Cities’ Shifting Fiscal Circumstances Through the Decades

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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
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. 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)

- Change in Constant Dollar Revenue (General Fund)
- Change in Constant Dollar Expenditures (General Fund)

Recession trough 3/91
Recession trough 11/01
Recession trough 06/09

Change in Constant Dollar Revenue (General Fund) and Expenditures (General Fund) from 1986 to 2013.
Year-to-Year Change in Municipal General Fund Tax Receipts
(Constant Dollars)

Sales Tax Collections  Income Tax Collections  Property Tax Collections
Ending Balances (as percentage of expenditures)
(Municipalities’ General Funds)

City Personnel-Related Cuts 2010 - 2013

- Hiring freeze: 2010 - 74%, 2011 - 68%, 2012 - 54%, 2013 - 38%
- Salary/wage reduction or freeze: 2010 - 15%, 2011 - 32%, 2012 - 32%, 2013 - 45%
- Layoffs: 2010 - 17%, 2011 - 18%, 2012 - 31%, 2013 - 35%
- Early retirements: 2010 - 10%, 2011 - 14%, 2012 - 23%, 2013 - 25%
- Reduce health care benefits: 2010 - 17%, 2011 - 24%, 2012 - 27%, 2013 - 30%
- Revise union contracts: 2010 - 15%, 2011 - 17%, 2012 - 16%, 2013 - 18%
- Reduce pension benefits: 2010 - 7%, 2011 - 15%, 2012 - 15%, 2013 - 22%
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
Income or sales tax for selected cities. Cities can levy a local income tax, but no locality currently does so. A local income tax under certain circumstances. Sales tax only; cities can levy a property tax for debt-retirement purposes only. Cities can impose the equivalent of a business income tax. Sales taxes for selected cities and/or restricted use only.

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
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

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