

Local Government Priorities, Policies, and Programs Change as Money Becomes Scarce:

The City Fiscal Backdrop

Rethink. Recover. Rebuild:
Reinventing Older Communities
Federal Reserve Bank of Philadelphia
13-14 May 2010
Philadelphia, Pennsylvania

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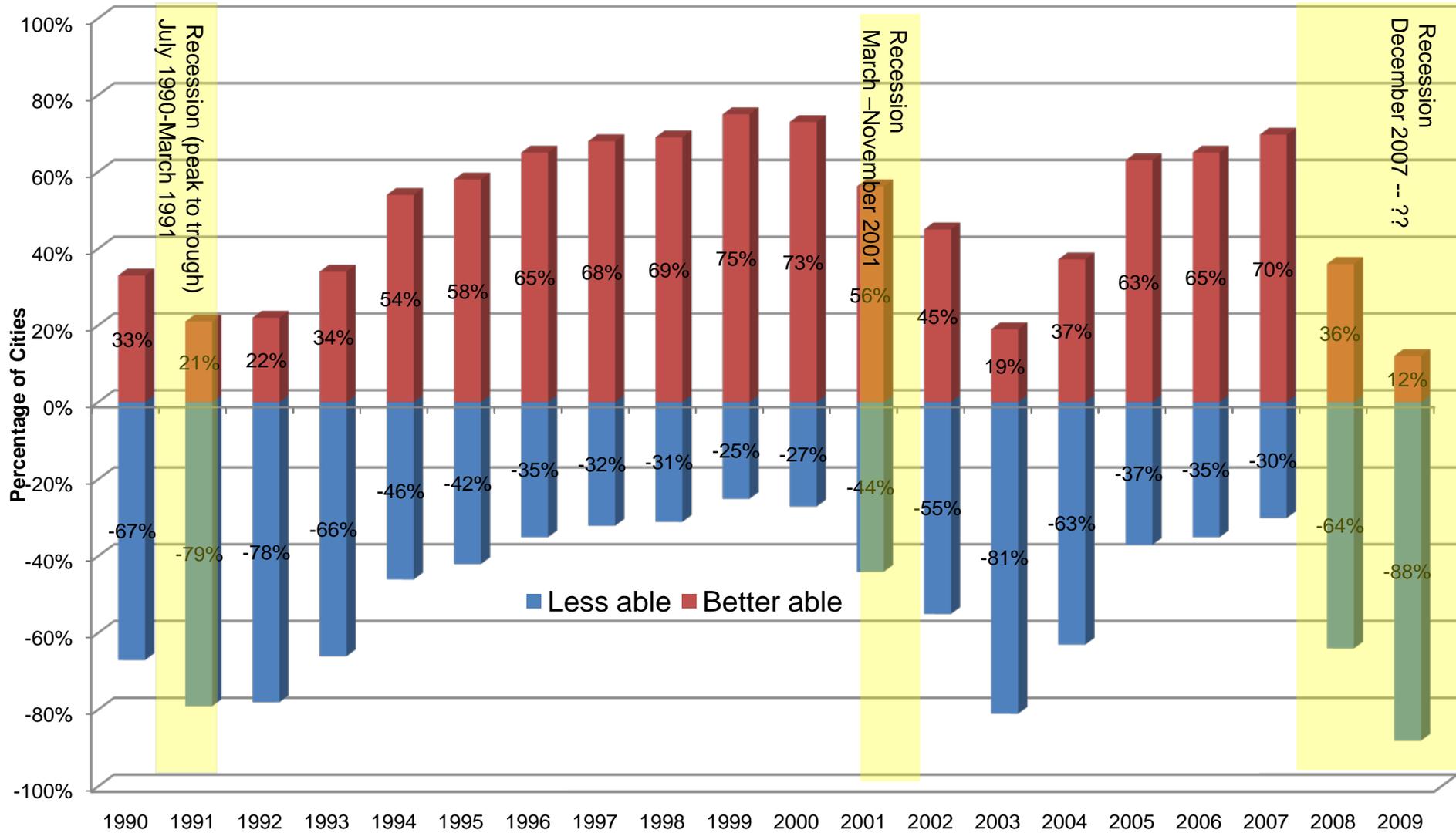
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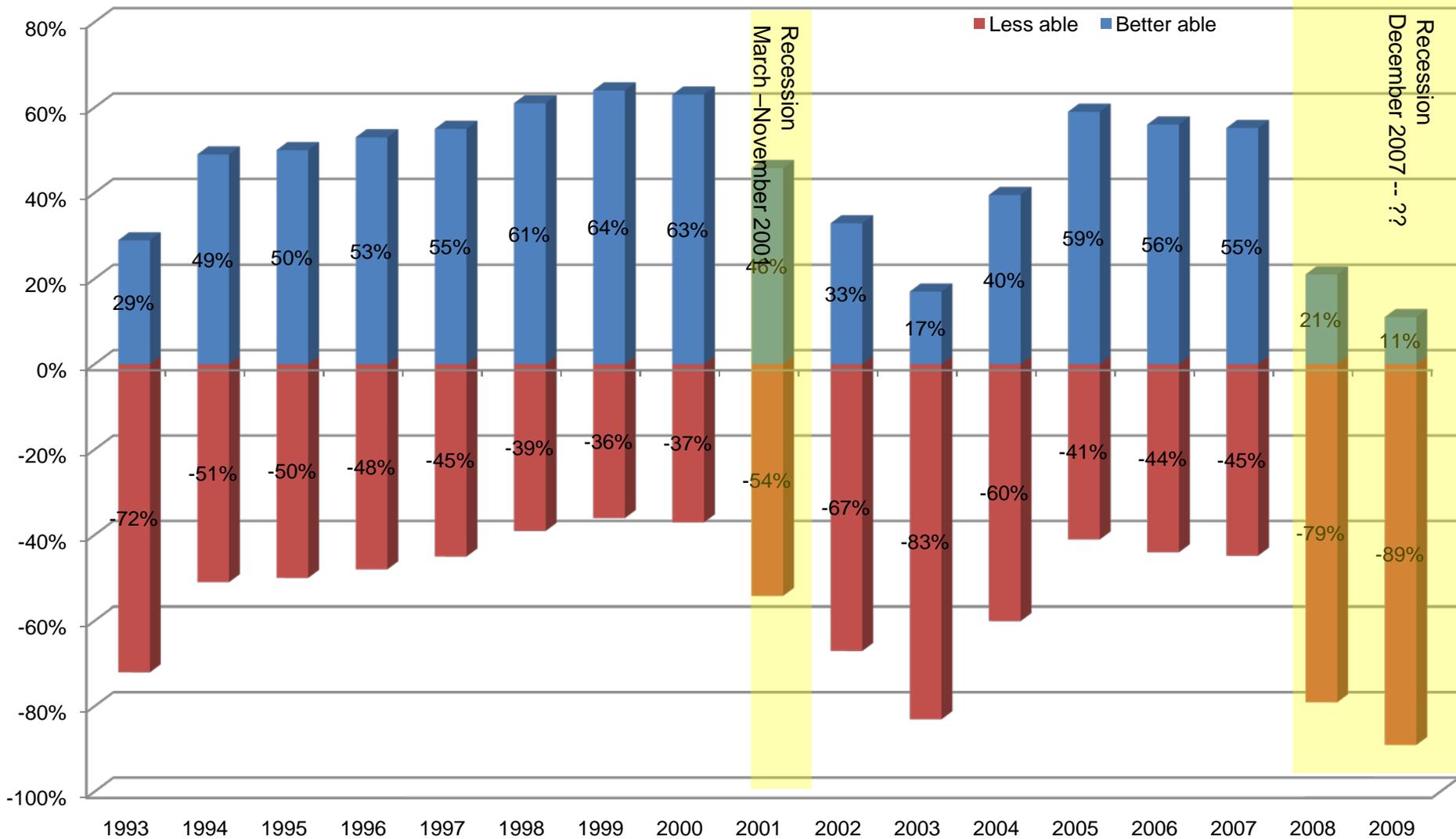
Changing Shape of Cities' Fiscal Conditions

- **Variations on a Revenue Theme**
 - Actions and Reactions
 - Fiscal Mismatch and Contemporary Challenges
 - Crystal Ball Gazing
-

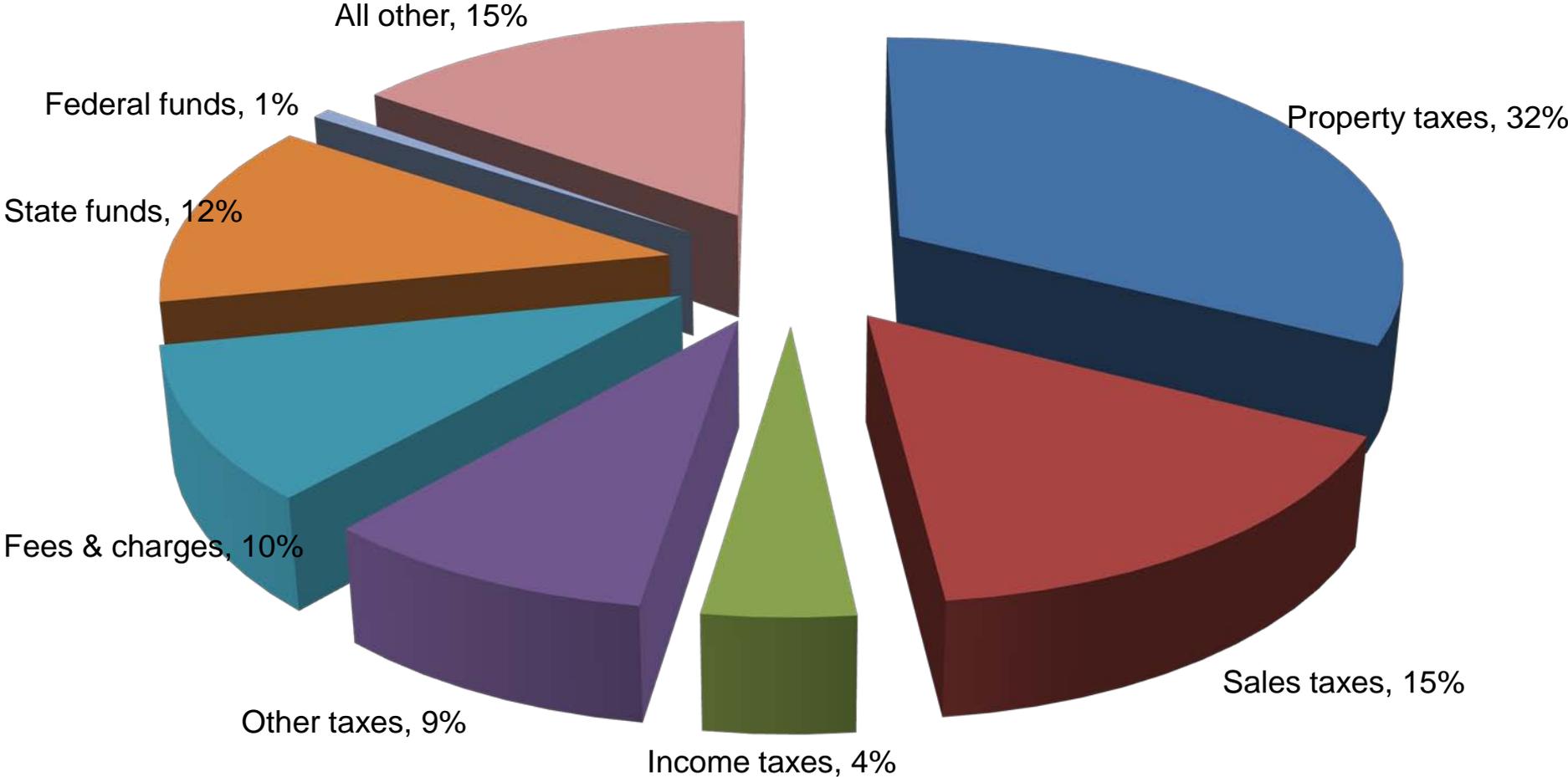
Percentage of Cities "Better Able/Less Able" to Meet Financial Needs in Current Fiscal Year



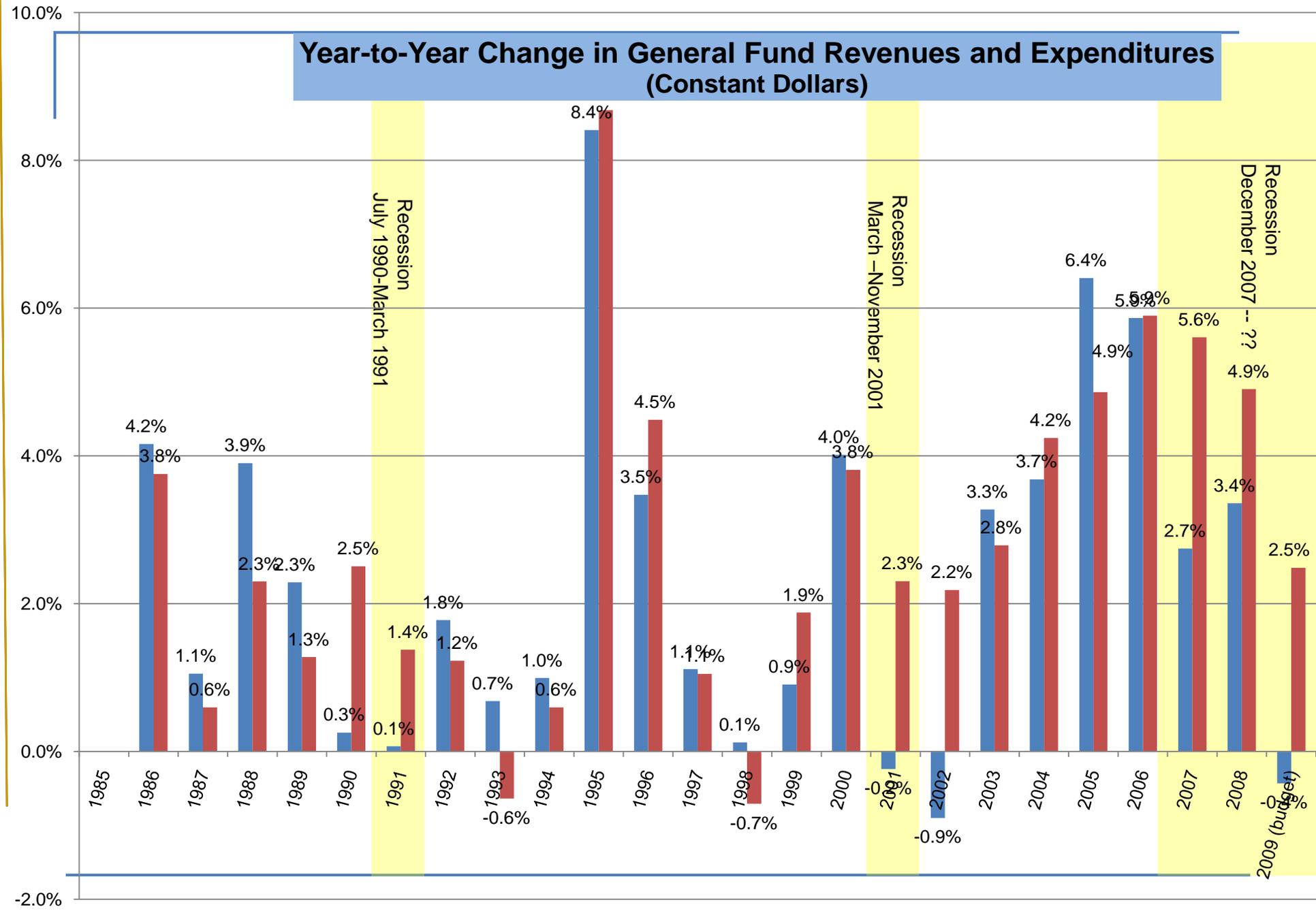
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Municipalities' General Fund Revenue Composition, 2009



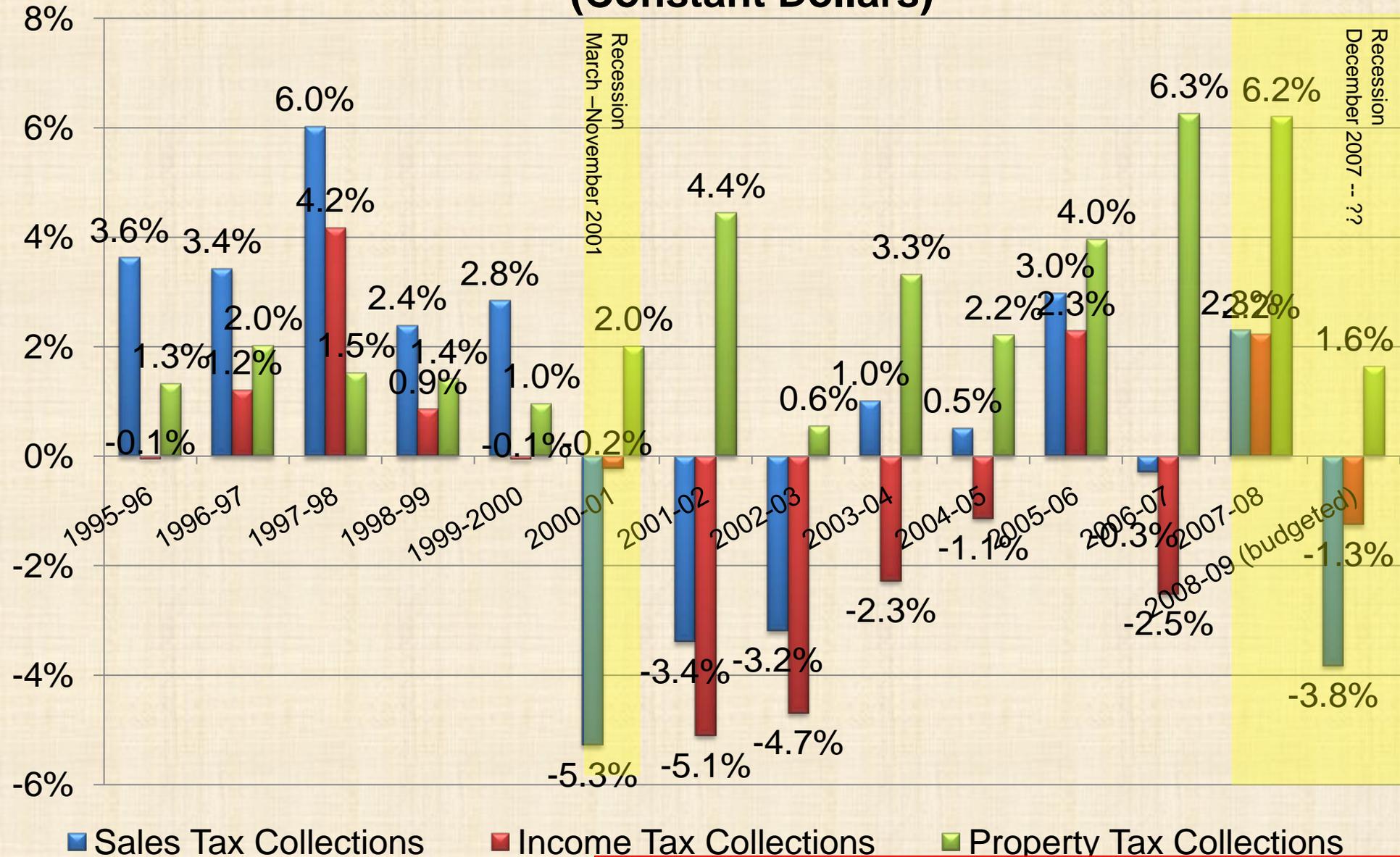
Year-to-Year Change in General Fund Revenues and Expenditures (Constant Dollars)



■ 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

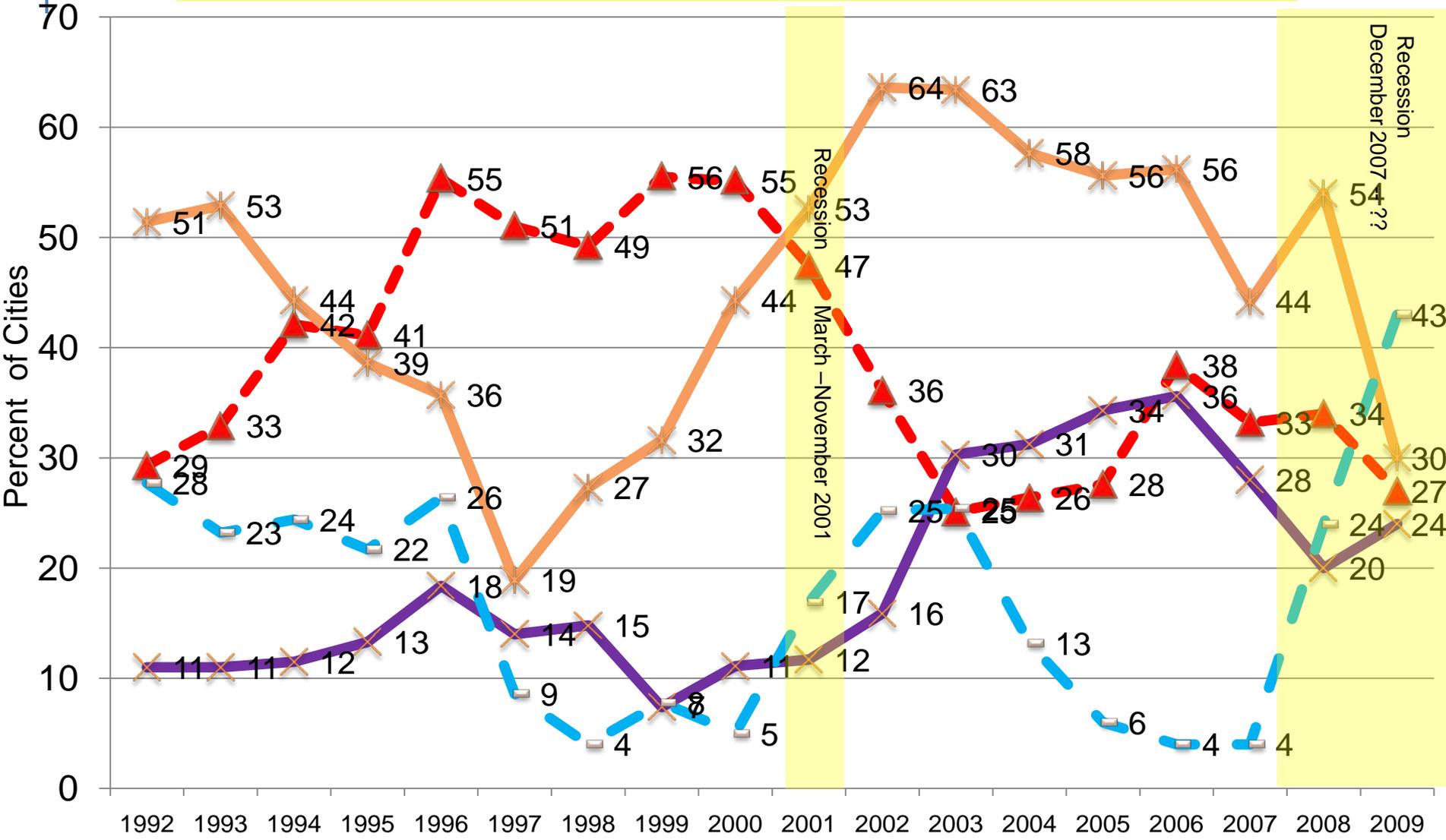
■ Income Tax Collections

■ Property Tax Collections

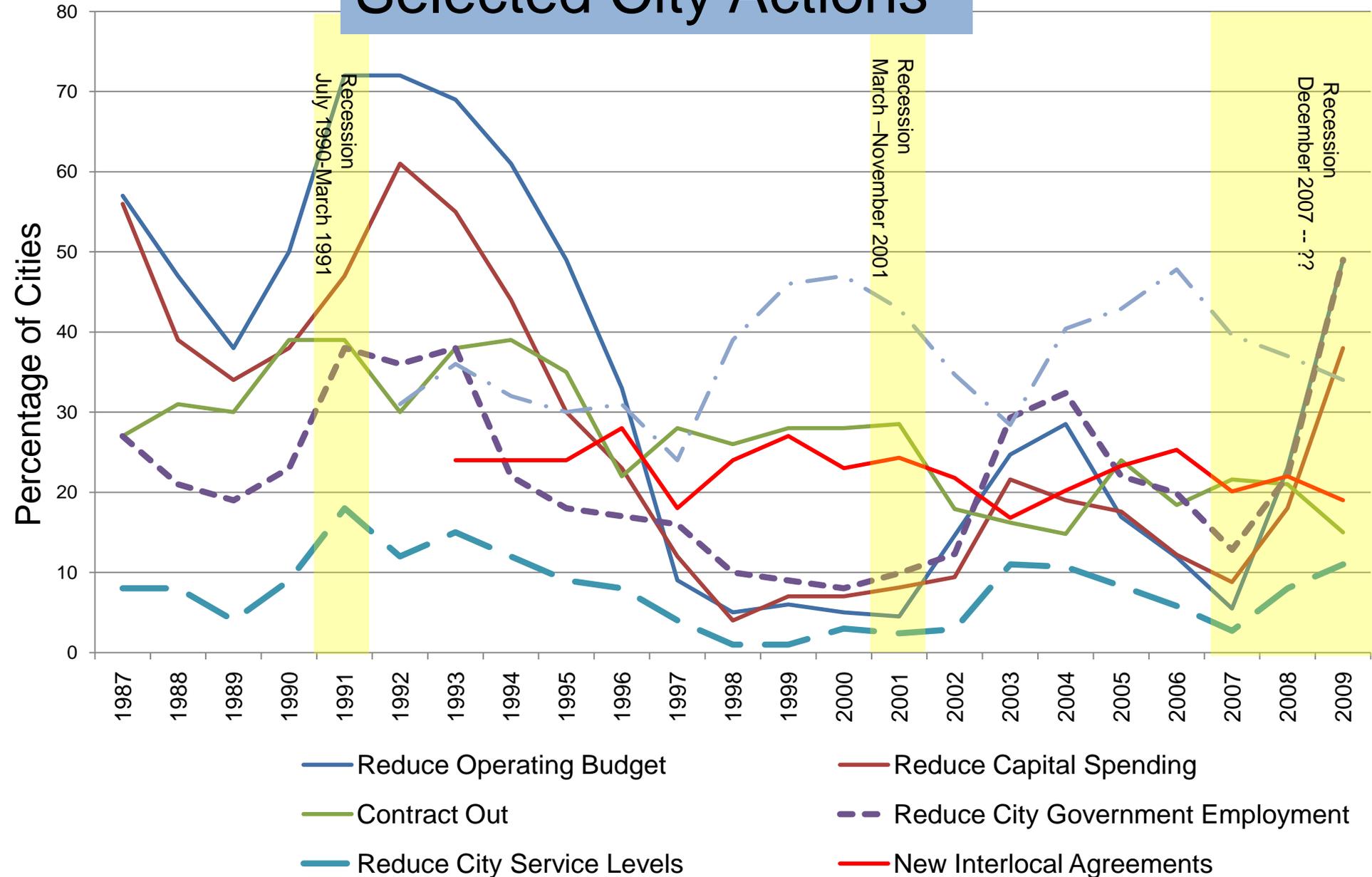
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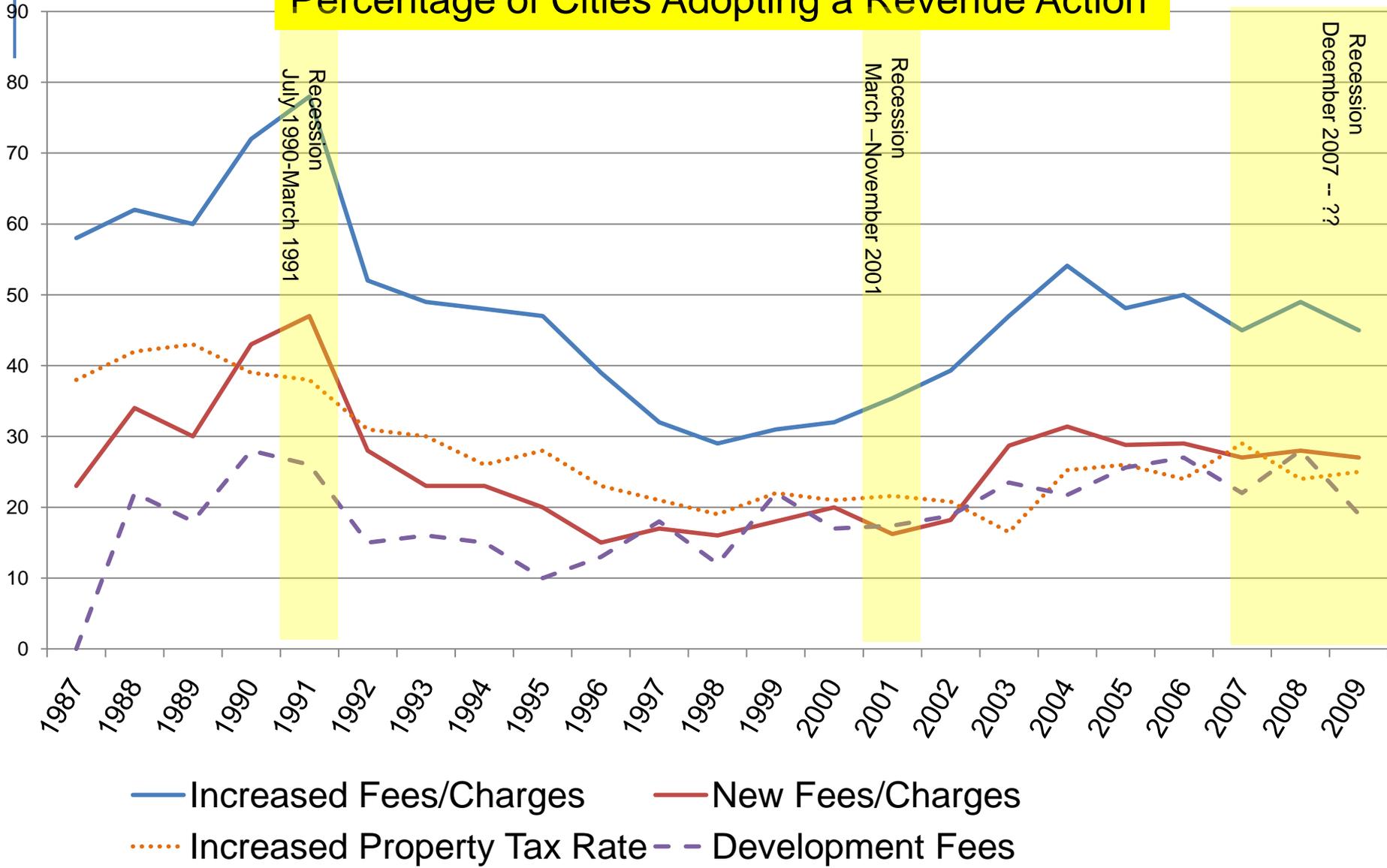
Percentage of Cities Reporting Item Had Among the Most Negative Impacts on Current-Year Budget



Selected City Actions



Percentage of Cities Adopting a Revenue Action



Source: Michael A. Pagano, "Creative Designs of the Patchwork Quilt of Municipal Finance," in Gregory K. Ingram and Yu-Hung Hong, *The Changing Landscape of Local Public Revenues* (Cambridge, MA: Lincoln Institute of Land Policy, 2010), pp. 116-140.

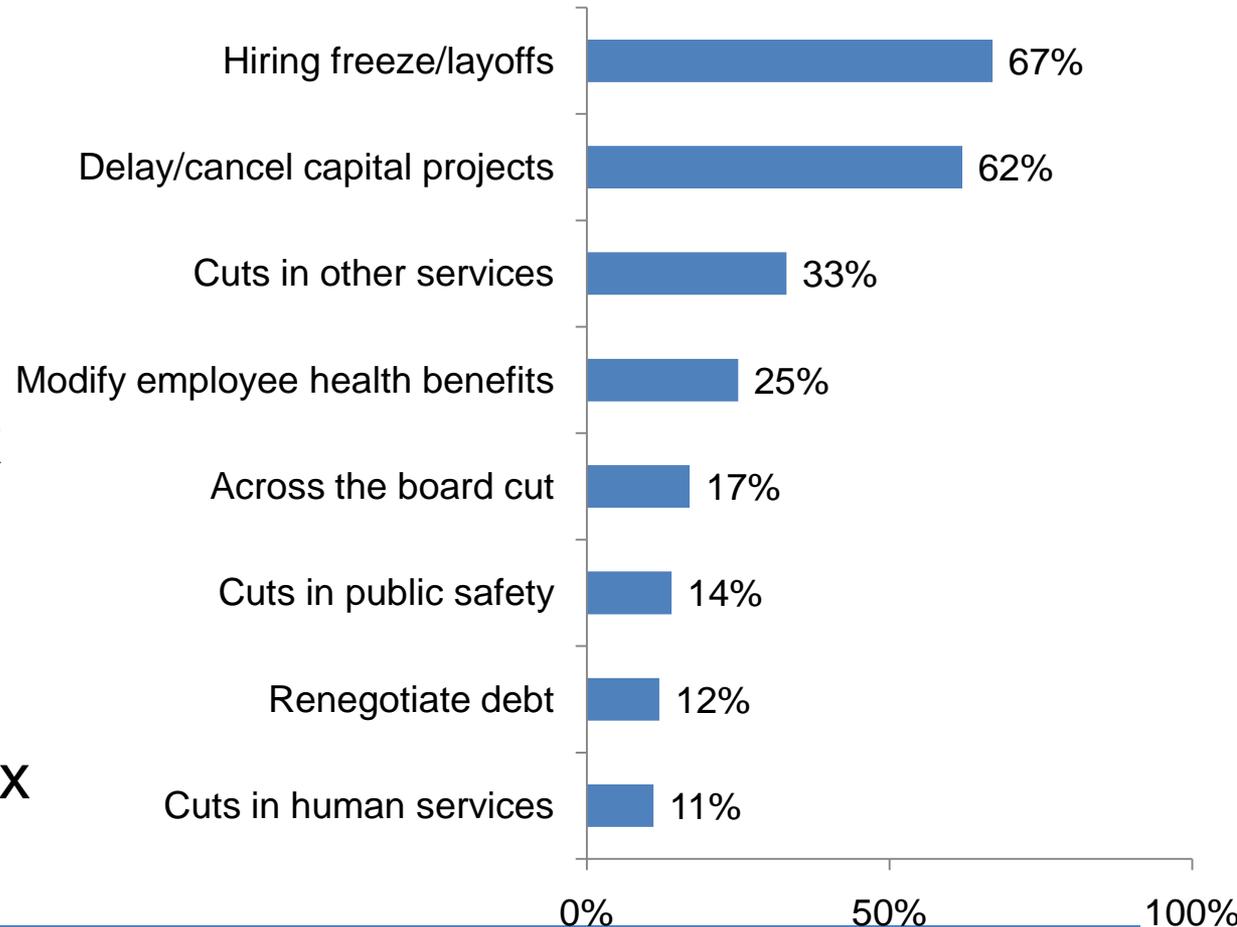
Revenue & Expenditure Actions FY09 (%)

(% of city finance officers listing factor)

Revenue Actions

- Increase fees – 45%
- Increase # of fees – 27%
- Increase property tax rate – 25%
- Increase level of impact fees – 19%
- Decrease property tax rate – 11%

City Spending Cuts in 2009



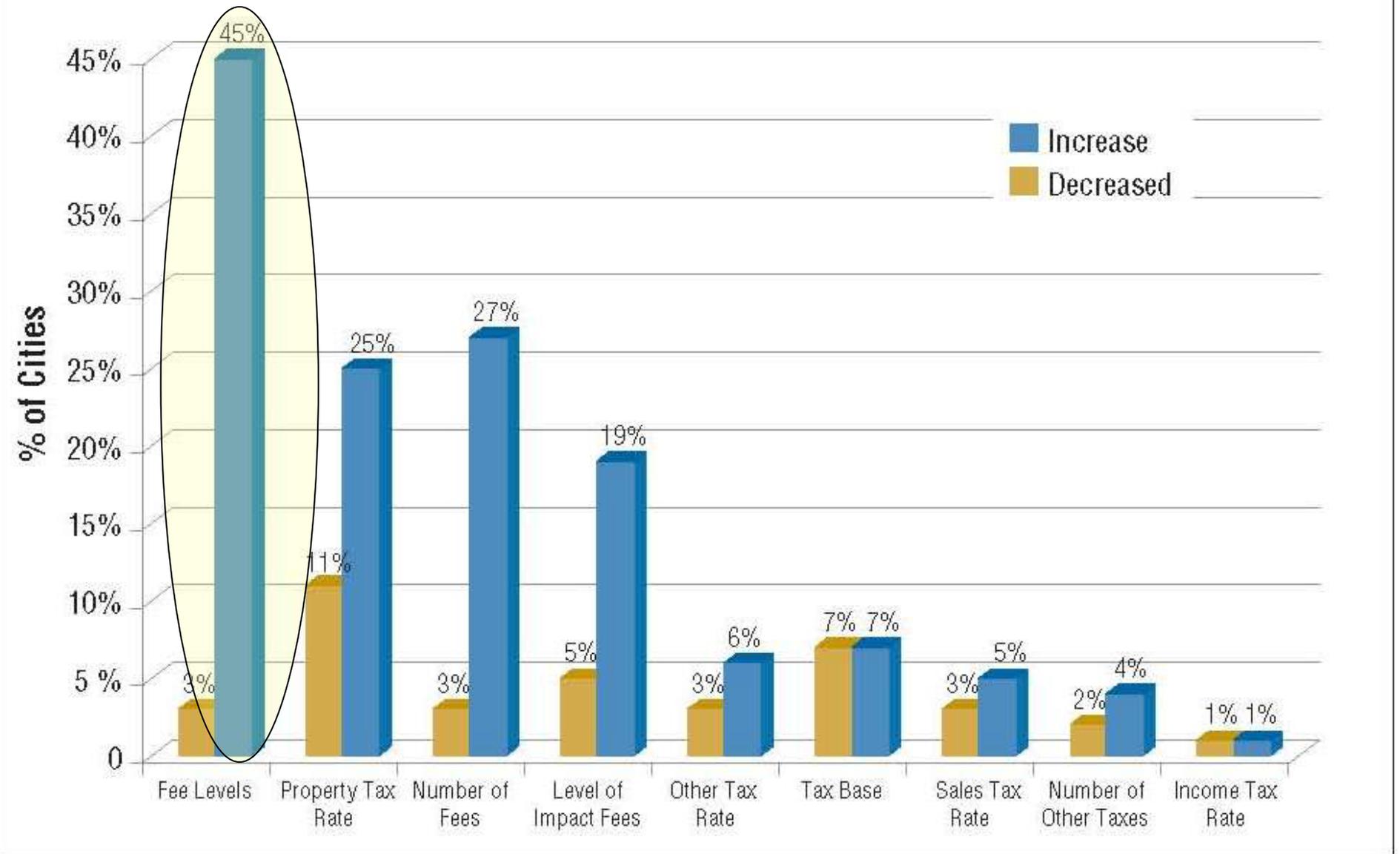
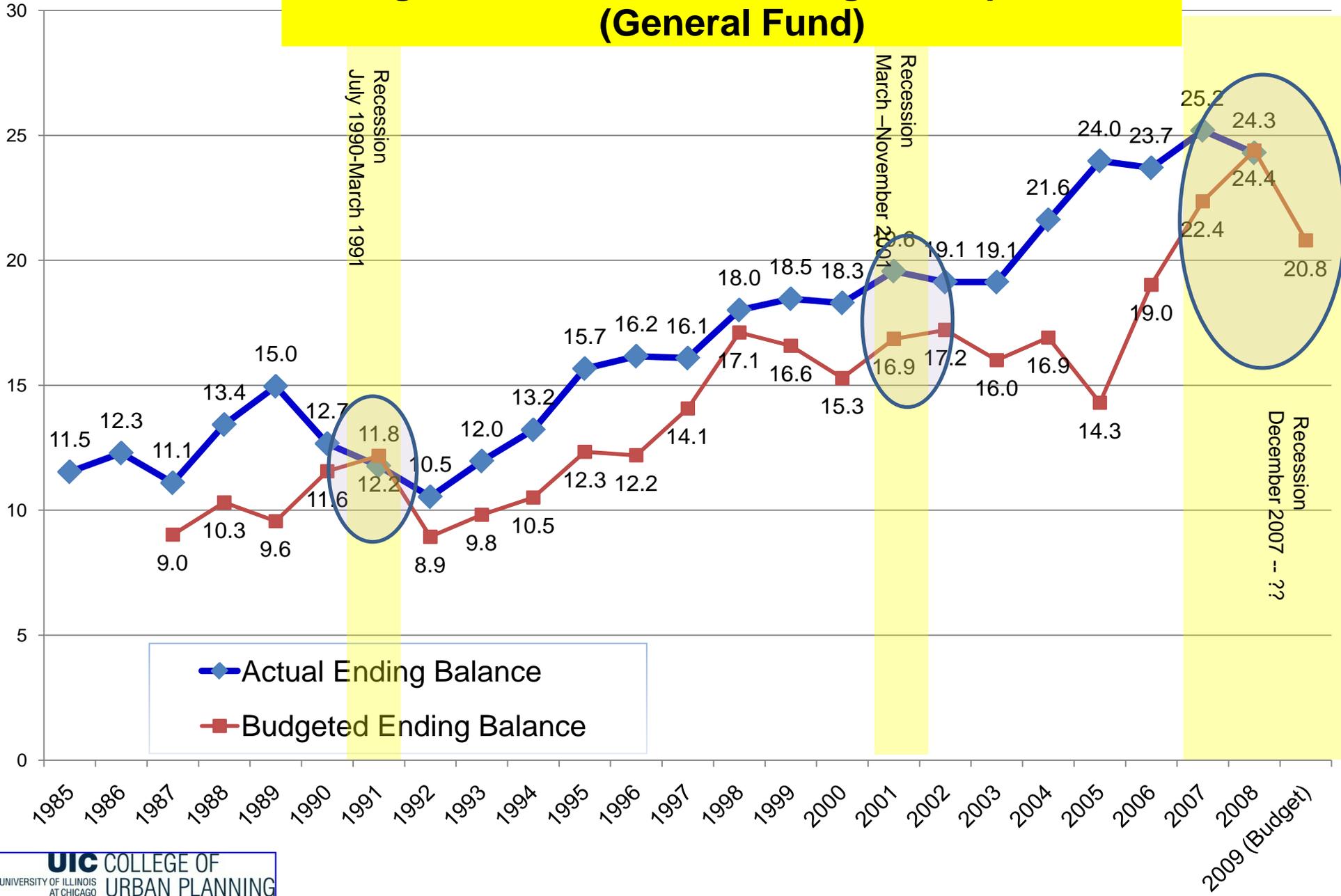


Figure 7: Revenue Actions in 2009

Ending Balances as a Percentage of Expenditures (General Fund)



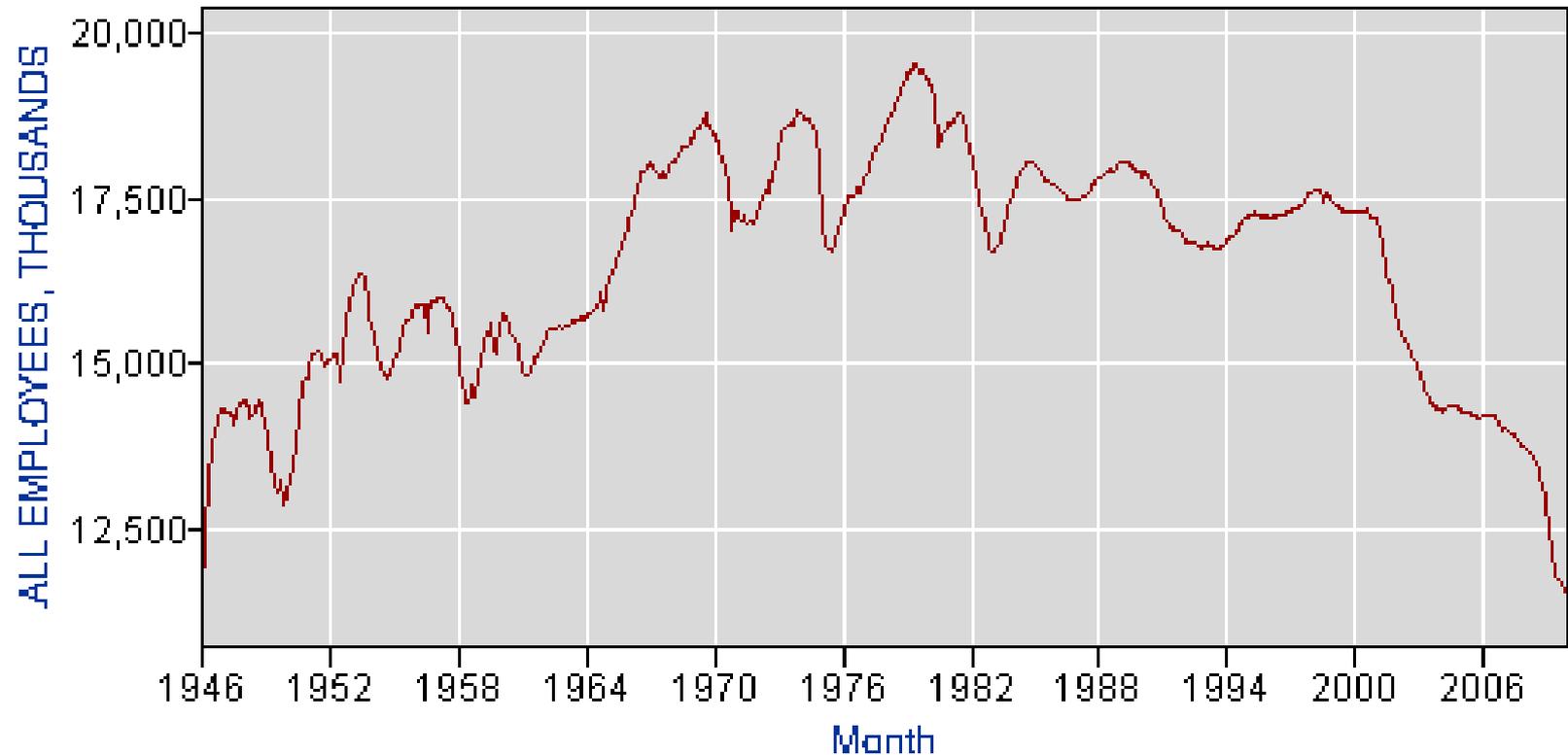
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Bureau of Labor Statistics

Industry: Manufacturing

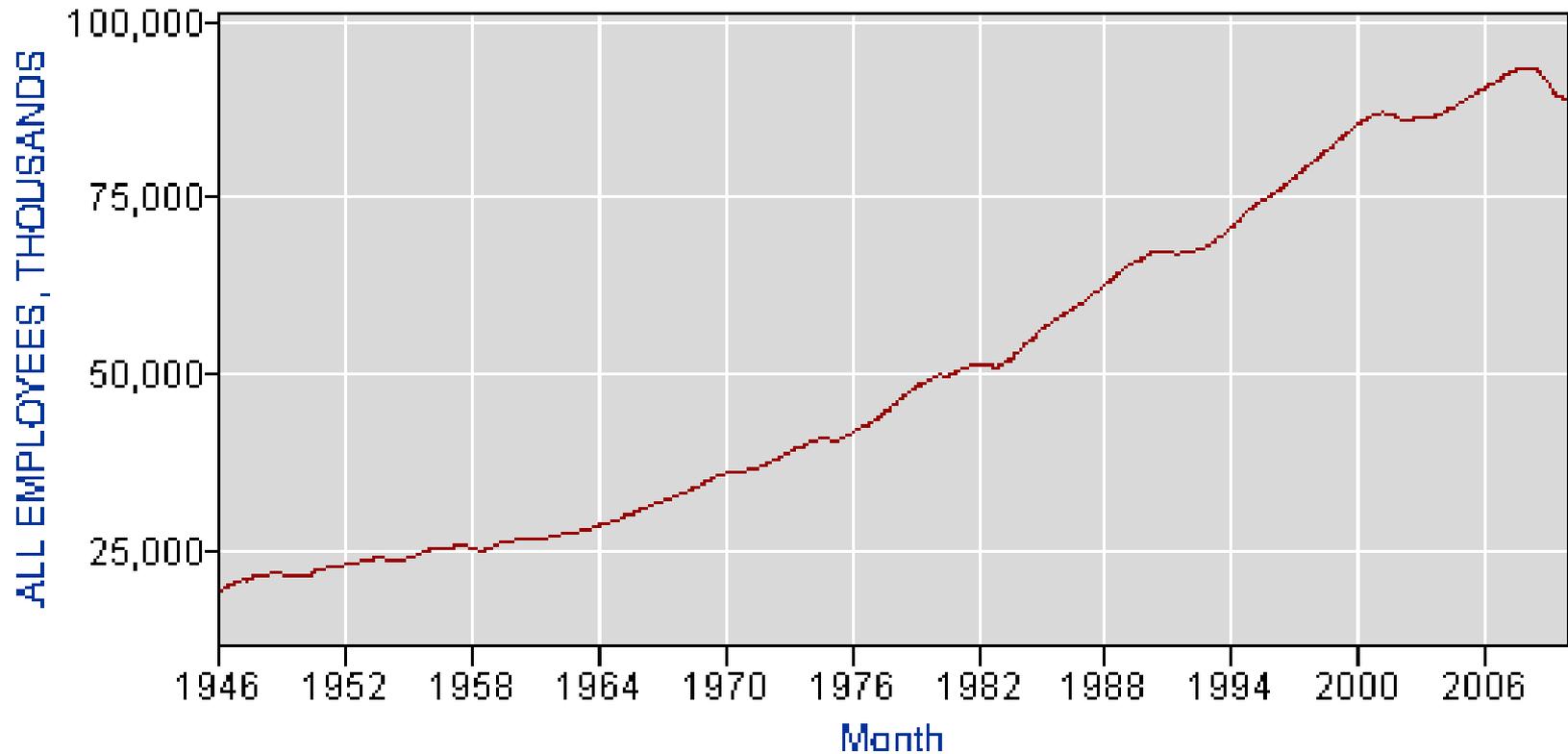
Data Type: ALL EMPLOYEES, THOUSANDS



Bureau of Labor Statistics

Industry: Service-providing

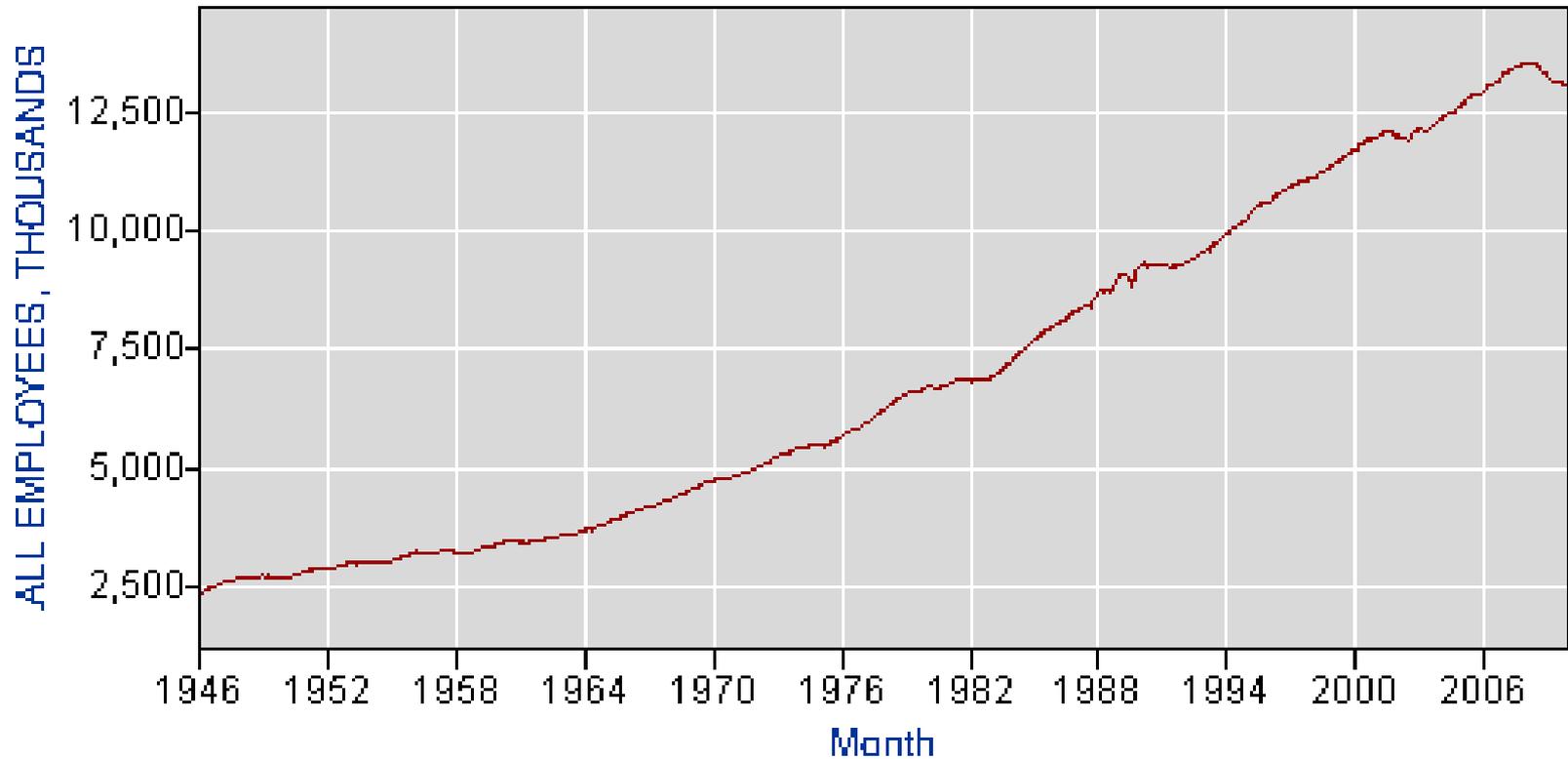
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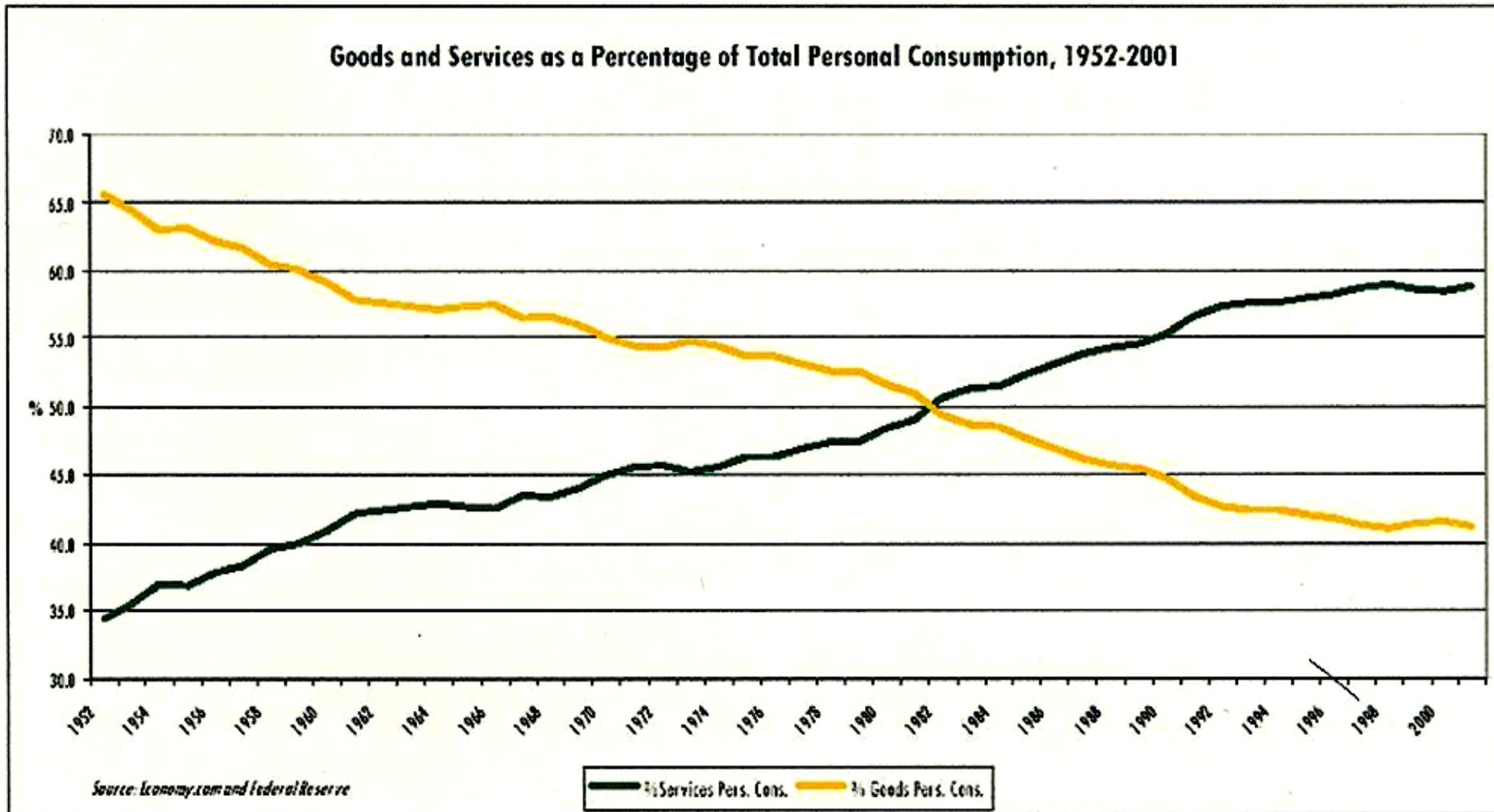
Bureau of Labor Statistics

Industry: Leisure and hospitality

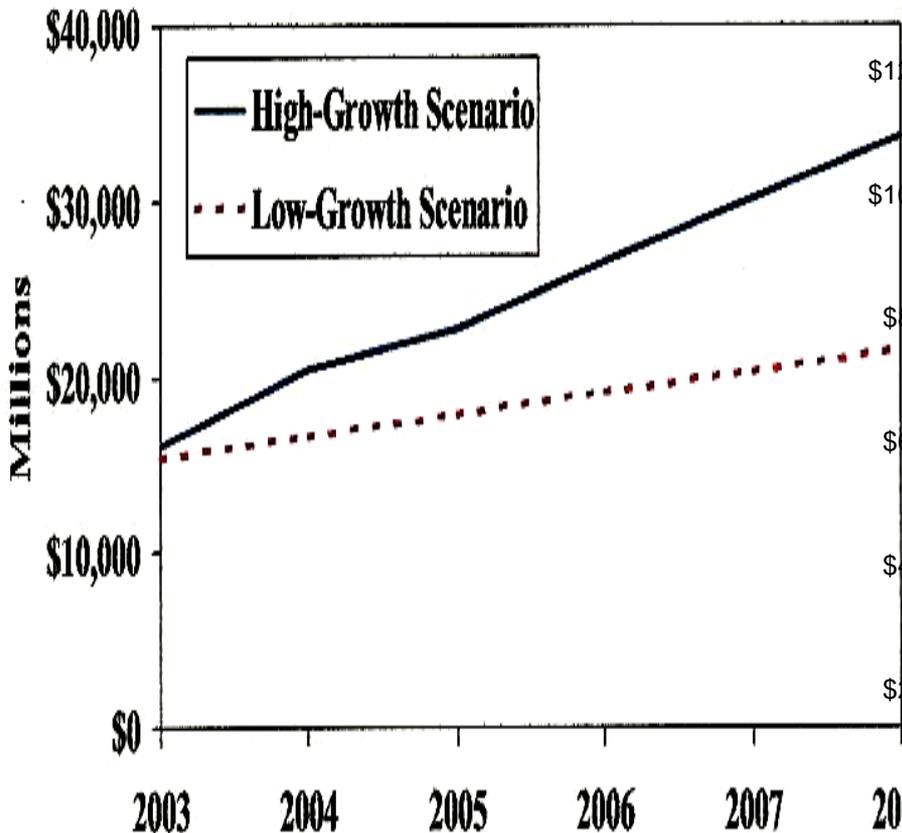
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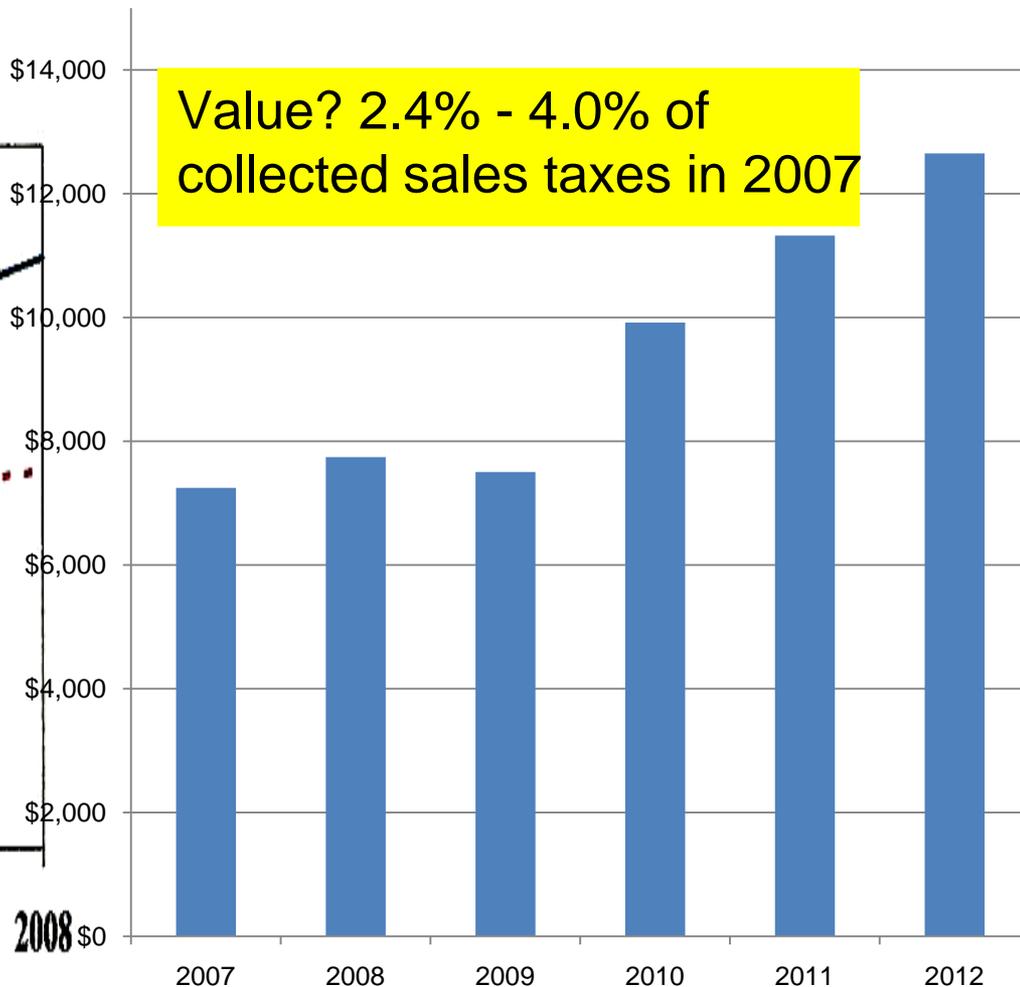
Shift from Goods to Services



Estimated Total State and Local Sales Tax Revenue Loss



Estimated Total State and Local User and Sales Tax Revenue Loss



Source: Donald Bruce and William Fox, "State and Local Sales Tax Revenue Losses from E-Commerce: Estimates as of July 2004" (University of Tennessee, Center for Business and Economic Research, July 2004)

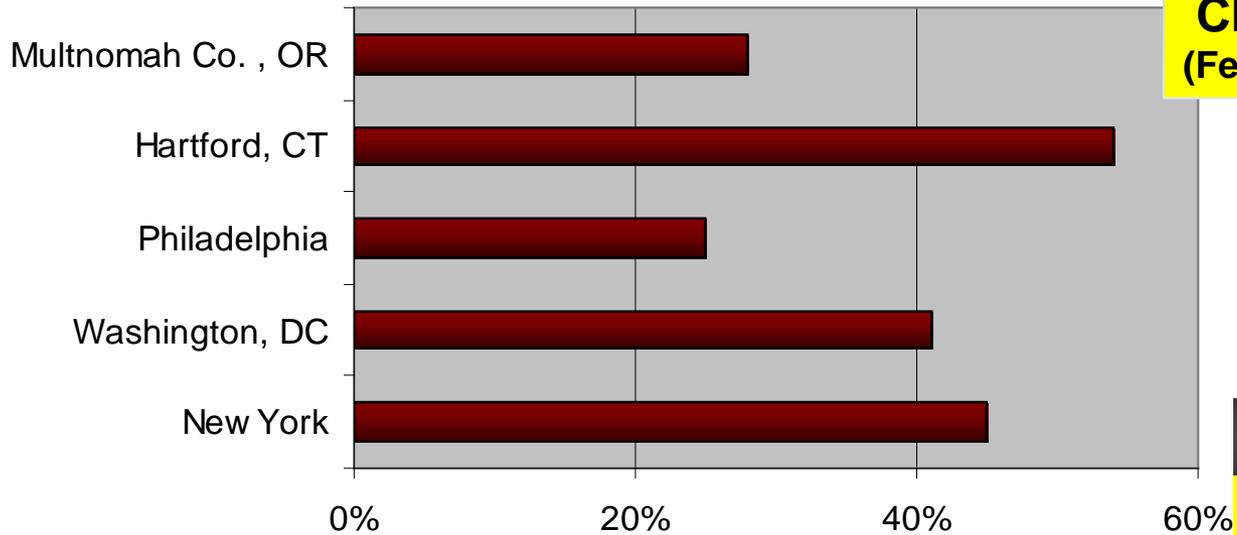
<http://cber.bus.utk.edu/ecom/Ecom0704.pdf>

Source: State and Local Government Sales Tax Revenue Losses from Electronic Commerce

By Donald Bruce, William F. Fox, LeAnn Luna. April 13, 2009

<http://cber.utk.edu/ecom/ecom0409.pdf>

Exempt Property as Percentage of Total Assessed Value



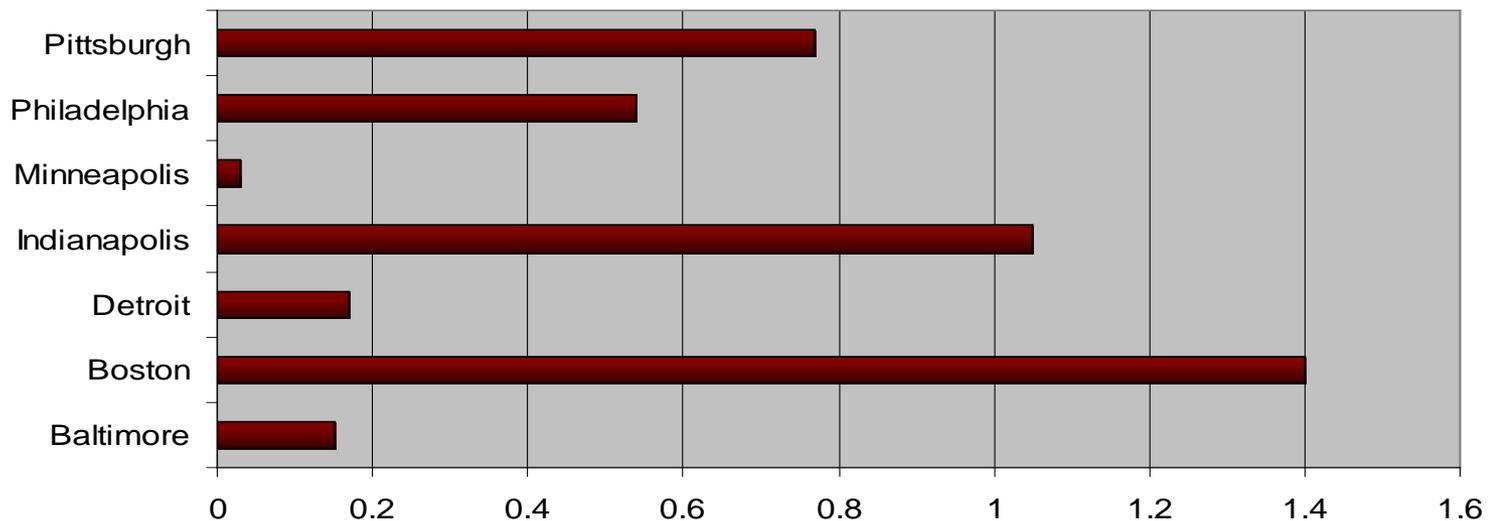
The New York Times
States Move to Revoke Charities' Tax Exemptions
 (February 27, 2010)

Provena-Covenant Medical Center v. (Illinois) Dept. of Revenue (2010)

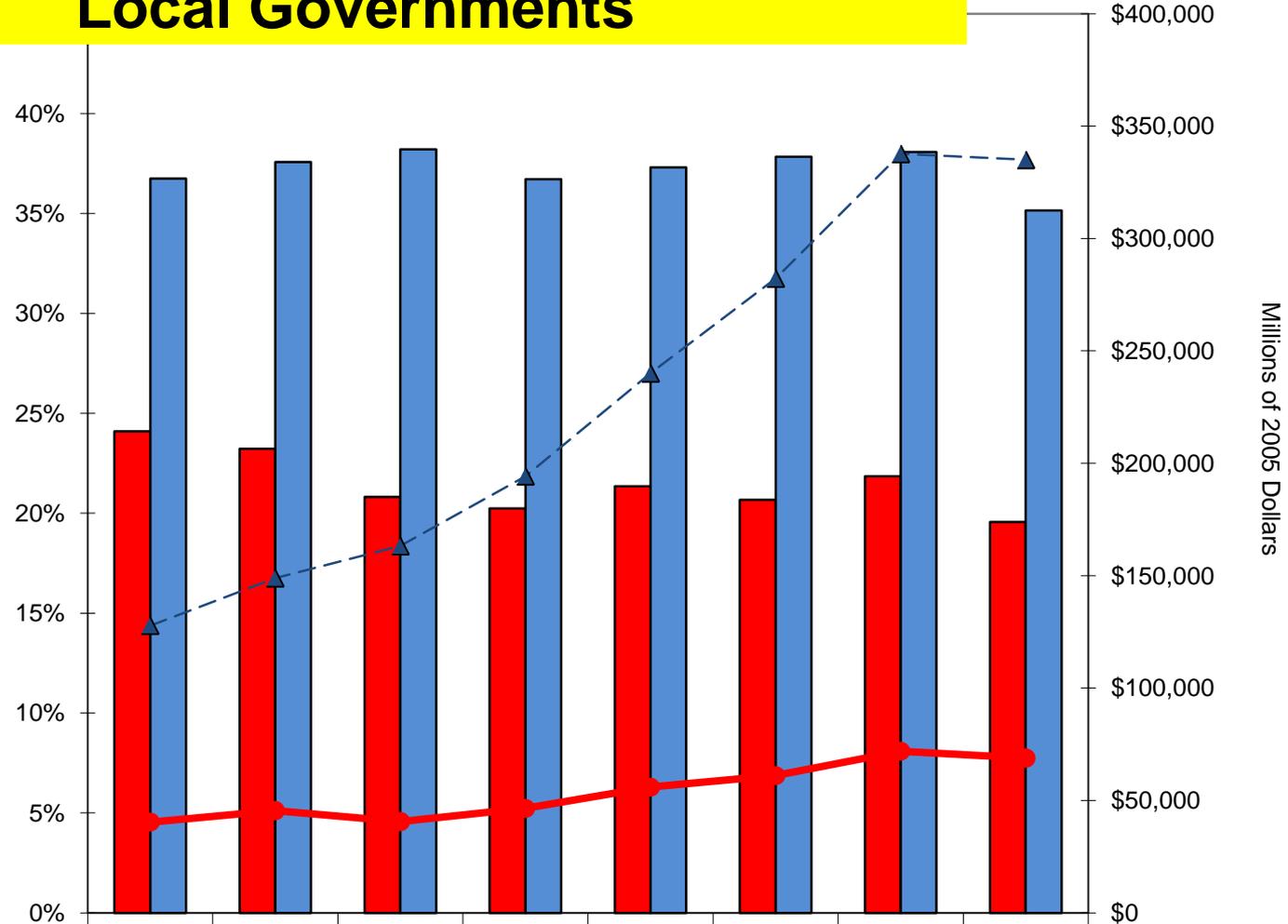
THE WALL STREET JOURNAL.

Pittsburgh Pushes Tax on College Students

PILOT Revenue as Percentage of Budget

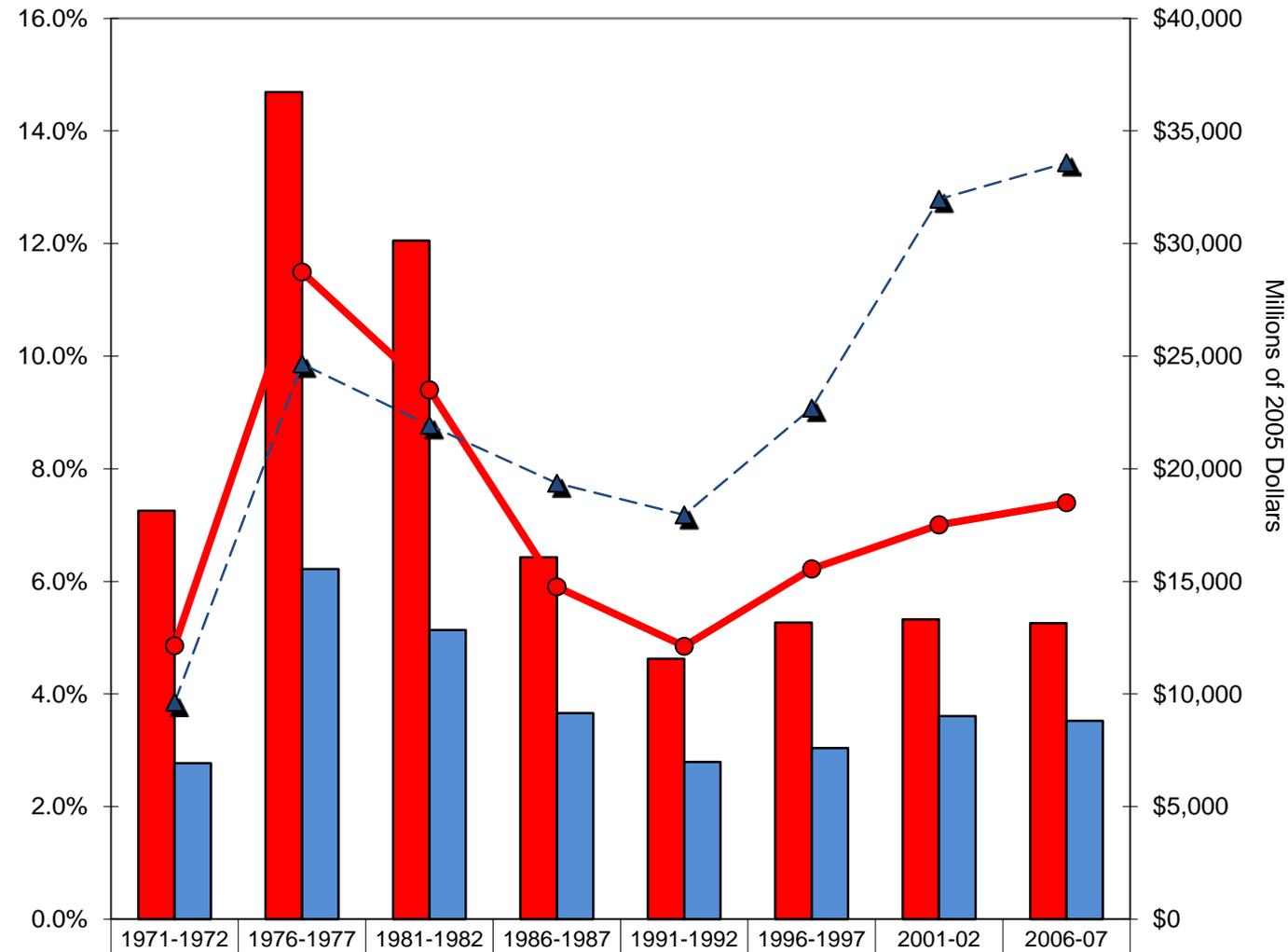


State Aid to Municipalities and to All Other Local Governments



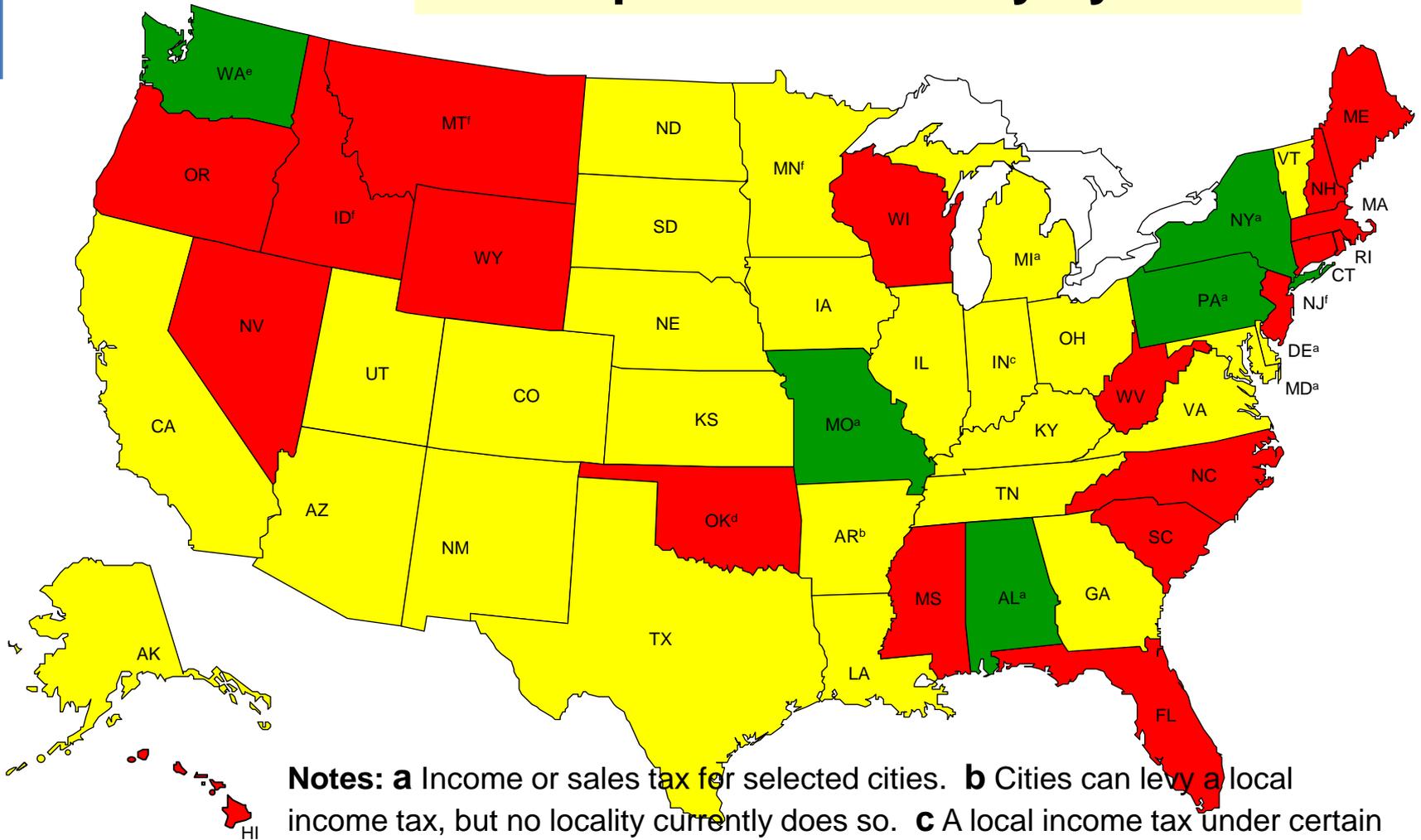
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|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|  State aid as Percentage of General Municipal Revenue | 24.1% | 23.2% | 20.8% | 20.2% | 21.3% | 20.7% | 21.9% | 19.6% |
|  State aid as Percentage of Total Local Government Revenue, Excluding Municipalities | 36.8% | 37.6% | 38.2% | 36.7% | 37.3% | 37.8% | 38.1% | 35.2% |
|  State Aid to Municipalities (\$Millions) | \$40,358 | \$45,450 | \$40,613 | \$46,470 | \$55,906 | \$61,064 | \$71,887 | \$68,838 |
|  State Aid to Local Governments, Excluding Municipalities (\$Millions) | \$127,806 | \$148,942 | \$163,194 | \$194,268 | \$240,062 | \$282,247 | \$337,677 | \$335,011 |

Federal Aid to Municipalities and to All Other Local Governments



| | | | | | | | | |
|---|----------|----------|----------|----------|----------|----------|----------|----------|
| Fed aid as Percentage of General Municipal Revenue | 7.3% | 14.7% | 12.0% | 6.4% | 4.6% | 5.3% | 5.3% | 5.3% |
| Fed aid as Percentage of Total Local Government Revenue, Excluding Municipalities | 2.8% | 6.2% | 5.1% | 3.7% | 2.8% | 3.0% | 3.6% | 3.5% |
| Federal Aid to Municipalities (\$Millions) | \$12,145 | \$28,735 | \$23,500 | \$14,757 | \$12,119 | \$15,553 | \$17,511 | \$18,487 |
| Federal Aid to Local Governments, Excluding Municipalities (\$Millions) | \$9,633 | \$24,652 | \$21,927 | \$19,357 | \$17,953 | \$22,692 | \$31,966 | \$33,580 |

Municipal Tax Authority by State



Notes: **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

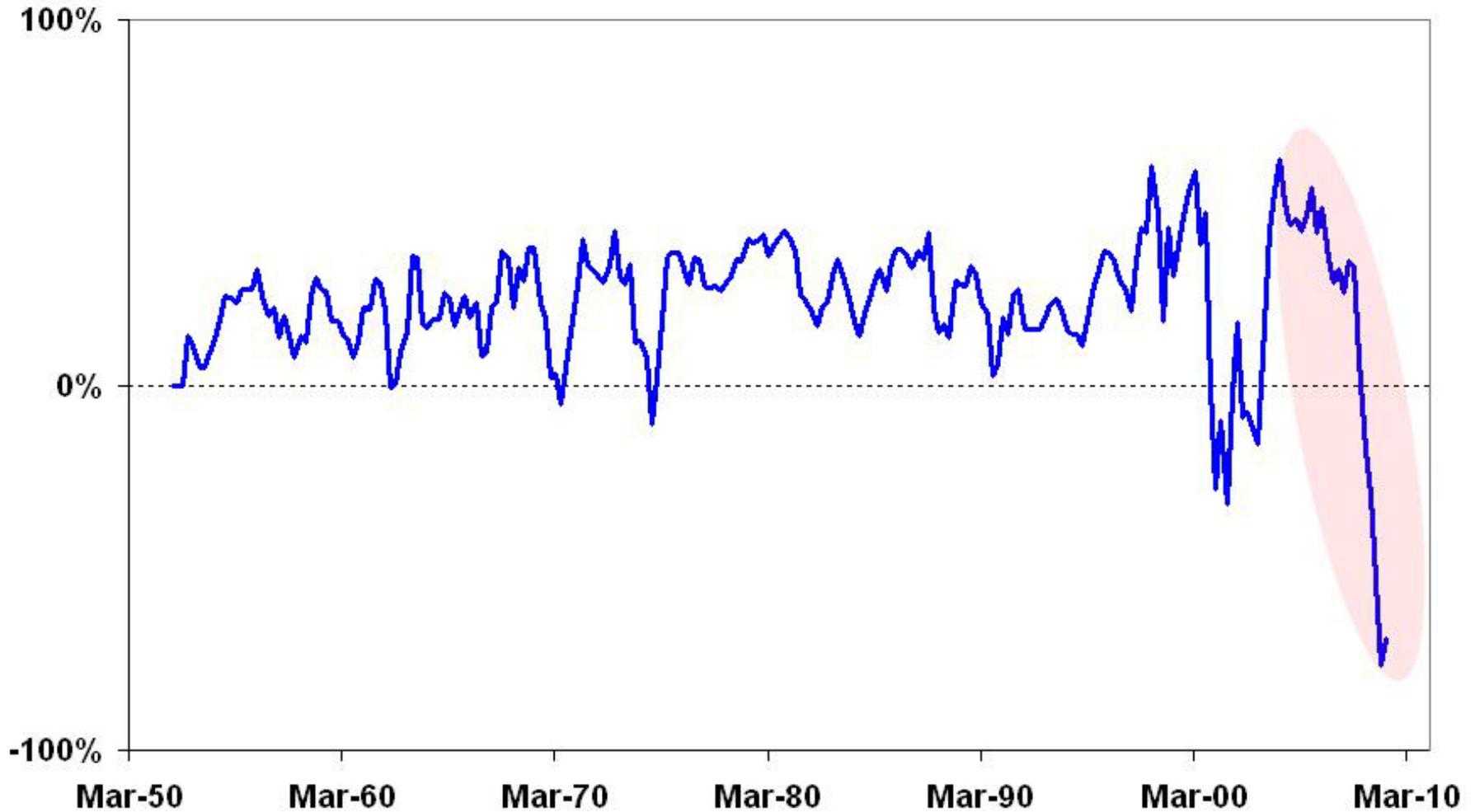
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“It's tough to make predictions, especially about the future.” Yogi Berra

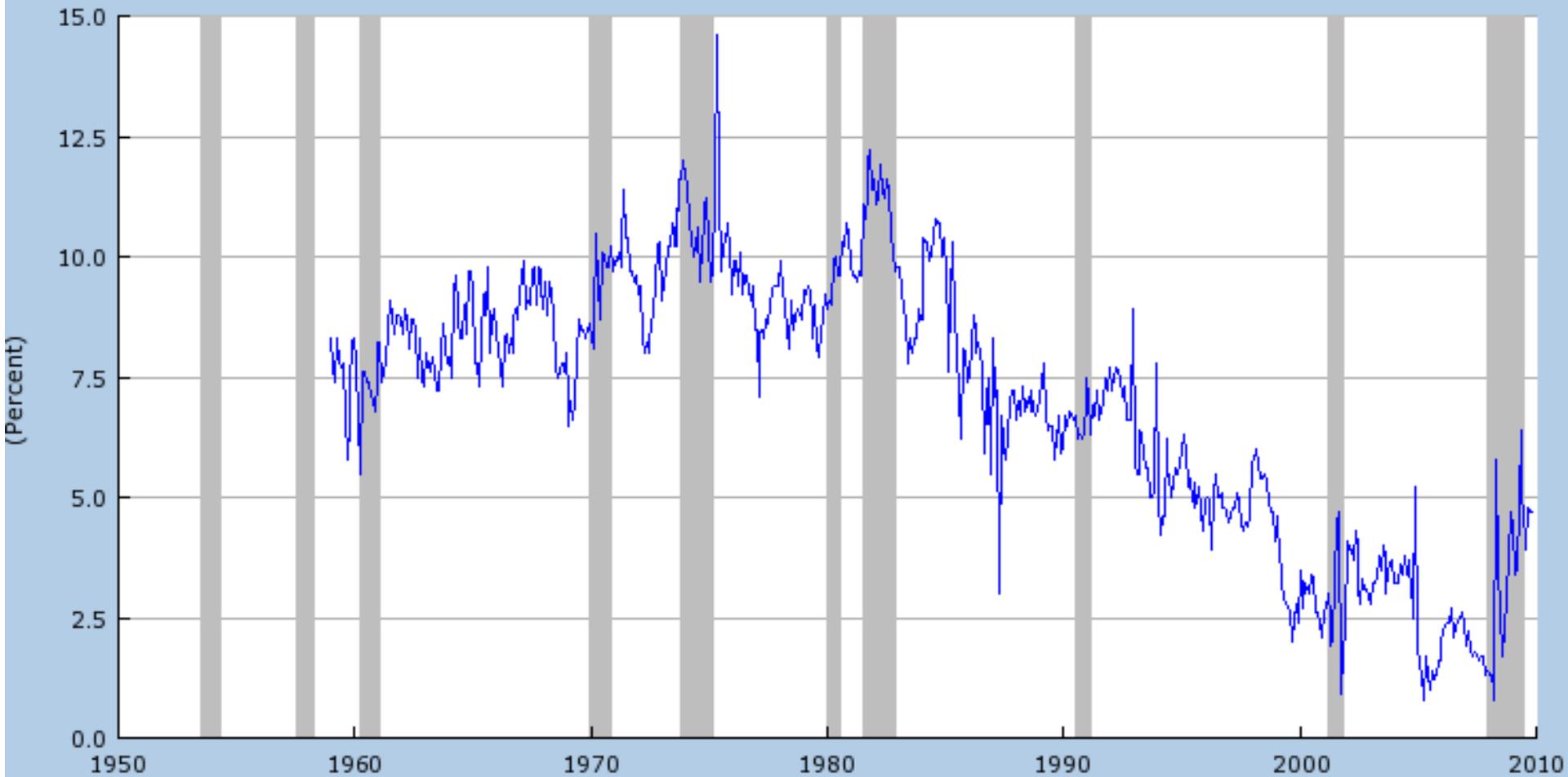
12-Month Change in Household Net Worth as a % of Nominal Gross Domestic Product

(Source: Federal Reserve, Bureau of Economic Analysis)



Personal Saving Rate (PSAVERT)

Source: U.S. Department of Commerce: Bureau of Economic Analysis

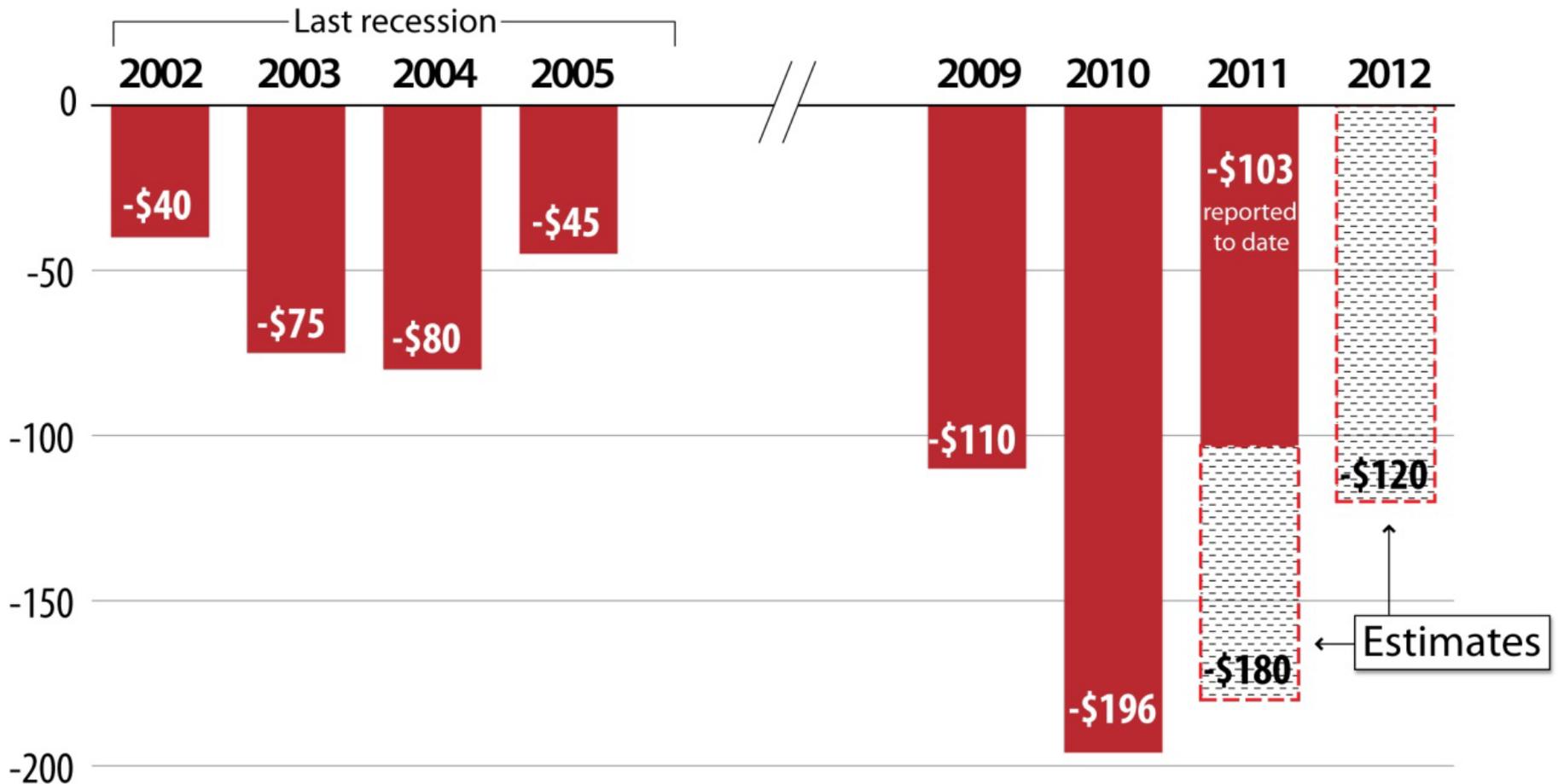


Shaded areas indicate US recessions.

2010 research.stlouisfed.org

How Bad Will It Get?

Total state budget shortfall in each fiscal year, in billions



Source: CBPP survey

Fiscal Effects?

Tax receipts ↓

Tax receipts ↓

Tax receipts ↓

Tax receipts ↓

Food tax ↓

Lawn & Garden
And Repairs ↔

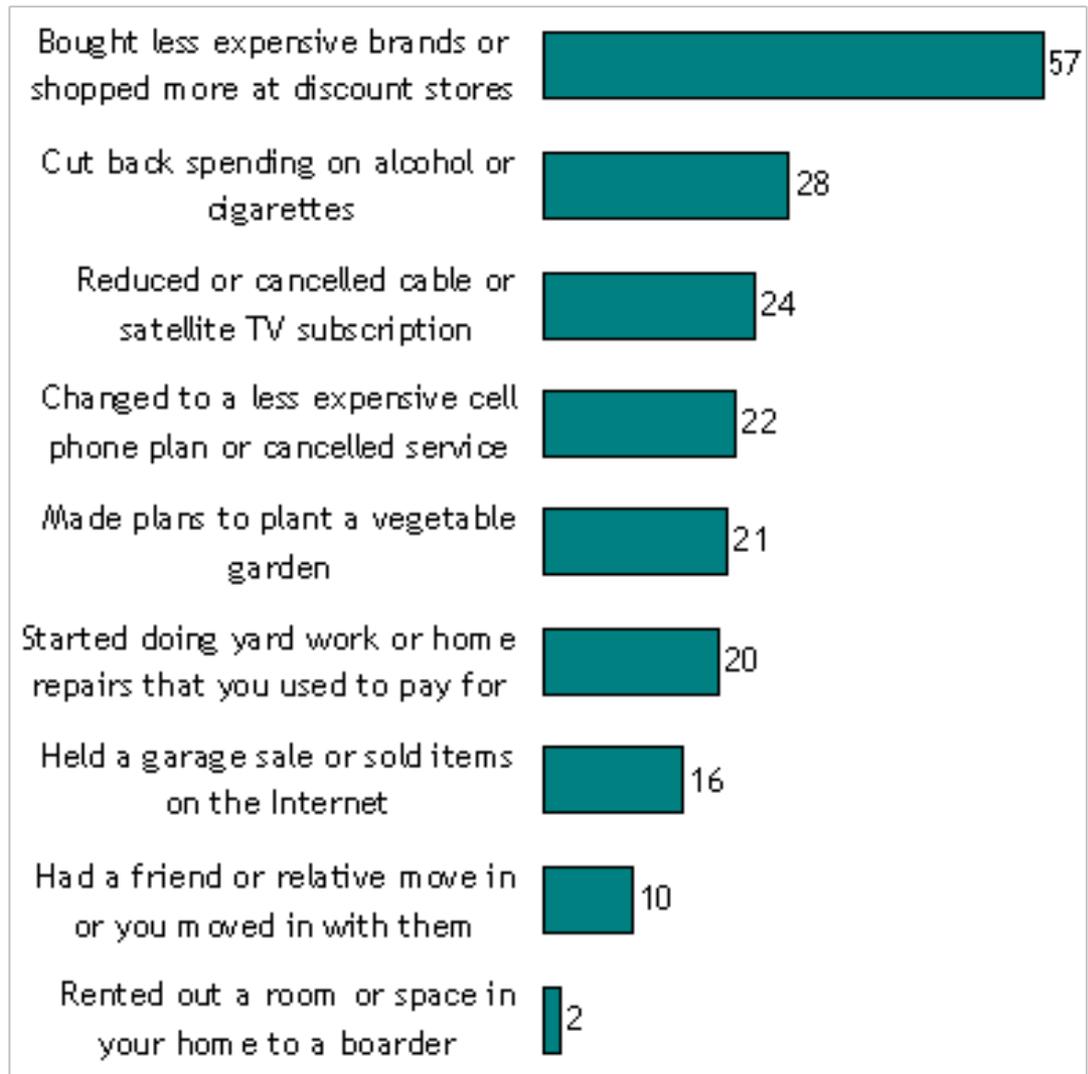
Underground? ↔

Underground? ↓

Reg Fee? ↓

Belt-Tightening in Bad Times

Percent saying they have done ... because of the recession



Question wording: I am going to read you a list of things that some people have done because of the economic recession but other people have not done. For each of the following, please tell me if you personally have done this, or not. Have you ...?

What to do?

■ The New Normal:

- Real estate market will be slow to recover: 2011-12?
 - Consumer spending and wages also down
 - Cities will tap into ending balances/reserves
 - Public concern will limit options

■ ***Don't Waste a Crisis:*** The economic shock of 2007 to the present ought to encourage a political discourse about reforming the architecture of municipalities' revenue systems:

1. **If States Want Cities to be Responsible for Their Actions, States Should Give Them Adequate Tools.** Diversify. Authorize access to taxes. Eliminate TELs.
2. **The Fiscal Mismatch Is Weakening Cities.** Tax structures might be designed that link closer to cities' underlying engines of growth or to income and wealth. Is a gross receipts tax (such as operates in Washington state, called the Business and Occupation Tax) a more accurate reflection of a city's tax base?

Don't Waste a Crisis

3. **Reform Local Tax Systems.** Broaden the sales tax base. As the retail sales tax base has narrowed as a percent of consumer spending, is it time to reconsider a sales tax on services?

Restructure the property tax. As real estate loses much of its value, as vacant properties lie fallow, and as the number and value of tax-exempt properties increase, cities should revisit their underlying fiscal architecture. E.g., Might cities consider moving from a uniform to a split-rate system? What's lost and gained by exempting so much property from the tax roles?

4. **Jointly Provide Services and Share Service Delivery Costs.** Create regional taxing powers. Municipalities will be looking for regional partners and allies in designing a system that is less destructive to the region's long-term interests and fairer in distributing the costs to the users.
5. **Pricing Drives Consumer Behavior and Often Disadvantages Cities.** Approximating the market value of city-delivered services would possibly reduce subsidies to free-riders. Commuter tax? Fee for service?

THANK YOU

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