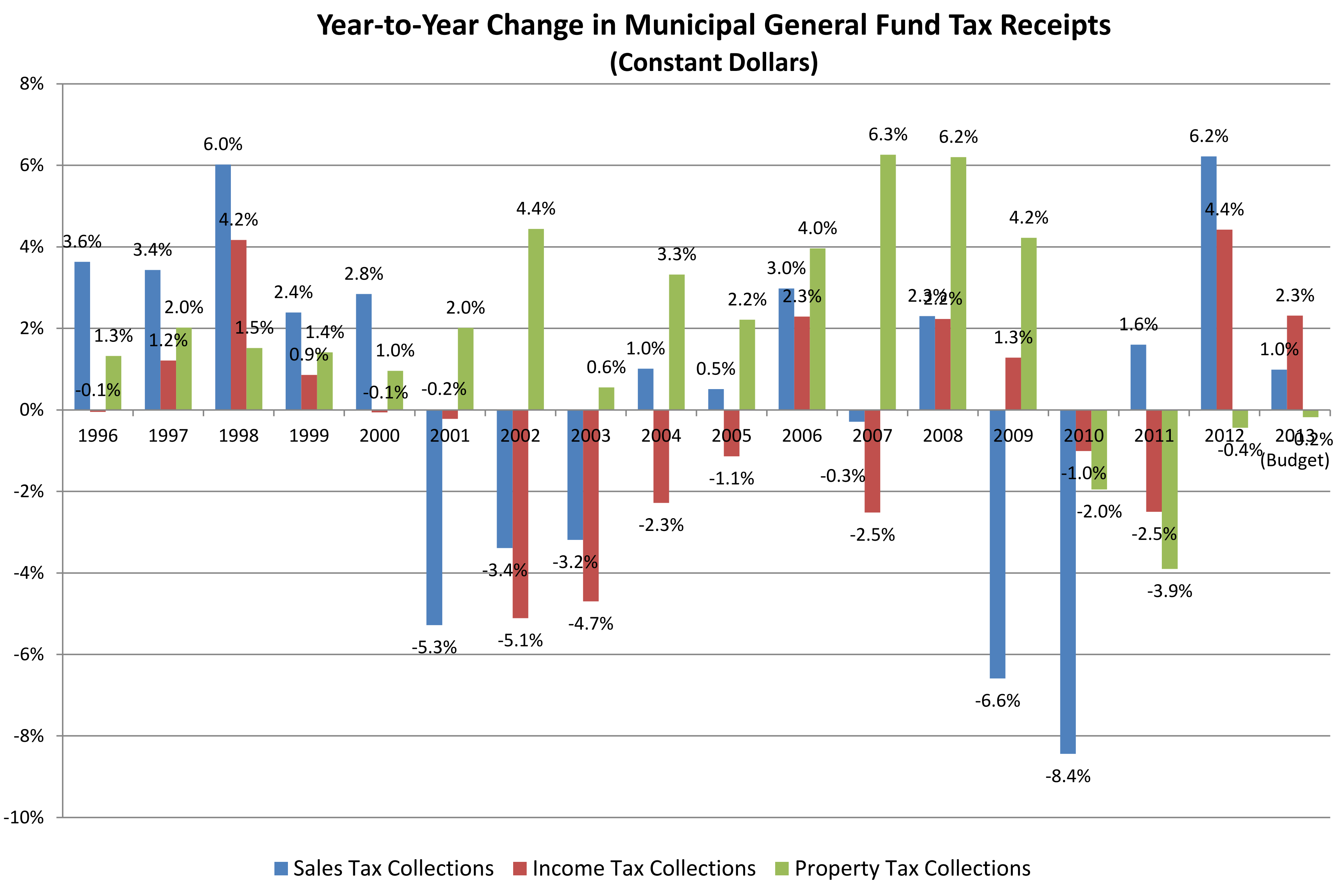
- Overall, a majority of city finance officers (72%) report that their cities are better able to meet financial needs in 2013 than in 2012;

Summary of Findings

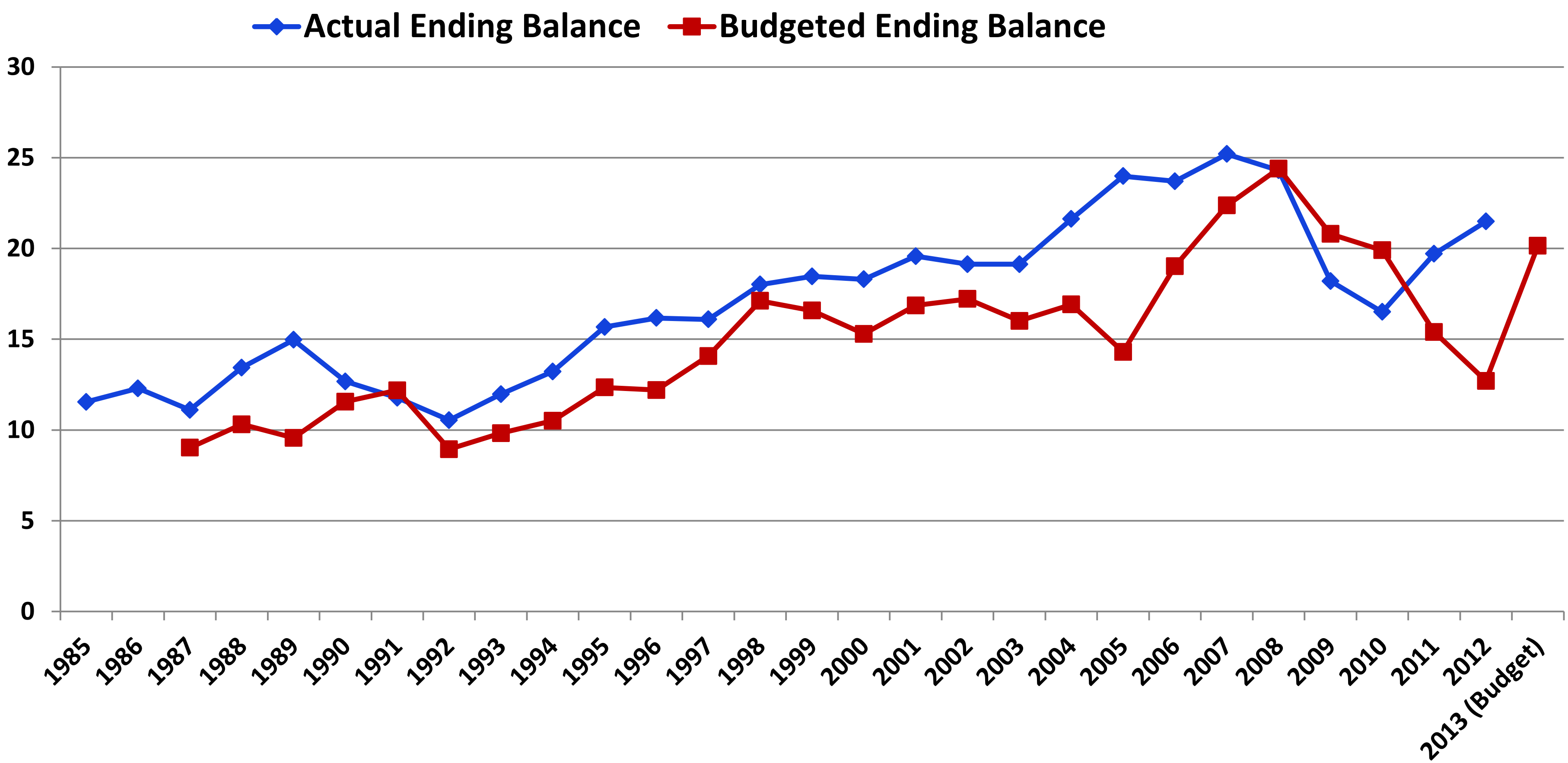
- 72% of city finance officers report that their cities are better able to meet financial needs in 2013 than in 2012;
- Finance officers project a small year-over-year increase in general fund revenues in 2013 (constant dollars)– the first increase since 2006:
  - Property tax revenues continued to decline in 2012 and are projected to decline in 2013
  - Sales tax revenues and local income tax revenues experienced marked increases in 2012, with projections for further growth in 2013;
  - Ending balances increased in 2012 as cities began to rebuild reserves.
- Factors pressuring city budgets include infrastructure costs, public safety costs, employee-related costs for health care, pensions, wages, and cuts in state and federal aid
- Cities continue to reduce personnel costs for pensions, health care benefits, and employee wages.

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

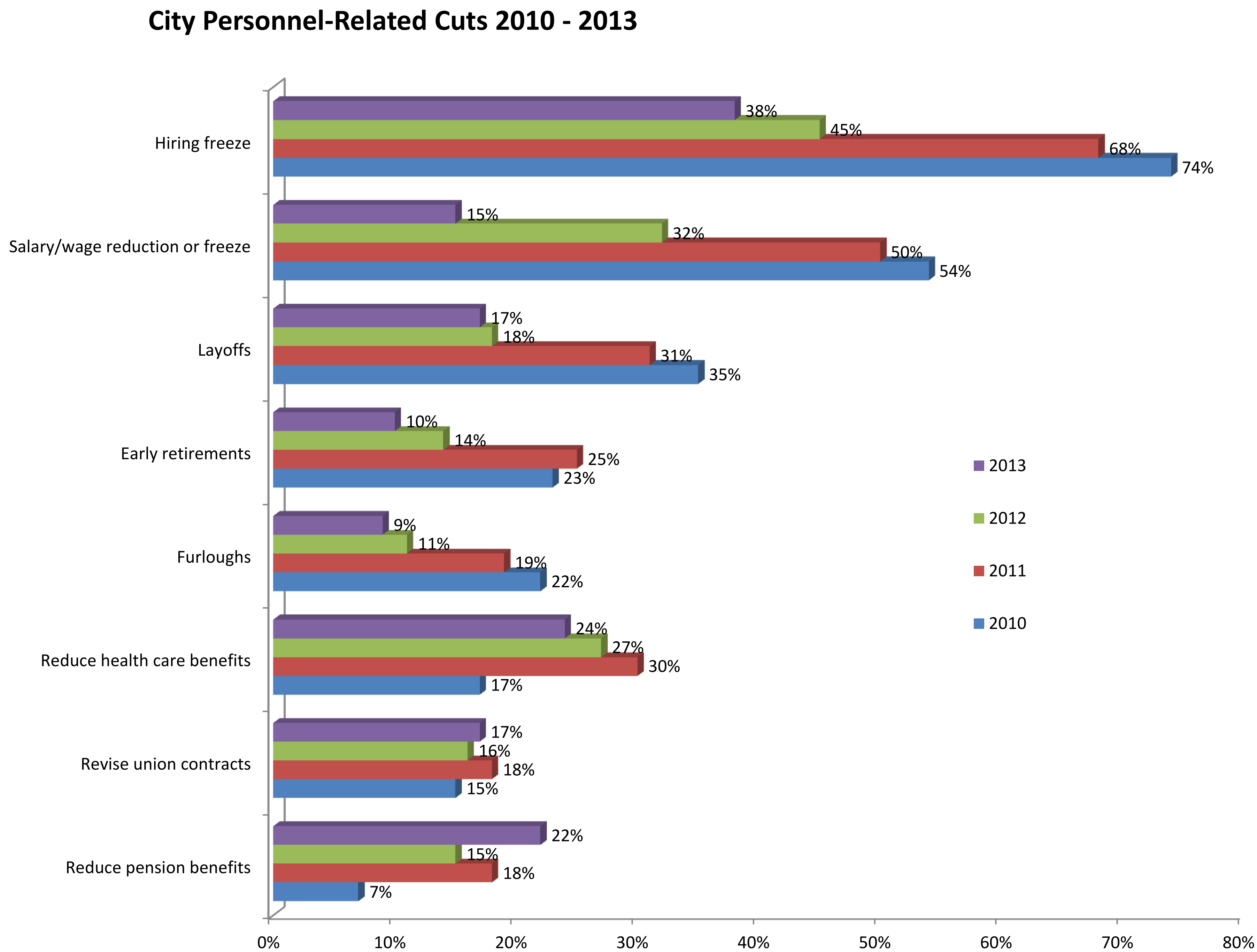



Year-to-Year Change in Municipal General Fund Tax Receipts
(Constant Dollars)
8%
6%
4%
2%
0%
-2%
-4%
-6%
-8%
-10%
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013 (Budget)
3.6%
-0.1%
1.3%
3.4%
1.2%
2.0%
6.0%
4.2%
1.5%
2.4%
0.9%
1.4%
2.8%
-0.1%
1.0%
-5.3%
-0.2%
2.0%
-3.4%
-5.1%
4.4%
-3.2%
-4.7%
0.6%
1.0%
-2.3%
3.3%
0.5%
-1.1%
2.2%
3.0%
2.3%
4.0%
-0.3%
-2.5%
6.3%
2.3%
2.2%
6.2%
-6.6%
1.3%
4.2%
-8.4%
-1.0%
-2.0%
1.6%
-2.5%
-3.9%
6.2%
4.4%
-0.4%
1.0%
2.3%
-0.2%
Sales Tax Collections
Income Tax Collections
Property Tax Collections

Ending Balances (as percentage of expenditures)
(Municipalities' General Funds)



Source: Michael A. Pagano and Christiana McFarland, *City Fiscal Conditions in 2013* (Washington, DC: National League of Cities, 2013)


City Personnel-Related Cuts 2010 - 2013
Hiring freeze
38%
45%
68%
74%
Salary/wage reduction or freeze
15%
32%
50%
54%
Layoffs
17%
18%
31%
35%
Early retirements
10%
14%
25%
23%
Furloughs
9%
11%
19%
22%
Reduce health care benefits
24%
27%
30%
17%
Revise union contracts
17%
16%
18%
15%
Reduce pension benefits
22%
15%
18%
7%
0%
10%
20%
30%
40%
50%
60%
70%
80%
2013
2012
2011
2010

Fiscal Policy Space of Cities

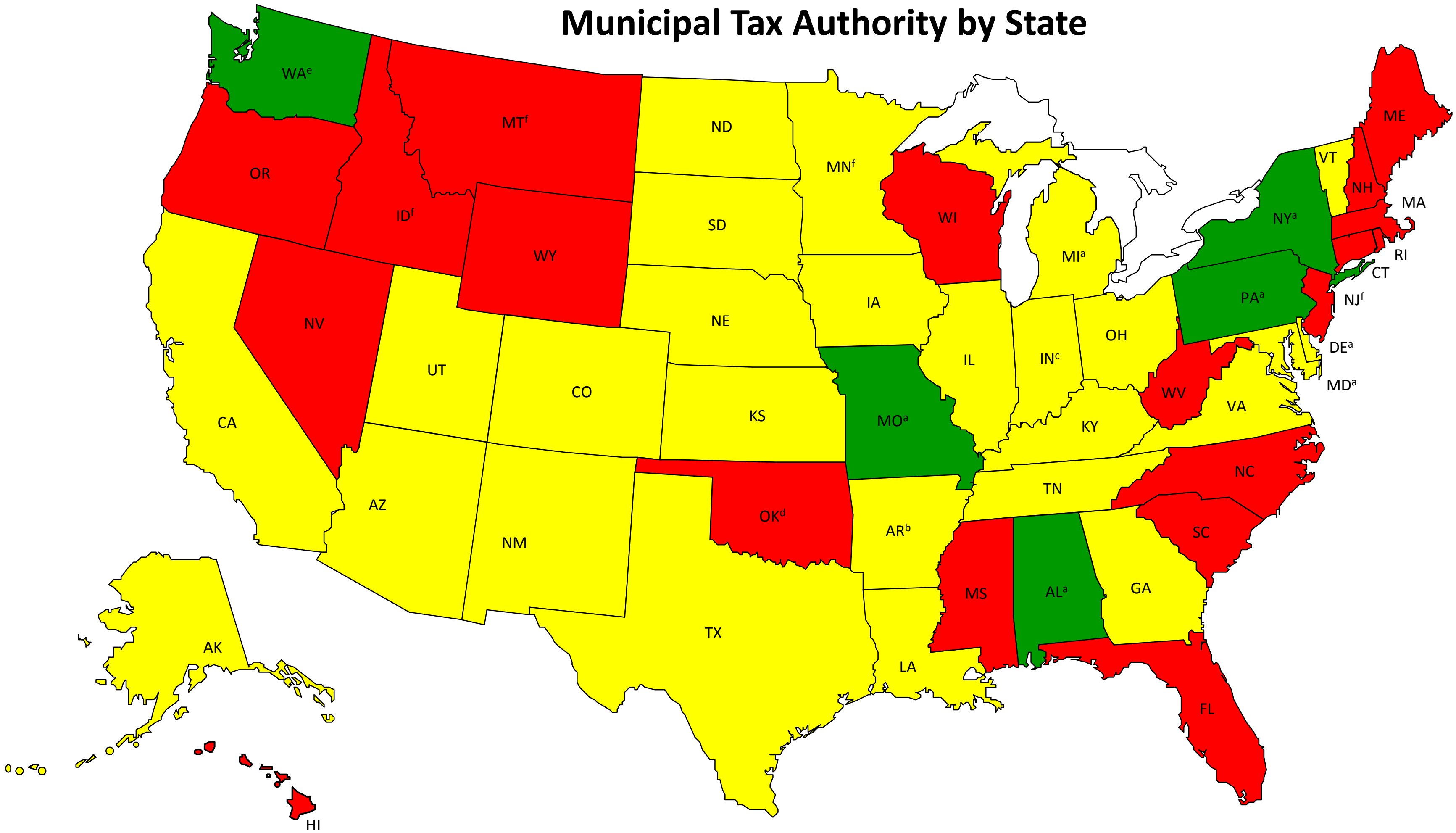
- FPS= a confined decision space within which city officials are permitted to take action, and shaped by the following attributes:

1) **Intergovernmental System (tax authority, TELs, revenue reliance, state aid)**
2) **Economic base**
3) **Local legal context**
4) **Citizen/consumer demand**
5) **Political culture**

State Constraints

1. Local fiscal authority (access to property, income, sales)
2. Local revenue reliance--the proportion of total revenues that a local government generates from one particular revenue source or from several sources;
3. State aid
4. The existence of tax and spending limits (TELs) and the restrictiveness of the TEL constraint

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.

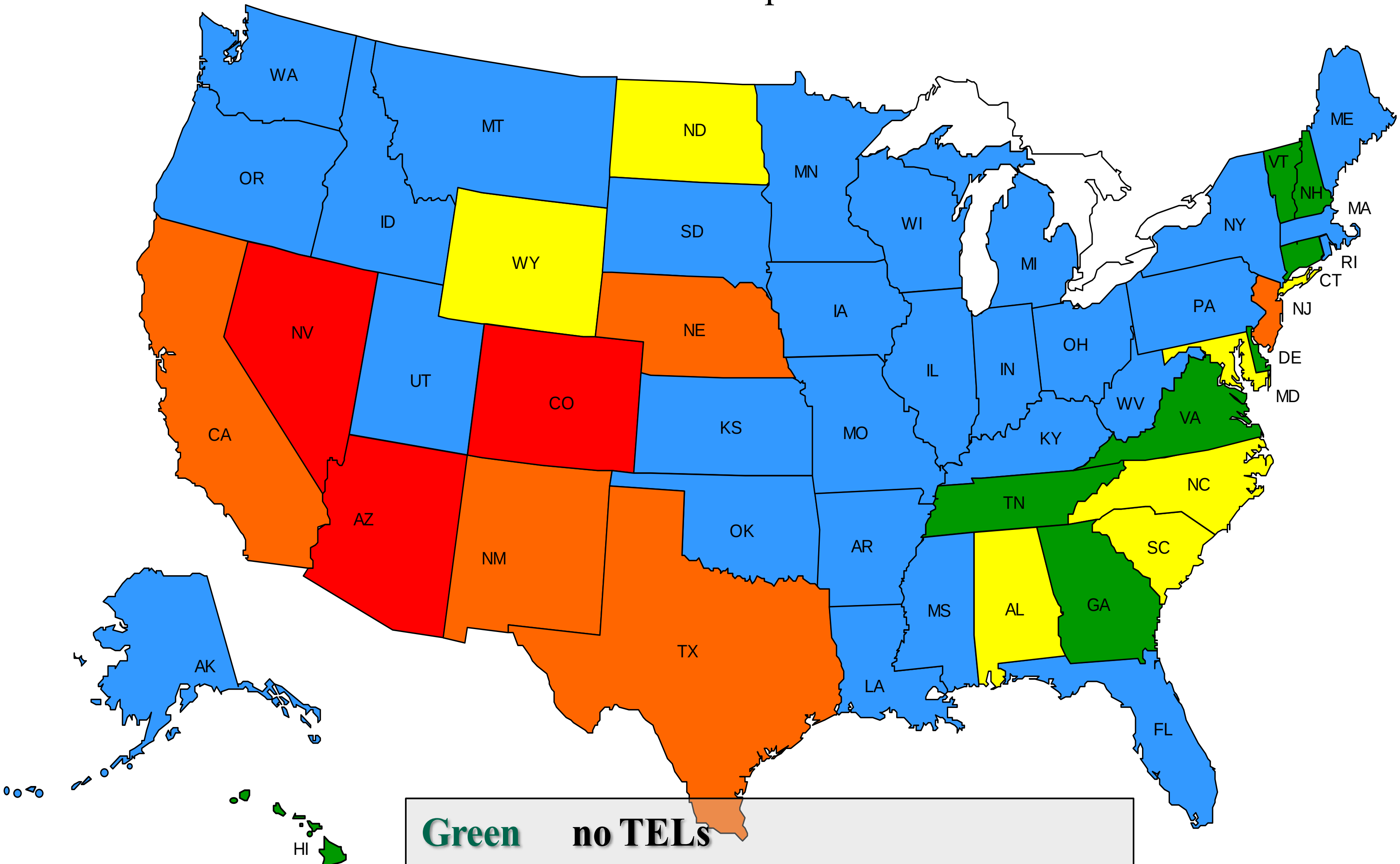
Property + sales + income

Property + sales OR Income

Property or sales only

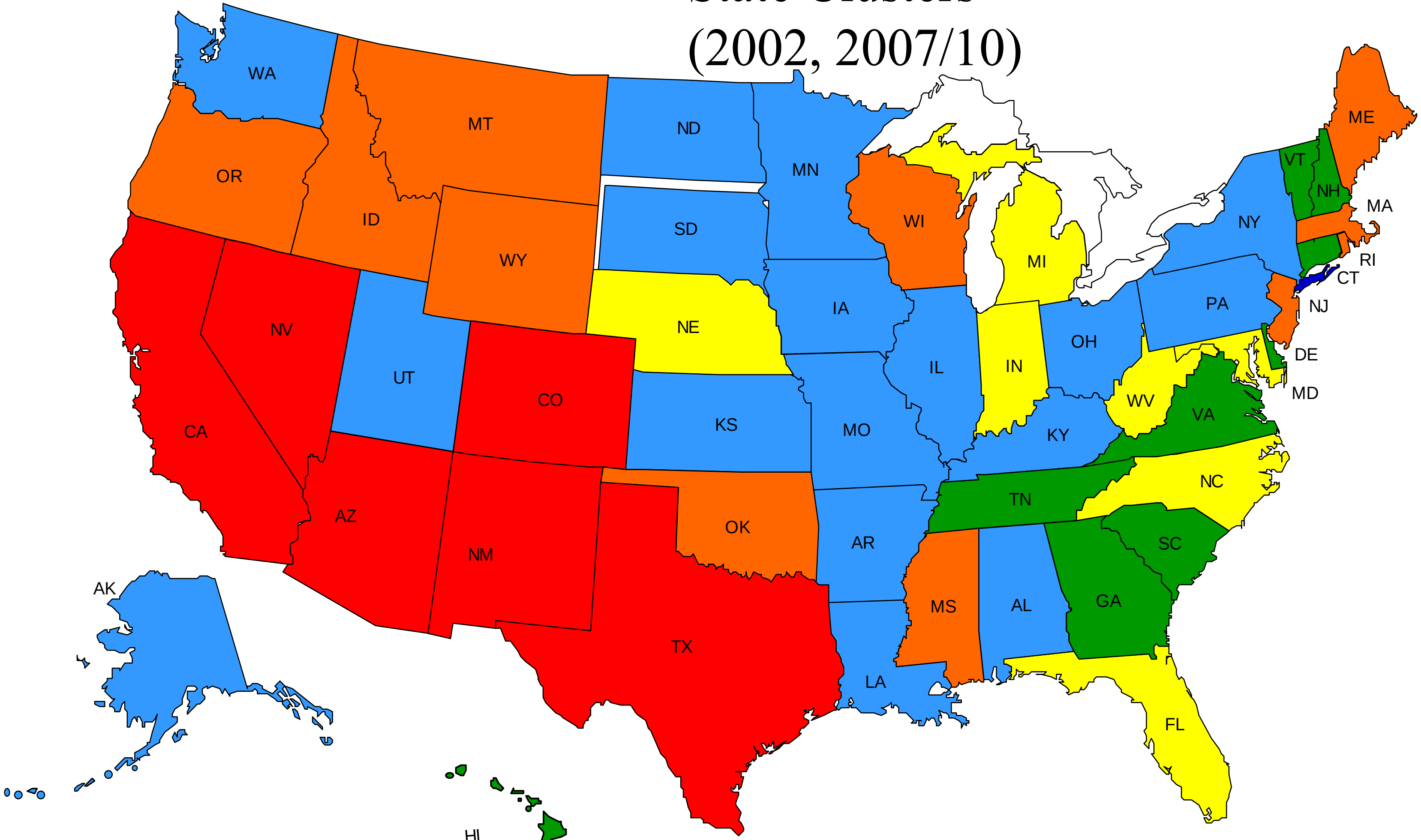
Source: Michael A. Pagano and Christopher Hoene, "States and the Fiscal Policy Space of Cities" in Michael Bell, David Brunori, and Joan Youngman, eds. *The Property Tax and Local Autonomy* (Cambridge, MA: Lincoln Institute of Land Policy, 2010), pp. 243-284.

TELs and Municipalities



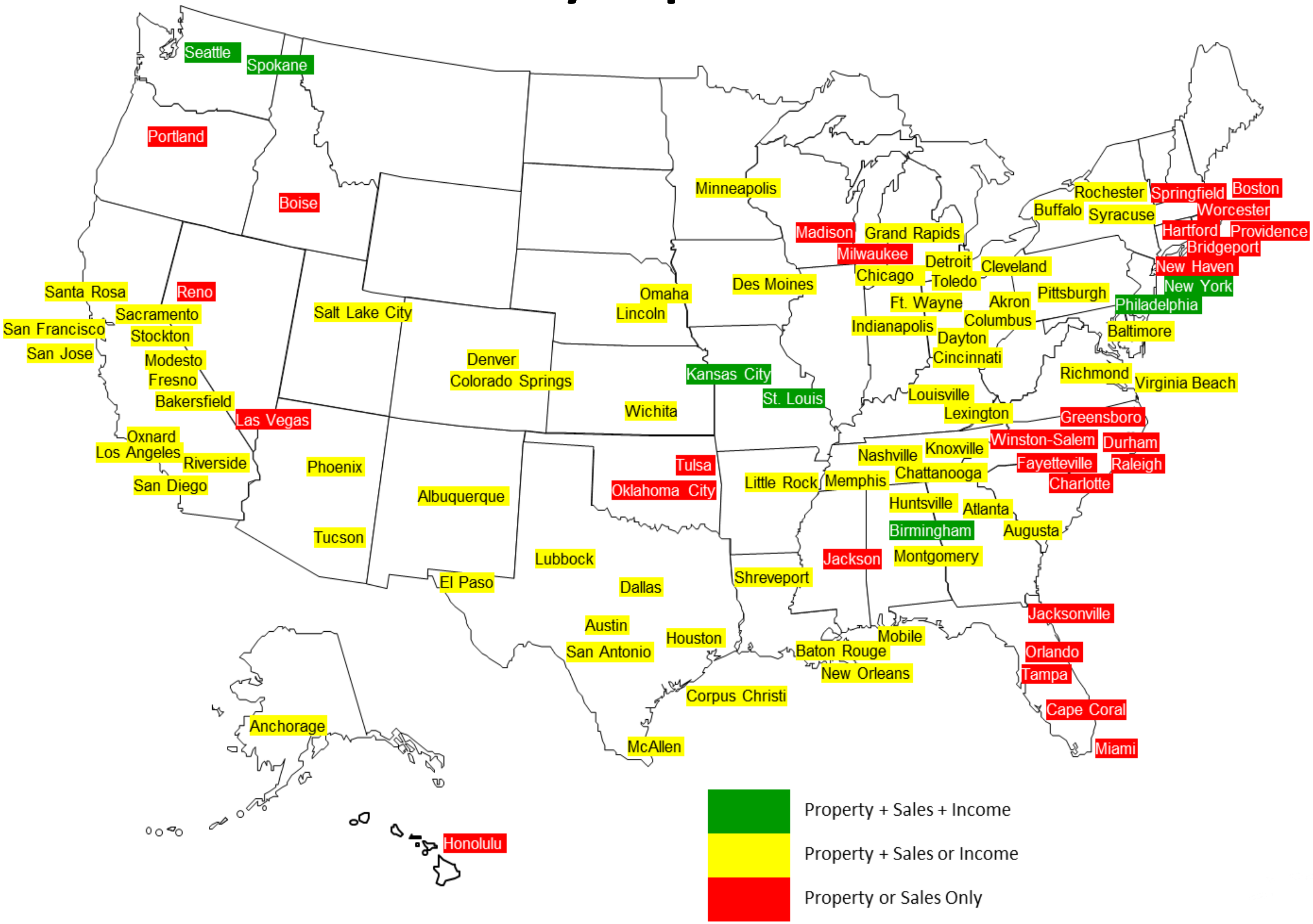
Green	**no TELs**
Yellow	**non-binding prop tax limits**
Blue	**binding property tax limits**
Orange	**expenditure limits**
Red	**Rev/Exp limit and Prop Tax limit**

State Clusters
(2002, 2007/10)



Blue	2 or 3 general tax sources, relatively autonomous
Green	no TELs
Yellow	????
Orange	TELs, one tax source
Red	most constrained

Fiscal Policy Space of Cities



The Future??

- Strengthening real estate markets will help cities turn the corner from property tax revenue decline to growth, but the effects will be spread out over several years;
- Other economic conditions – improving consumer confidence, employment, and wages – will weigh heavily on future city sales tax receipts and income tax revenues;
- Two negative factors are employee- and retiree-related costs for health care coverage and pensions;
- Cities are likely to continue to operate with reduced workforces and service levels, and city leaders will likely continue to be cautious about making significant infrastructure investments;
- Cities' fiscal conditions remain vulnerable to external policy shifts in the face of a gradual and tenuous economic recovery, including cuts in federal spending and threats to global, national; and
- Because cities are required to balance their budgets on an annual basis, cities will continue to assess and adjust the appropriate package of fiscal policy actions for the purpose of providing services, investing in infrastructure, and meeting the health, safety and welfare requirements of their residents, taxpayers, workers and visitors.

THANK YOU

Michael Pagano (MAPagano@uic.edu)