
The Economic Downturn and City Fiscal Conditions



Chris Hoene, Director, Policy & Research, National League of Cities

“National Perspectives on State and Local Finance in an Economic Crisis”

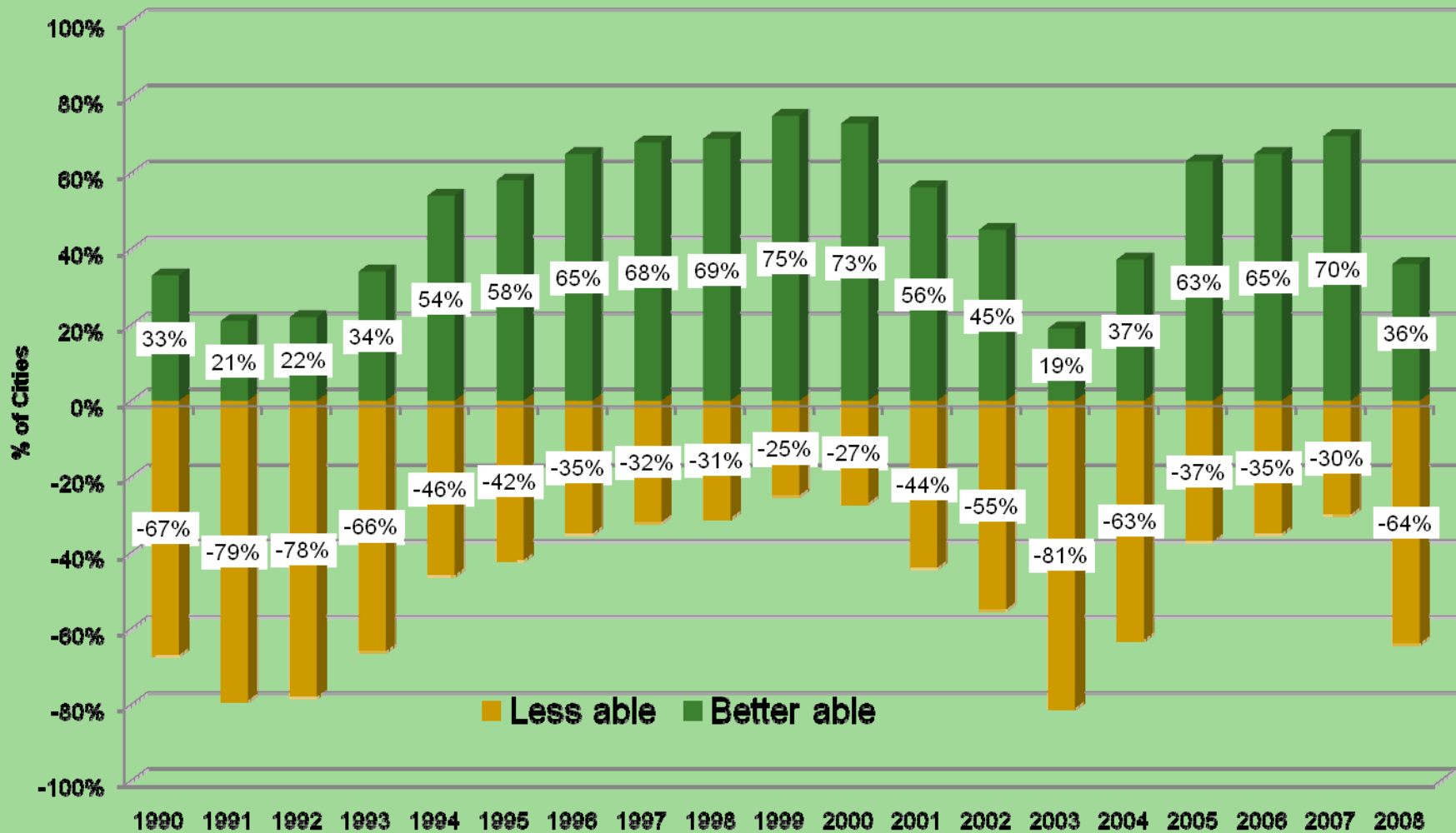
The Ohio Urban University Program

March 3, 2009

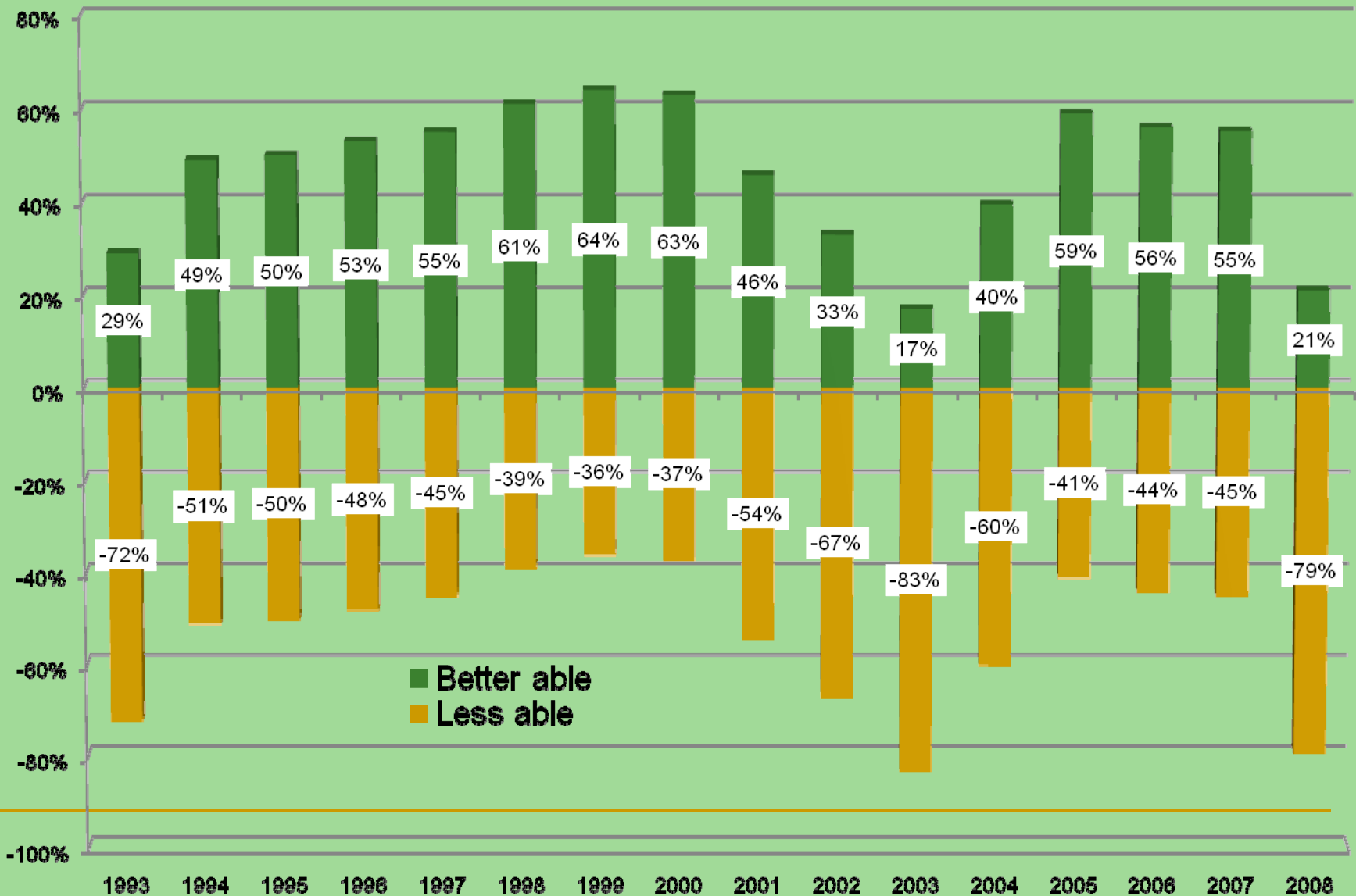
Topics

- **City fiscal conditions**
 - Local housing and retail downturn
 - State budgets and local fiscal authority
 - The outlook for the future
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Percentage of Cities "Better Able/Less Able" to Meet Needs in Current Fiscal Year

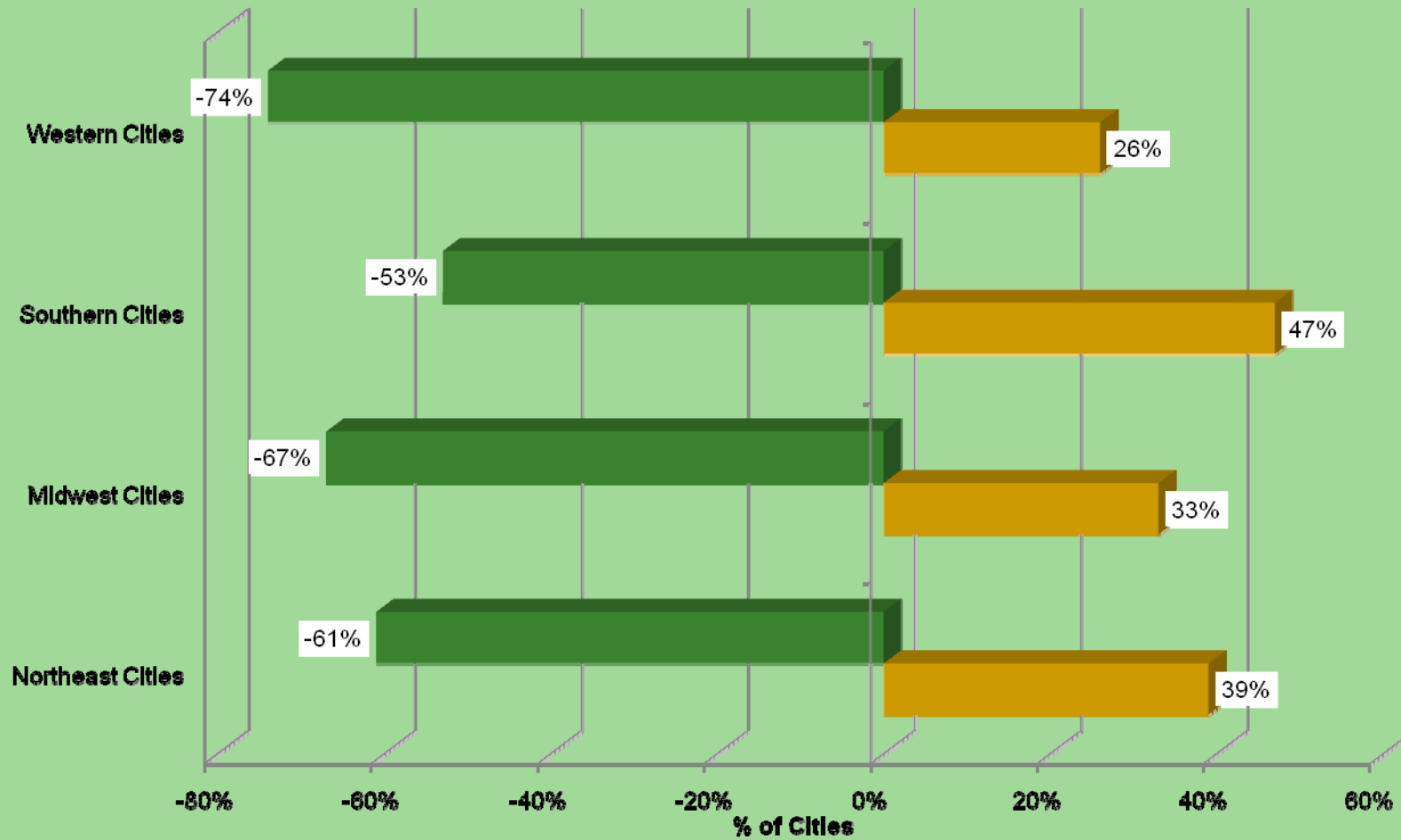


Percentage of Cities “Better Able/Less Able” to meet needs next year than in the current year

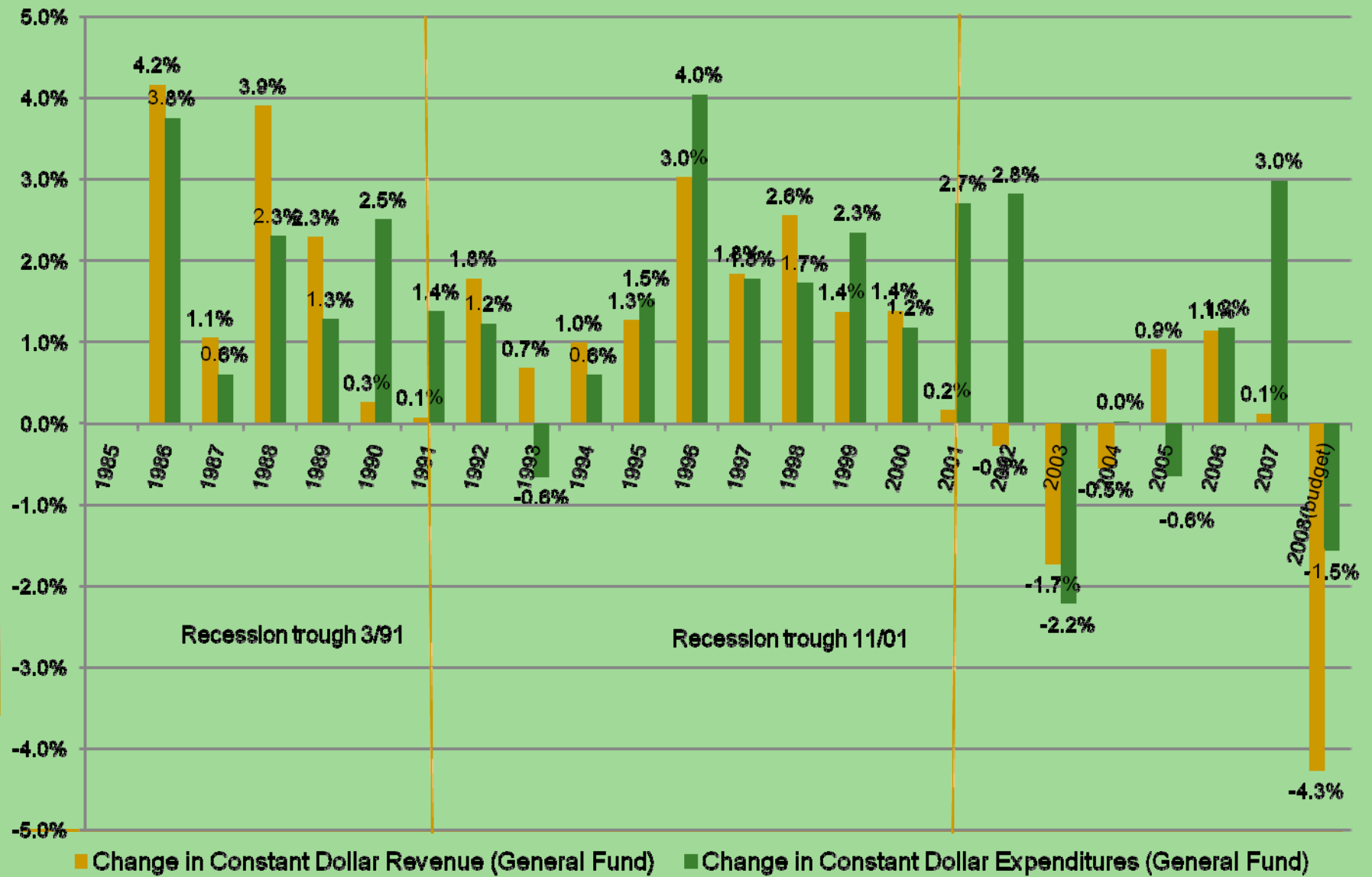


Percentage of Cities "Better Able/Less Able" To Meet Financial Needs in FY 2008, by Region

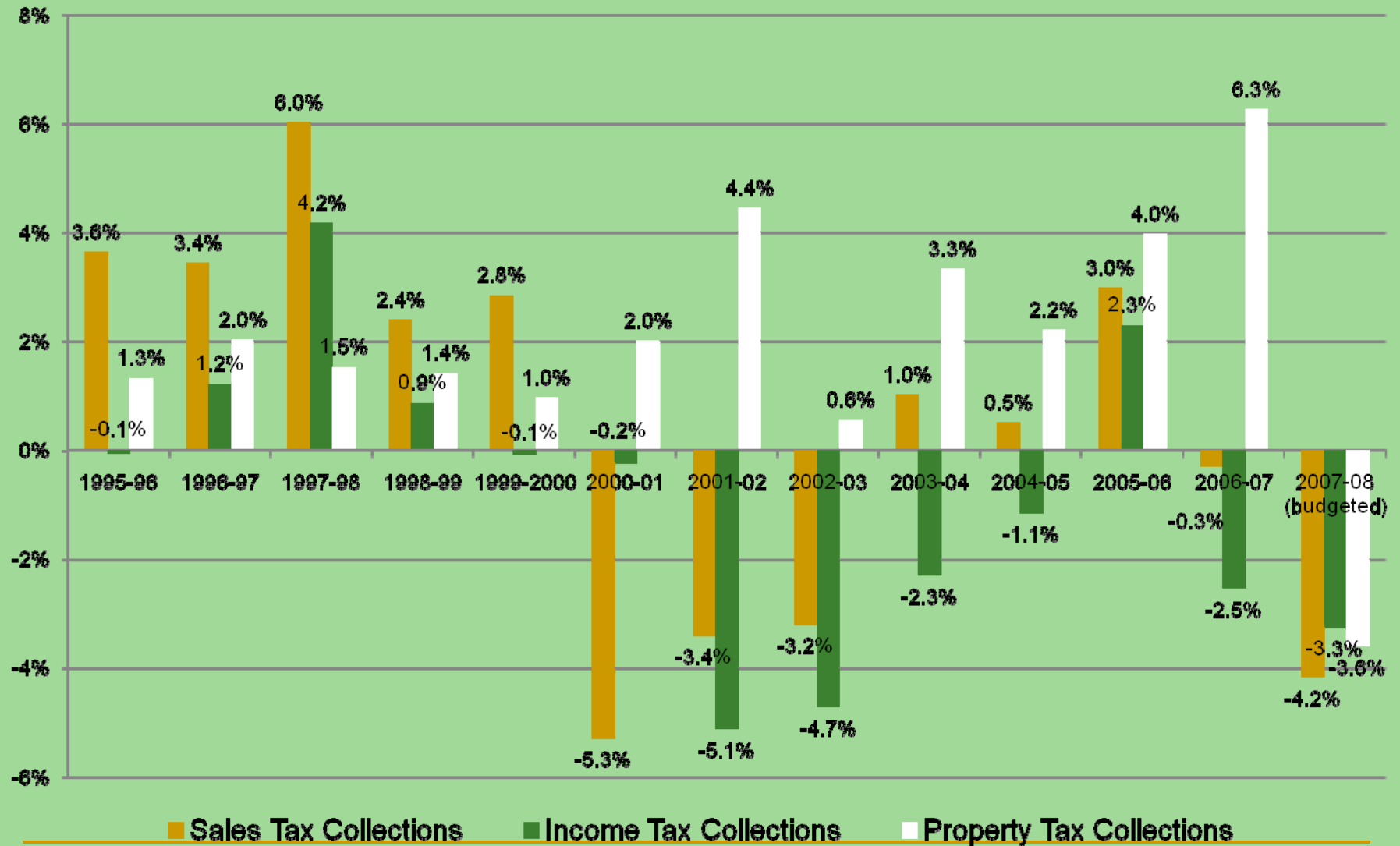
■ Less Able ■ Better Able



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



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



Factors Driving City Budget Increases

(% of city finance officers listing factor)

- Prices/Inflation – 91%
- Employee wages – 89%
- Employee health benefits – 84%
- Infrastructure needs – 78%
- Public safety needs – 78%
- Employee pension costs – 77%

Revenue & Expenditure Actions

(% of city finance officers listing action taken)

Revenue Actions

- Increase fees – 49%
- Increase # of fees – 28%
- Increase property tax rate – 24%
- Decrease property tax rate – 24%
- Increase level of impact fees – 23%

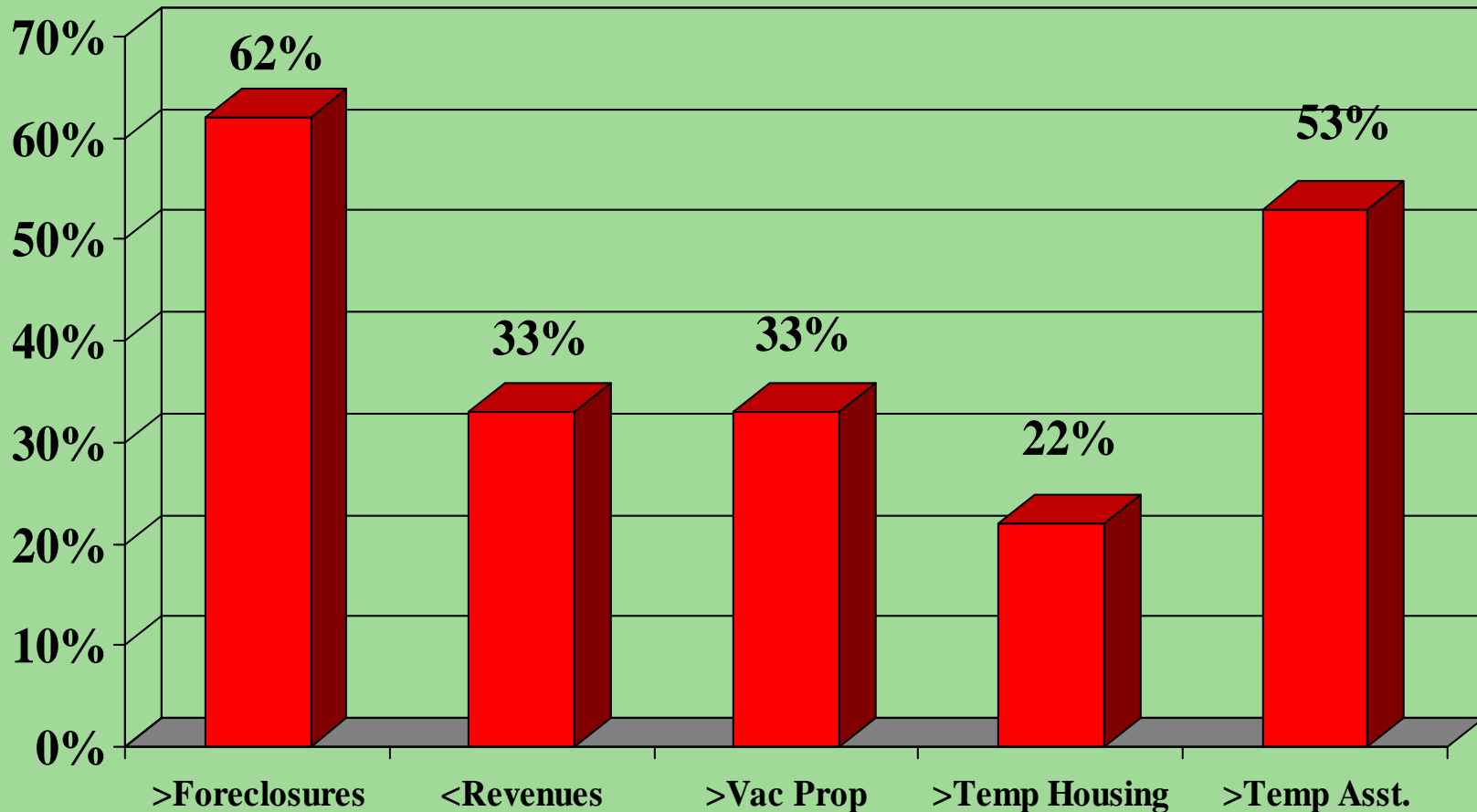
Expenditure Actions

- Hiring freeze/layoffs – 69%
- Delay/cancel infrastructure projects – 42%
- Across the board service cuts – 22%
- Cut libraries, parks, events, etc. – 20%
- Rework employee/retiree health care plans – 14%

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NLC Survey of Local Officials – Impact of Housing Finance & Foreclosures



Source: *Housing Finance and Foreclosure Crisis: Local Impacts and Responses*, by Christiana McFarland, NLC, March, 2008.

NLC Survey of Local Officials – Local Retail Downturn

- 64% of city officials report decline in **retail sales** in past year
- 57% of city officials report increase in **retail store closings** (57%) in past year
- City officials from **sales-tax reliant cities** are more likely to report declining retail conditions

Retail Slowdown: Types & Locations

Type Location	Entire Mall Retail Area	Anchor Large Retail	Smaller Chain Retailer	Locally Owned Retailer
Regional Mall	3%	18%	27%	15%
Neighborhood Center	2%	16%	36%	42%
Downtown Main Street	1%	4%	14%	63%

Local Response & Collaboration

(% of city officials)

Retail

- Business/Chamber of Commerce – 67%
- Other local governments – 35%
- Community/civic groups – 35%

Housing

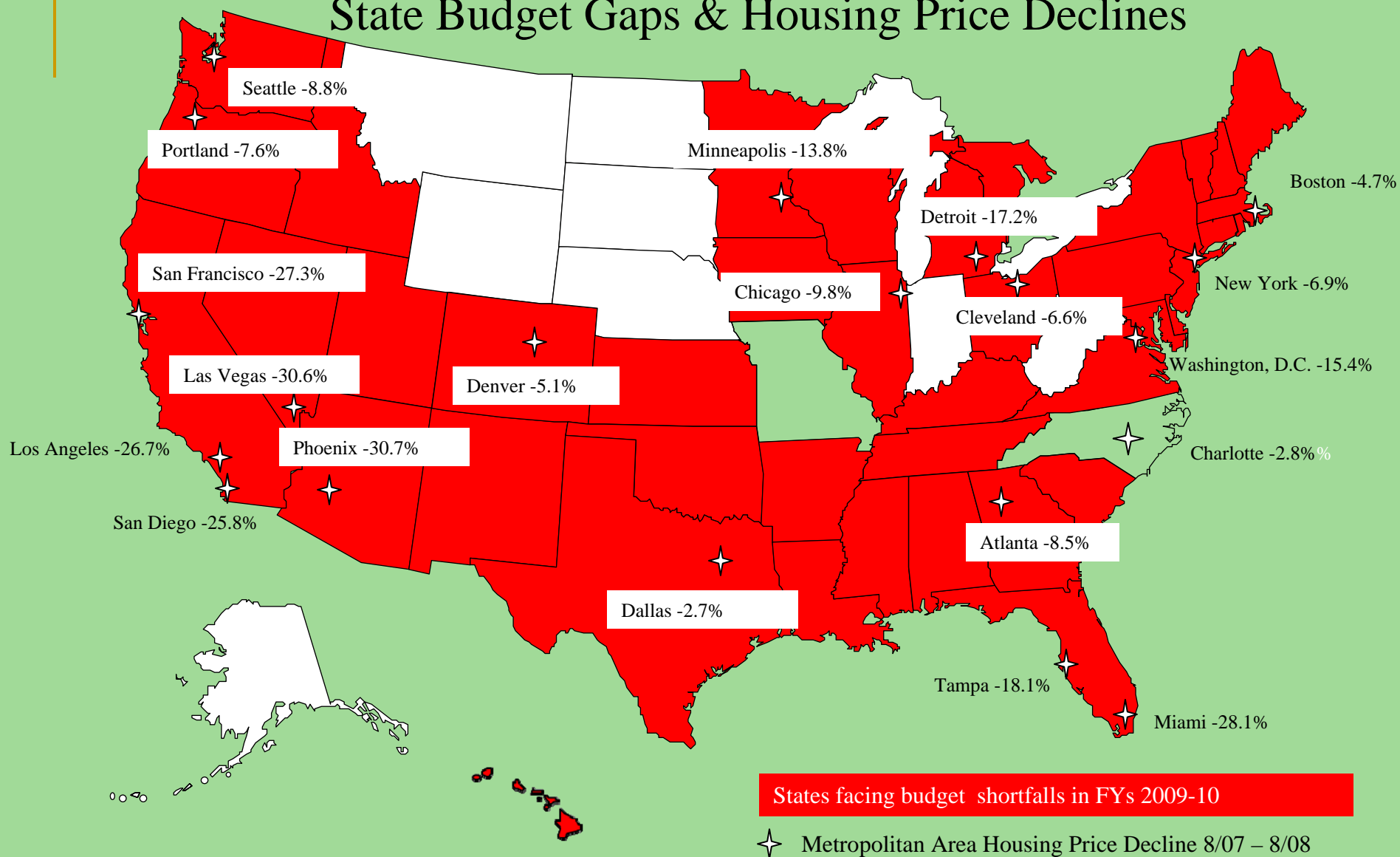
- Non-profit/civic – 59%
- State government – 35%
- Other local govt – 34%
- Banks/mortgage comp. – 32%
- Churches – 29%
- Neighborhood assoc. – 26%
- Federal govt – 26%
- Other private – 18%

Source: *Housing Finance and Foreclosure Crisis: Local Impacts and Responses*, by Christiana McFarland, NLC, March, 2008 and *State of America's Cities: Local Retail Downturn*, by Christiana McFarland, NLC, March 2009.

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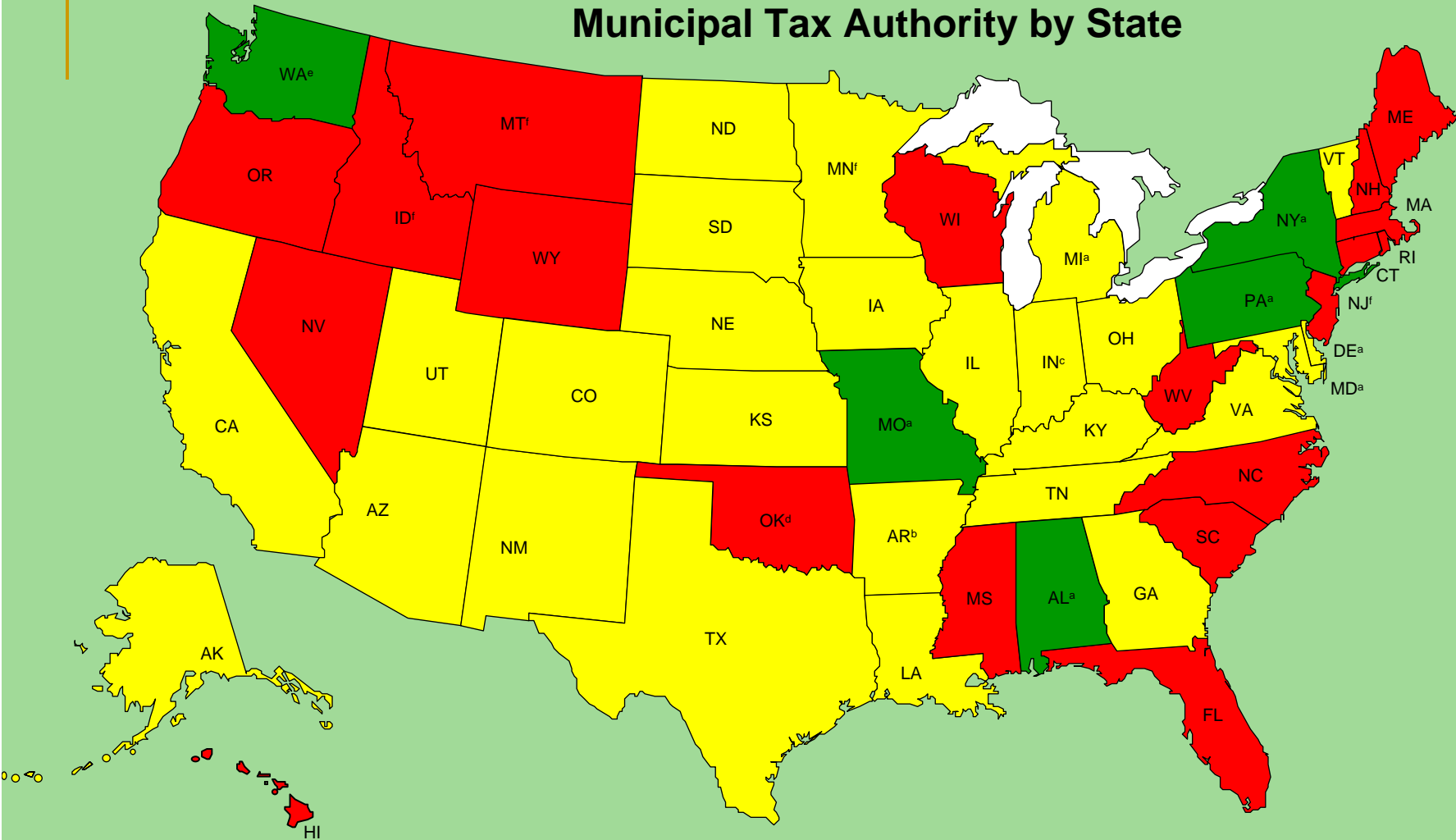
State Budget Gaps & Housing Price Declines



Source, Center on Budget and Policy Priorities

Source, Metropolitan Area Housing Prices: Standard and Poor's/Case-Shiller Home Price Index, August 2008

Municipal Tax Authority by State



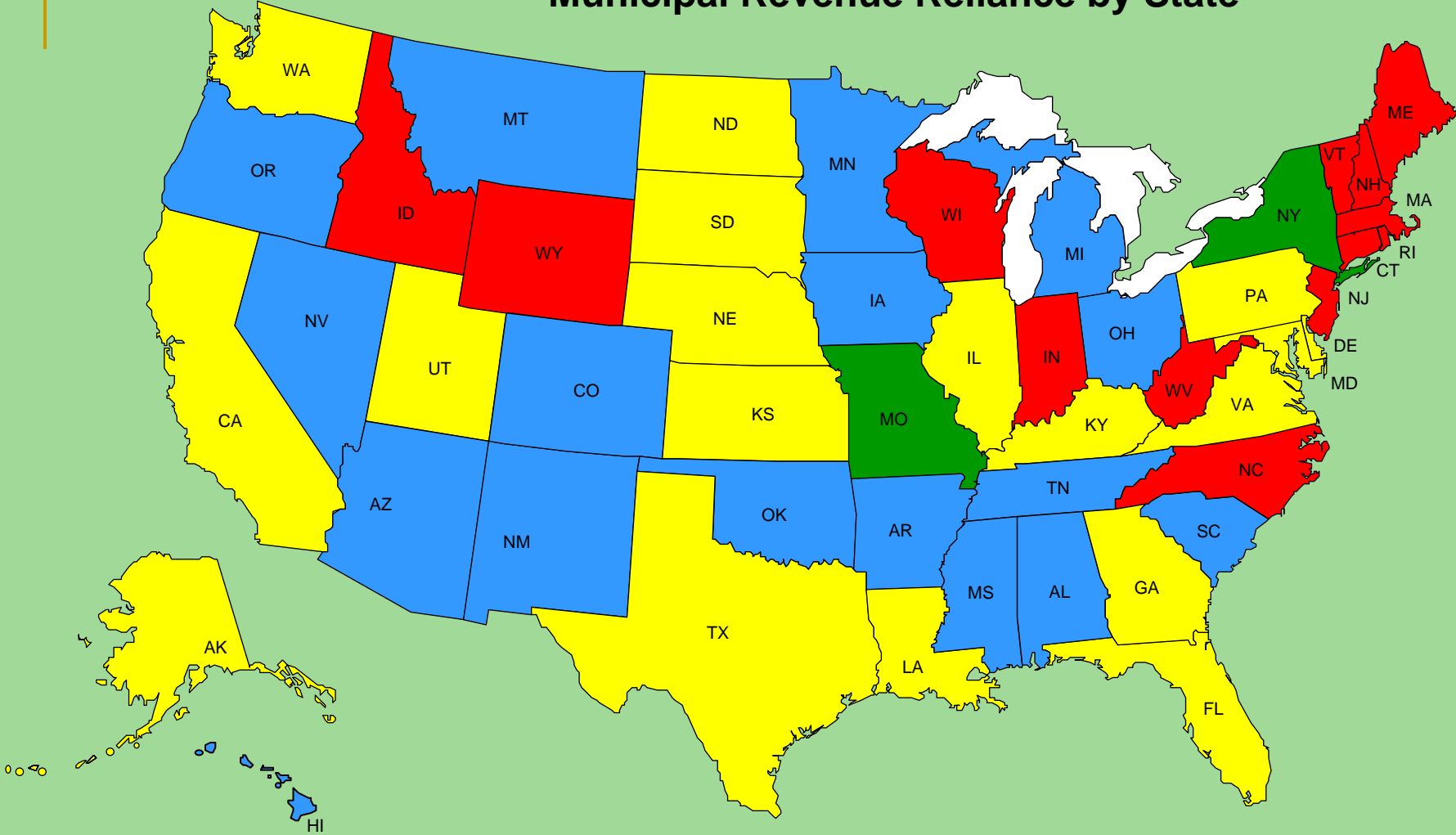
a Income or sales tax for selected cities. **b** Cities can levy a local income tax, but no locality currently does so. **c** A local income tax under certain circumstances. **d** Sales tax only; cities can levy a property tax for debt-retirement purposes only. **e** Cities can impose the equivalent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

Property + sales + income

Property + sales OR ncome

Property or sales only

Municipal Revenue Reliance by State



Three tax sources — Two tax sources — One source + low 2nd source — One tax source

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Outlook for the Future

- City tax bases and revenue will continue to decline through 2011
 - Recession “trough” likely in 2nd half of 2009
 - Unemployment to reach 9+% in 2009
 - Real estate market will begin to recover 2010-11
 - Inflationary/cost pressures will continue
 - Employee costs & demand for services
 - Cities will...
 - Cut services
 - Raise revenues through fees (and taxes)
 - Tap into ending balances/reserves
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Outlook for the Future

- **“It’s only just beginning to rain.”** – Nevada Governor Dave Heineman
 - **“Flat is the new up.”** – Mark Stencil, Editor, *Governing Magazine*
 - **“A crisis is a terrible thing to waste”** – Michigan Governor Laura Granholm
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Thank you...for more information...

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