

Fiscal Stress in the Small Postindustrial City

*Local Governments Do More with Less
Reinventing Older Communities conference
May 13, 2014*

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FEDERAL RESERVE BANK
OF PHILADELPHIA

Overview

- *Context*
- *Structural causes*
 - Demographic and economic
- *Present-day consequences*
 - Using six fiscal indicators
- *Implications for community development*
- *Concluding remarks*

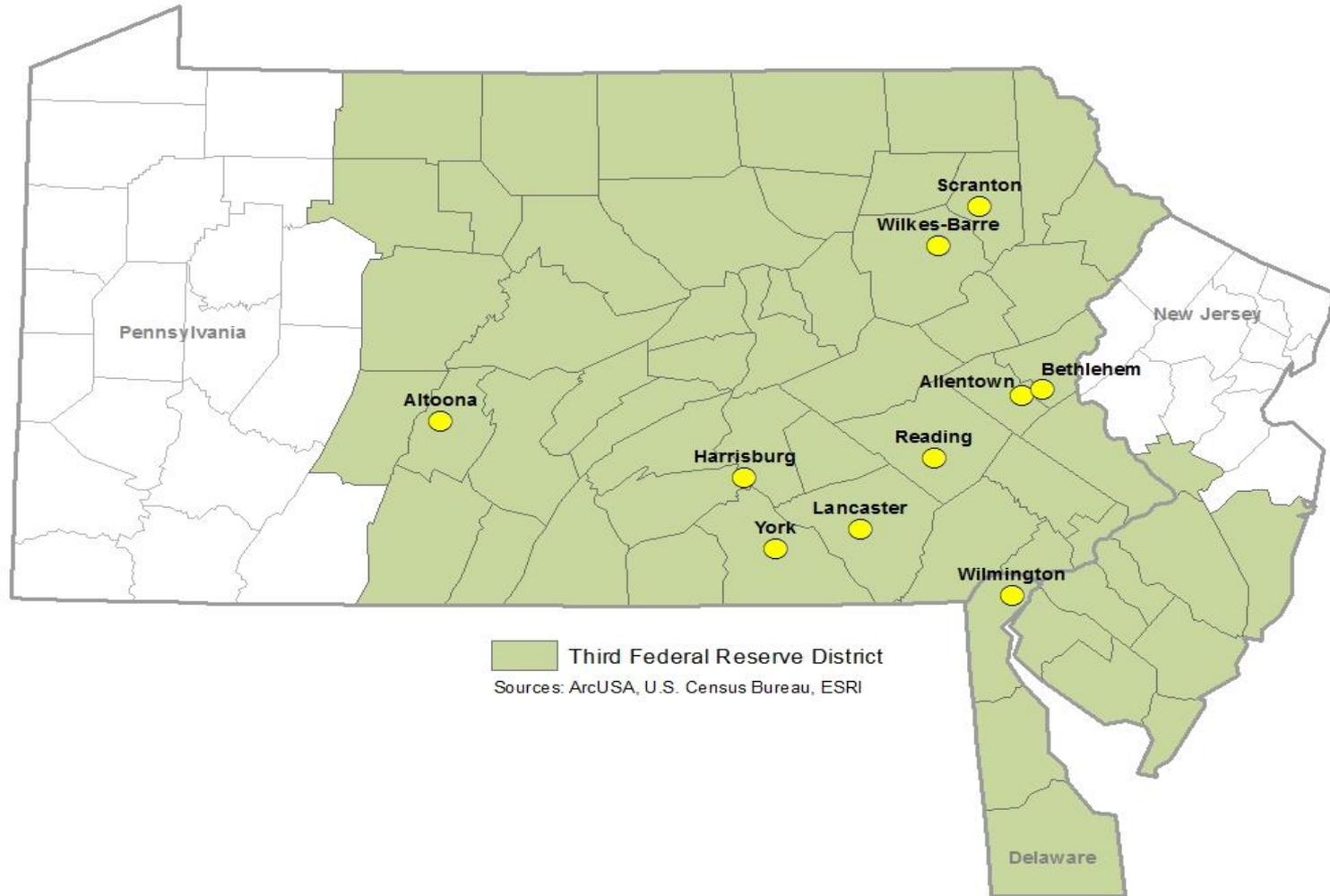


*Fiscal Stress in the Small Postindustrial City:
Causes, Consequences, and Implications for Community Development*

CONTEXT



Postindustrial Cities in the Third Federal Reserve District



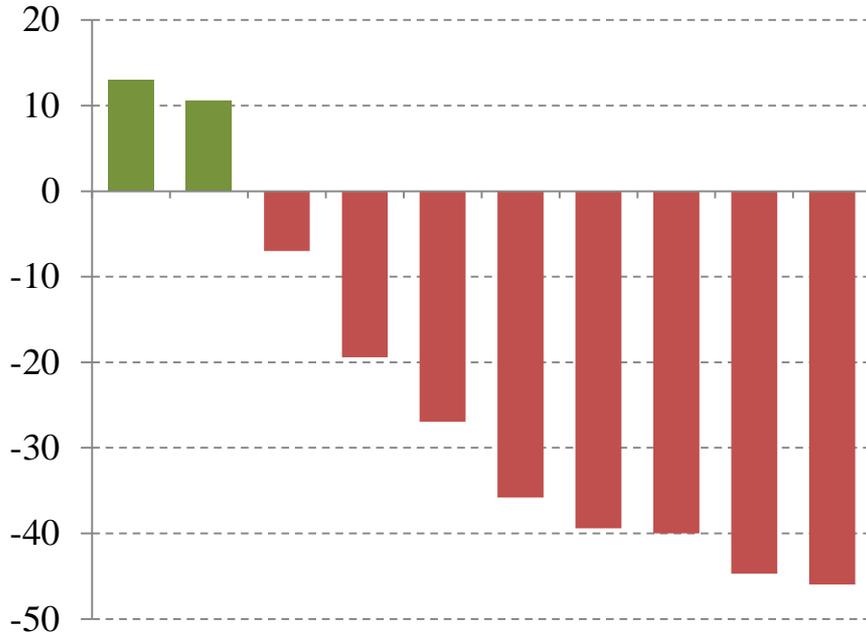
Why do cities have to “do more with less”? Why is there less?

STRUCTURAL CAUSES

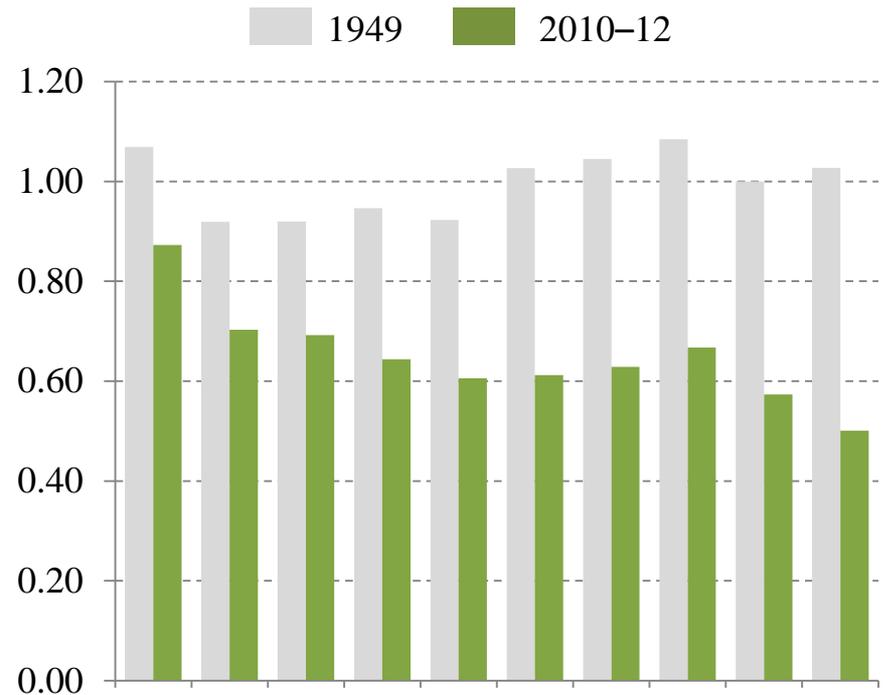


Demographic and socioeconomic changes since 1950

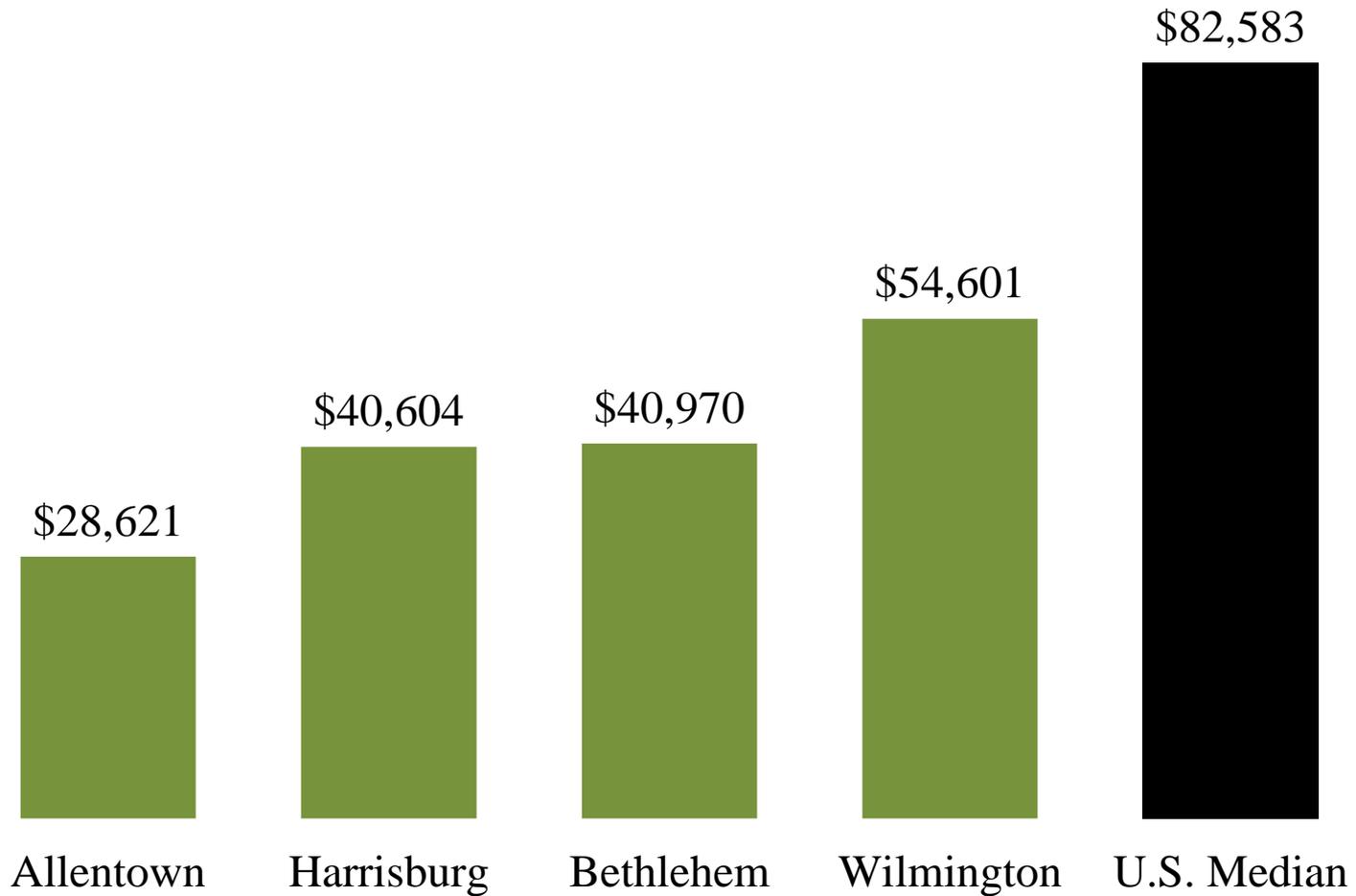
Population change, 1950–2010 (%)



Ratio of city median household income to state median household income



Total market value per capita (FY2012)



Source: Wardrip, Keith. "Fiscal Stress in the Small Postindustrial City: Causes, Consequences, and Implications for Community Development." Special Report, Philadelphia, PA: Federal Reserve Bank of Philadelphia, 2014. Estimates were derived from data provided by Merritt Research Services, LLC, accessed using CreditScope software.

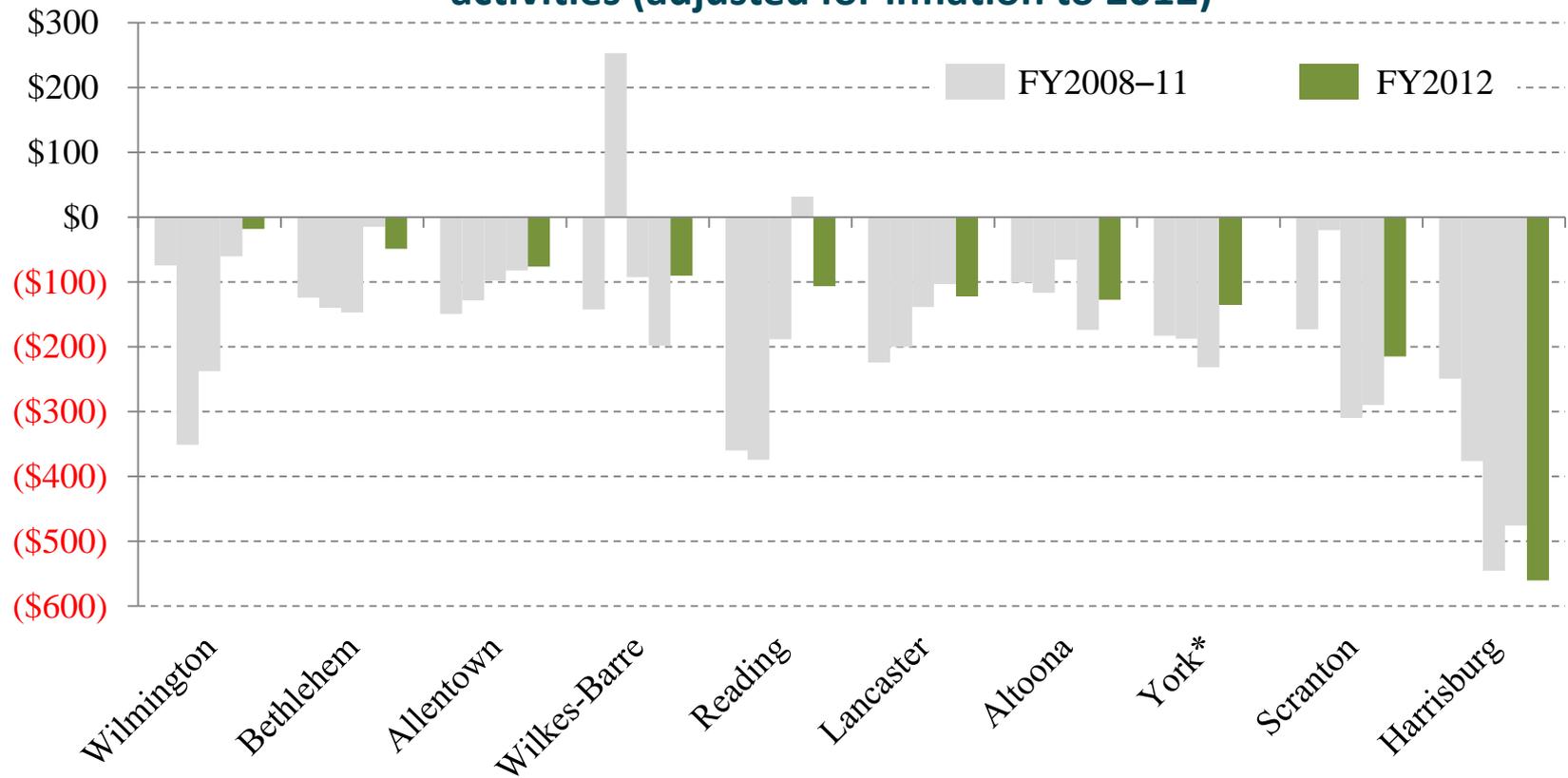
What do standard indicators tell us about recent fiscal conditions and trends?

PRESENT-DAY CONSEQUENCES



Does the city receive enough revenue from taxes, fees, grants, and assistance to cover its annual expenses?

Per capita difference in revenues and expenses for governmental activities (adjusted for inflation to 2012)



* FY2008-10 in gray; FY2011 in green

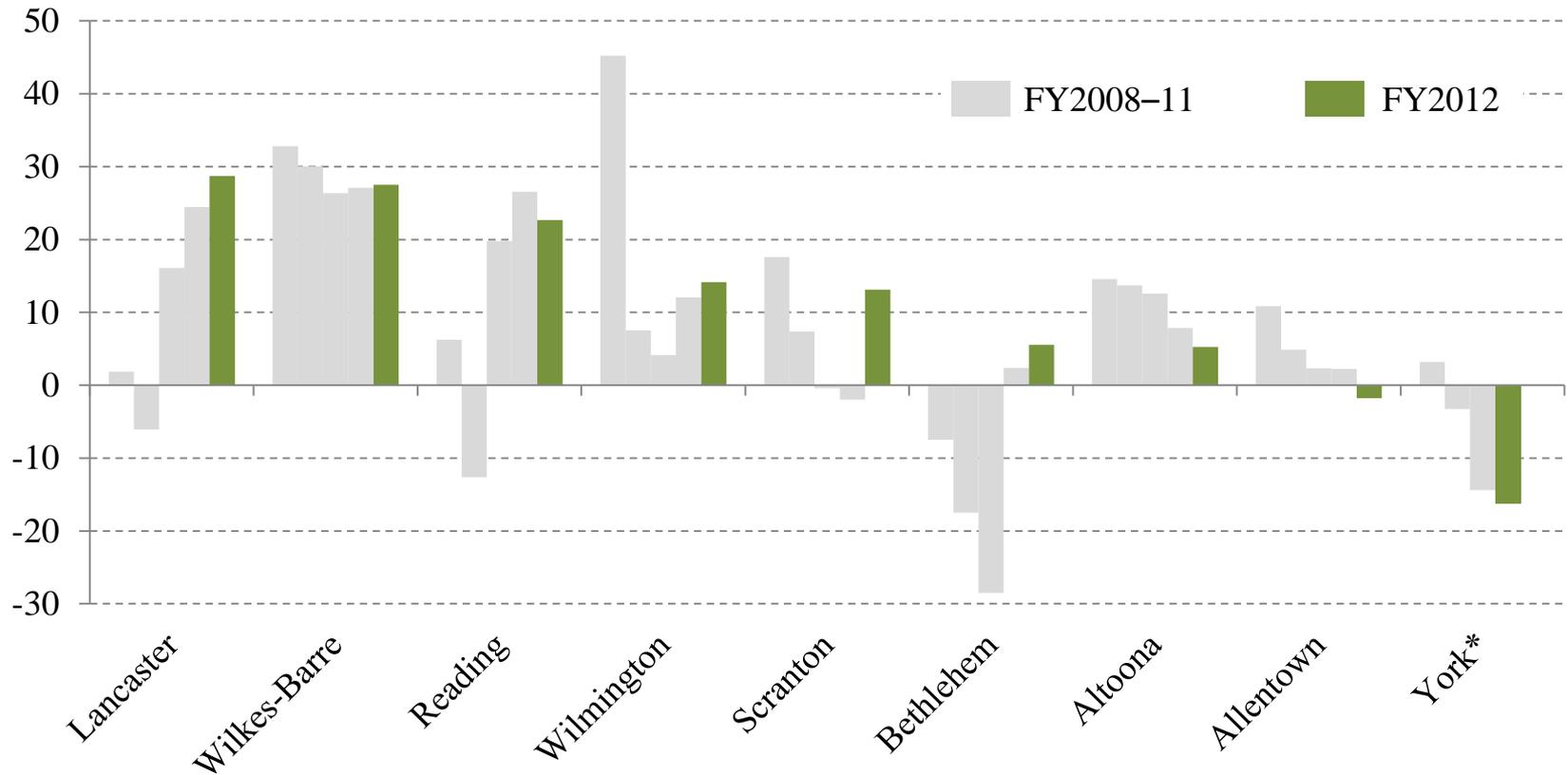
Note: Revenues reported as capital grants and contributions, as well as nonrecurring revenues (e.g., net transfers, special items), are excluded.

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Does the city have an adequate level of “savings” that it can tap into if the need arises?

Ratio of unreserved general fund balance to general fund revenues (%)



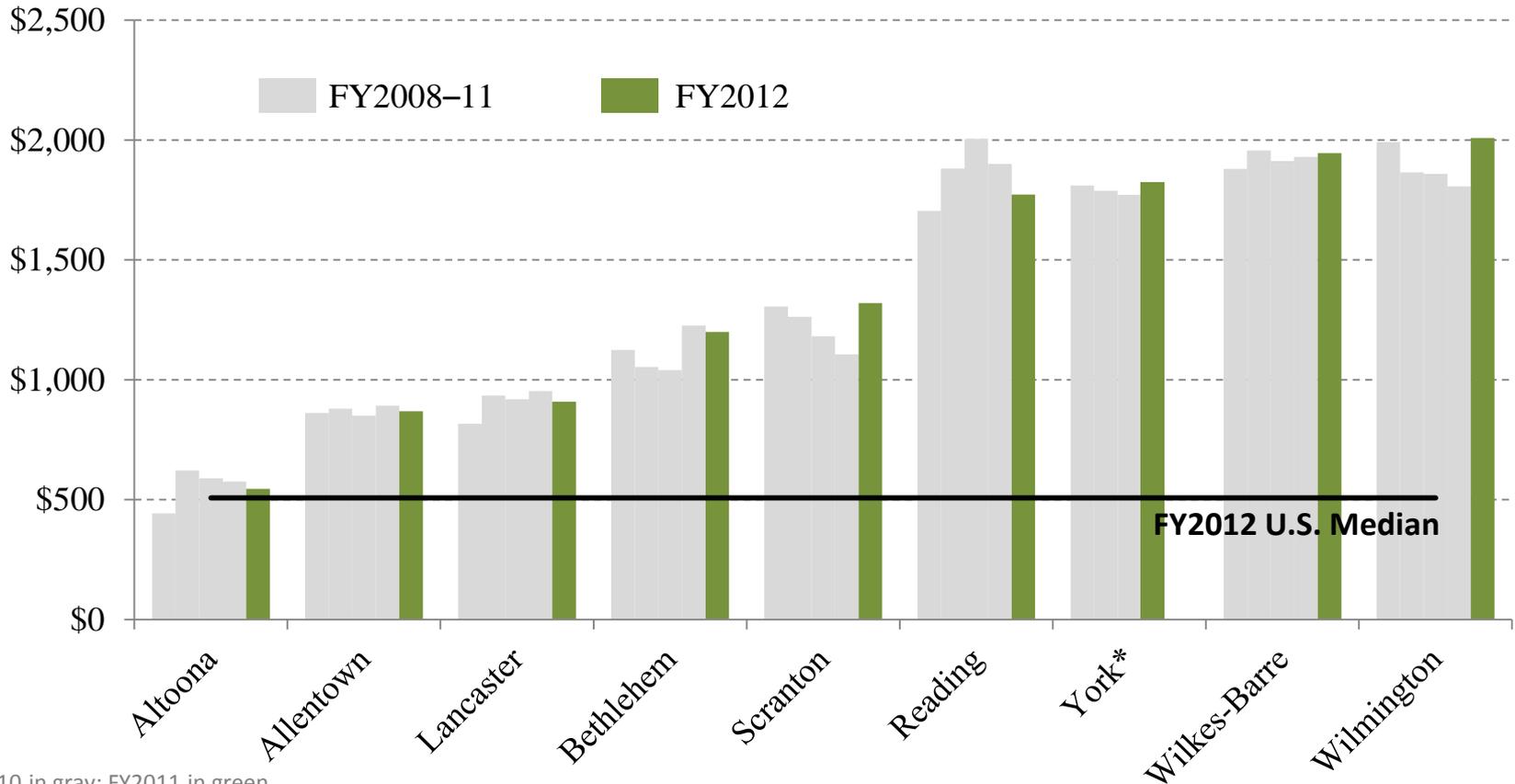
* FY2008-10 in gray; FY2011 in green

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What is the size of the city's debt relative to its population?

Net direct debt per capita (adjusted for inflation to 2012)



* FY2008-10 in gray; FY2011 in green

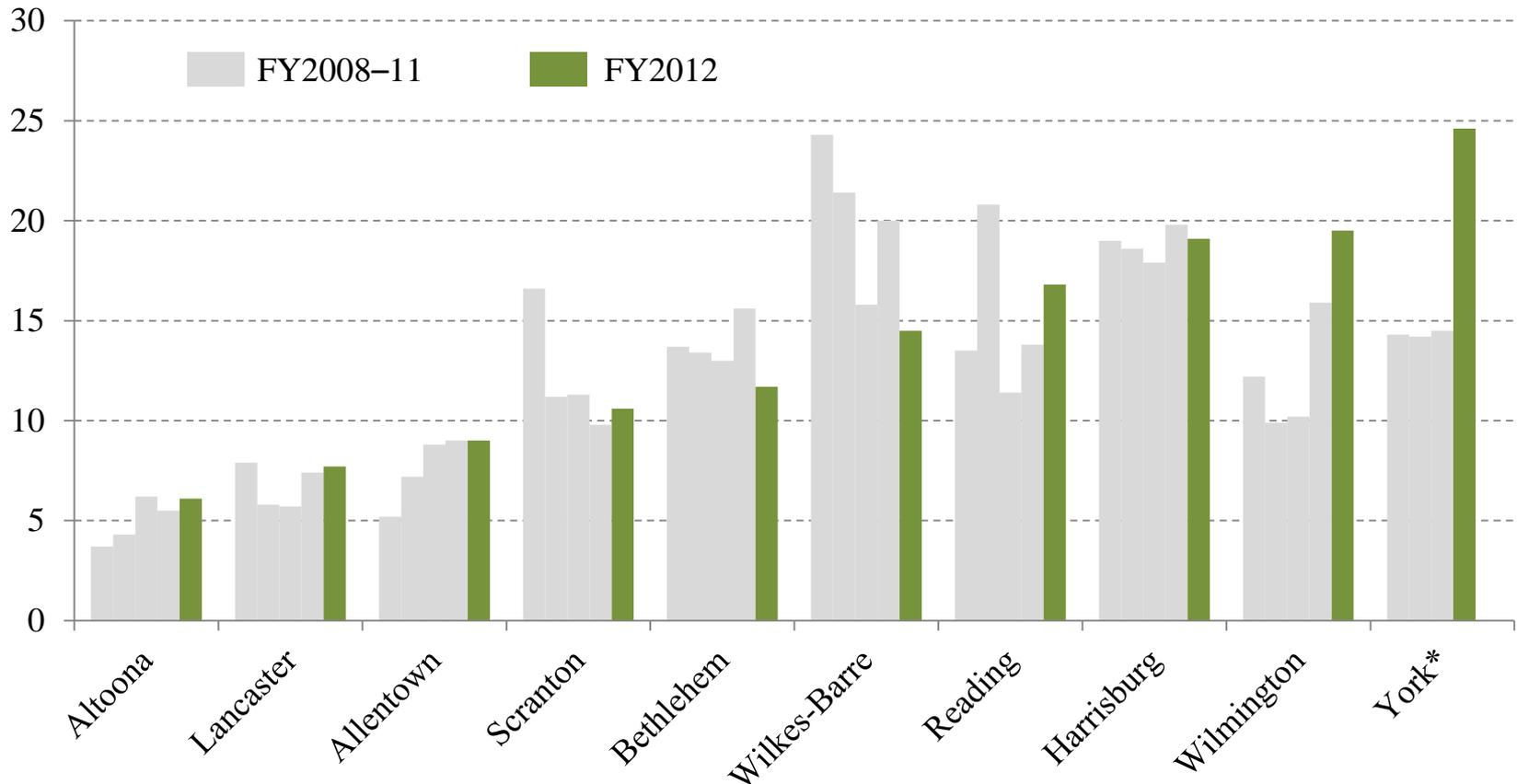
Net direct debt represents a city's total direct debt less any debt that is self-supporting (i.e., repaid with a dedicated revenue stream) so as to identify debt that must be repaid with general revenues. It excludes general obligation bonds issued to support business-type or component unit activities.

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To what degree does yesterday's debt consume today's resources?

Ratio of current debt service to total expenses for governmental activities (%)



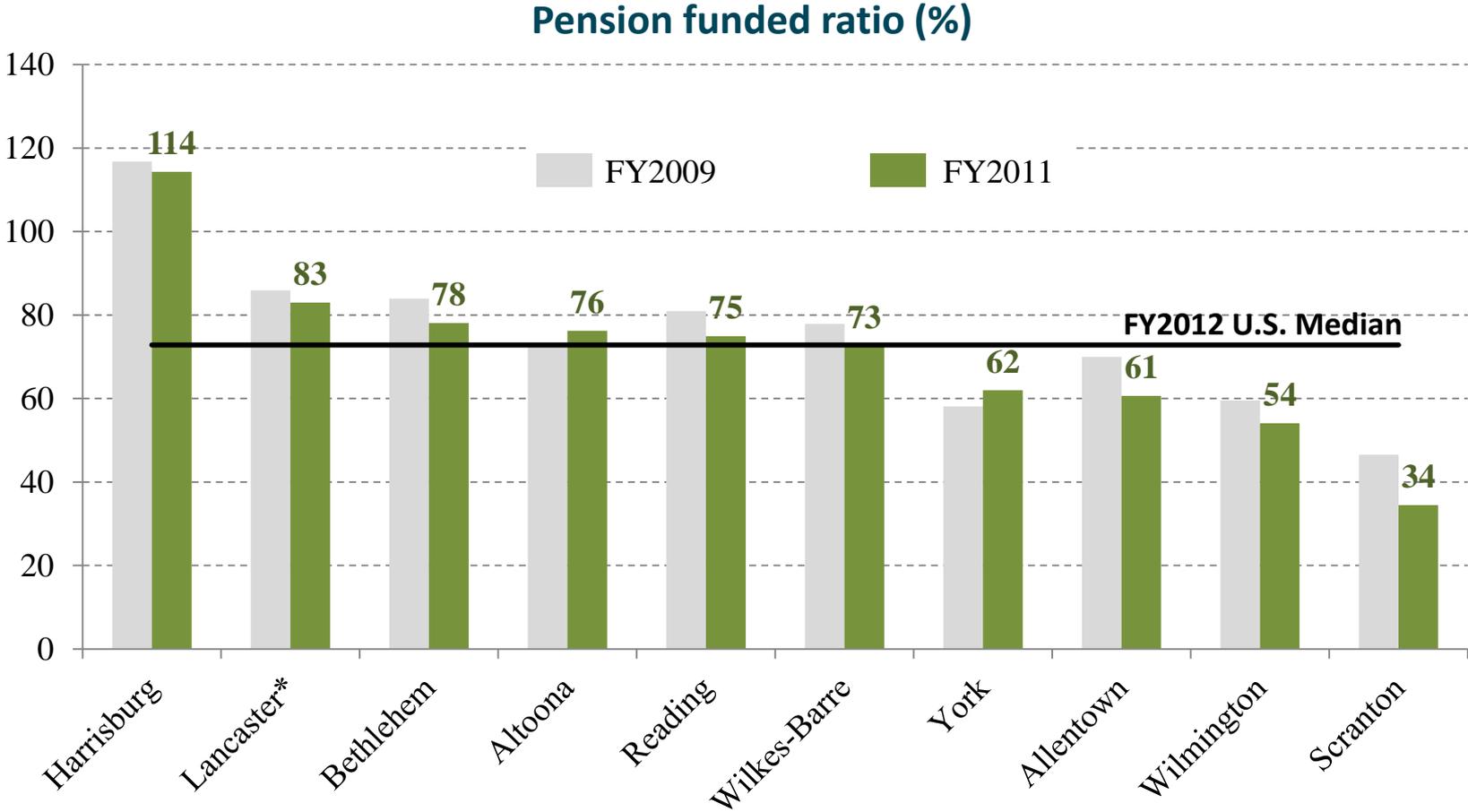
* FY2008-10 in gray; FY2011 in green

Note: Current debt service as reported in the data set is the sum of the current portion of long-term debt for the prior year and interest for the current year. It includes bonds and notes but excludes other types of debt (e.g., uncompensated sick days).

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Has the city adequately kept up with its pension obligations?



* FY2010 in green

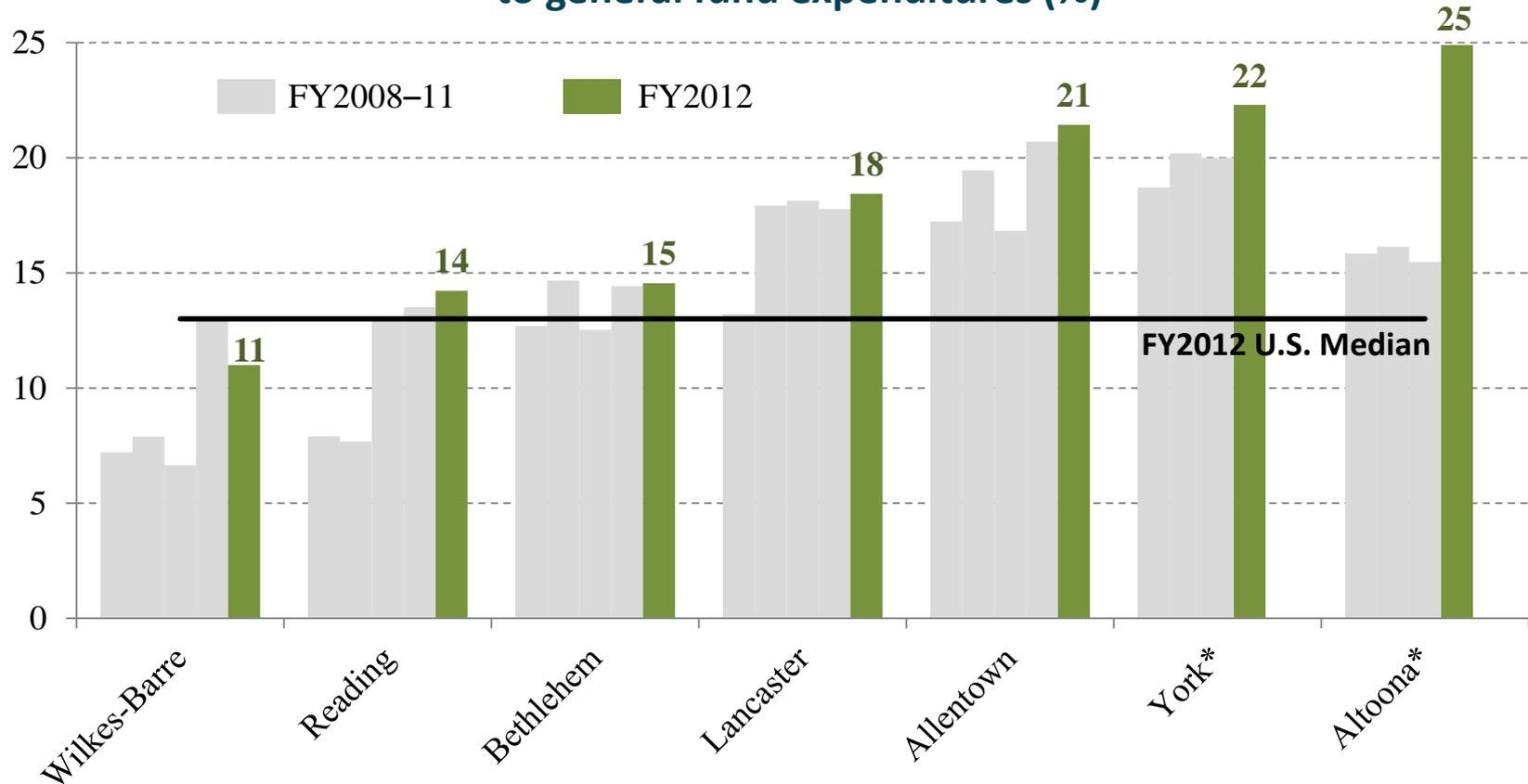
Note: Each ratio includes any pension plan with a valuation date that falls between nine months prior to and three months after the end of the fiscal year. For plans that undergo a biennial actuarial valuation, the same information will be used to calculate ratios for consecutive years.

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What share of the city's annual budget is allocated to pension and other retirement costs?

Ratio of pension and other post-employment benefits contributions to general fund expenditures (%)



* FY2008-10 in gray; FY2011 in green

Note: Contributions for governmental and business-type activities are included in this calculation. Harrisburg, Scranton, and Wilmington are omitted because data for these cities appear to exclude state pension aid that is included for the other cities.

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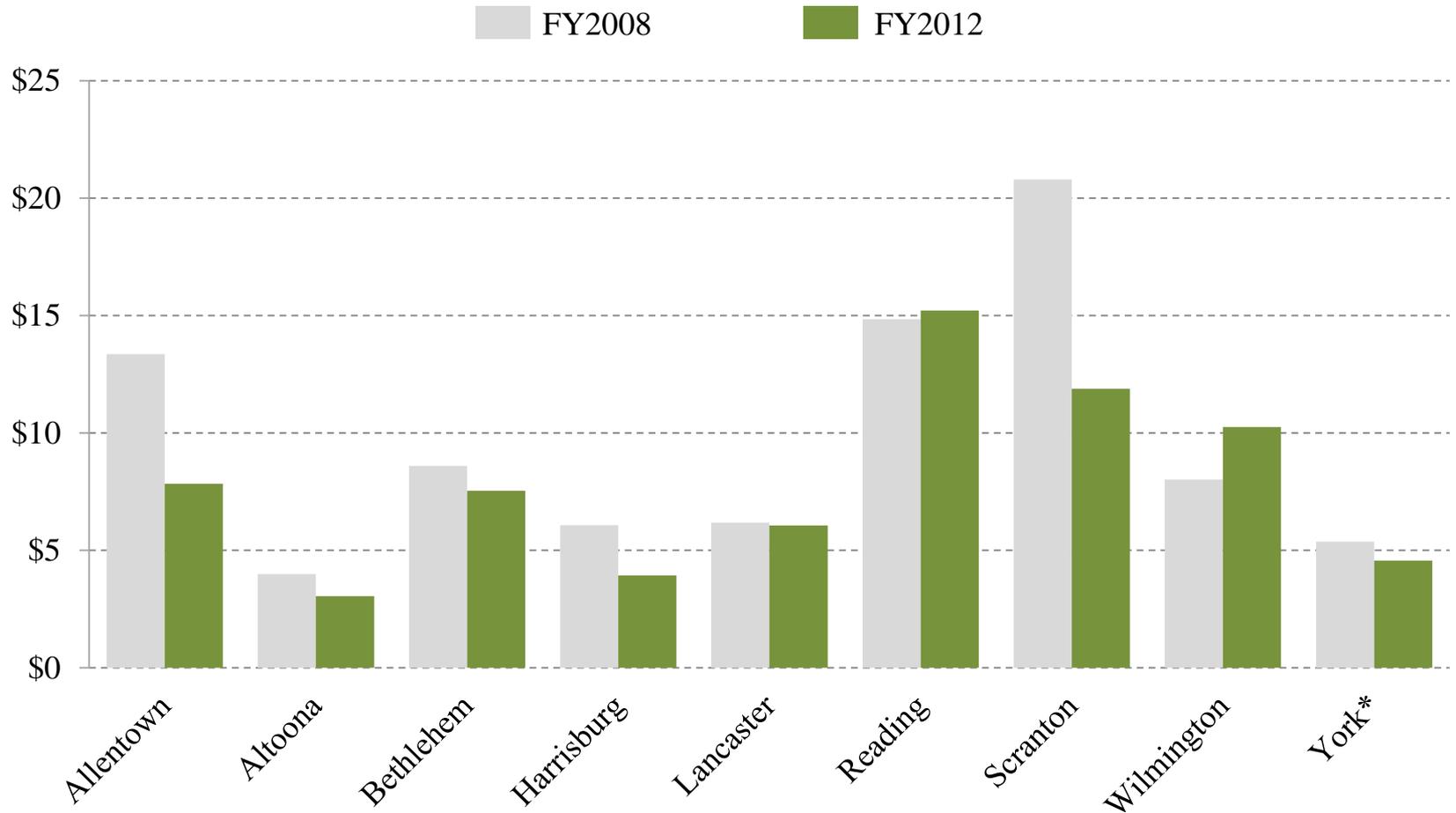
How does fiscal stress affect public support for community development?

IMPLICATIONS FOR COMMUNITY DEVELOPMENT



Community Development Expenditures

(millions, adjusted for inflation to 2012)



* FY2011 in green

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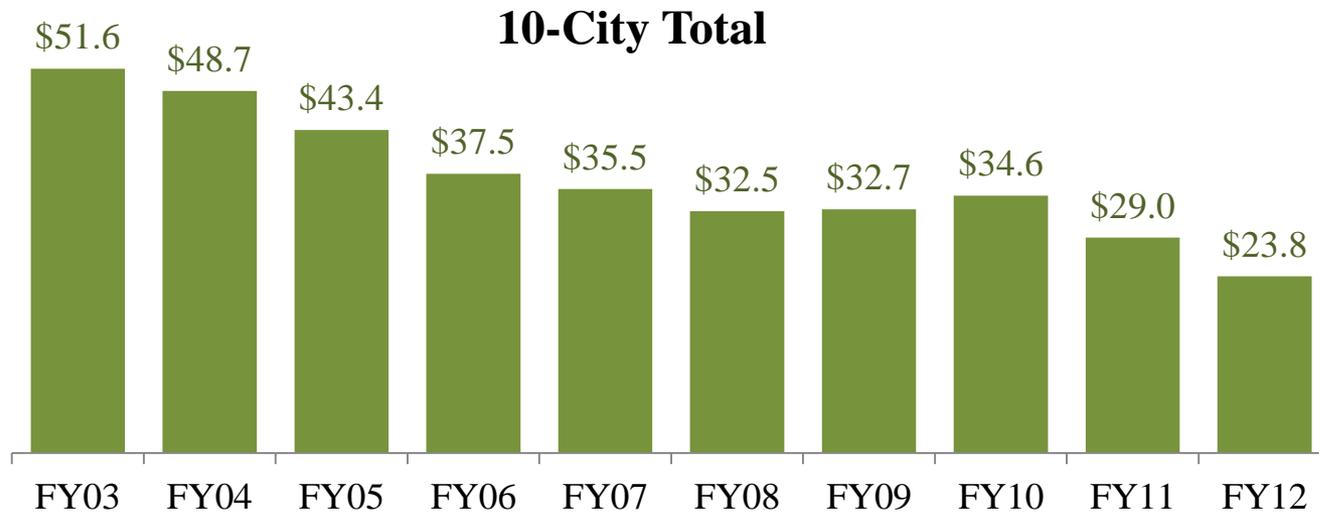


Allocations from HUD's Office of Community Planning and Development Formula Programs

(millions, adjusted for inflation to 2012)

CITY	FY2003	FY2012	PERCENT CHANGE
Allentown	\$6.3	\$3.2	(50)
Altoona	\$4.2	\$1.9	(55)
Bethlehem	\$3.7	\$1.5	(60)
Harrisburg	\$4.6	\$2.5	(47)
Lancaster	\$4.1	\$1.4	(66)

CITY	FY2003	FY2012	PERCENT CHANGE
Reading	\$7.0	\$3.3	(53)
Scranton	\$7.0	\$3.2	(55)
Wilkes-Barre	\$4.0	\$2.0	(50)
Wilmington	\$6.9	\$3.4	(51)
York	\$3.7	\$1.6	(58)



Note: Includes funds distributed through the Community Development Block Grant (CDBG), HOME Investment Partnerships (HOME), Housing Opportunities for Persons with AIDS (HOPWA), and Emergency Solutions Grants (ESG) programs.

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What are the alternatives to chronic fiscal distress?

CONCLUDING REMARKS



Common Municipal Responses

- *Reducing the size and cost of government*
- *Deferring employment costs and underfunding future benefits accounts*
- *Deferring infrastructure investment*
- *Increasing taxes and fees*
- *Relying on reserves or debt*



Possible State Roles

- *Providing additional financial assistance to deal with legacy pension and health-care costs*
- *Addressing funding inequities by providing equalization grants to local governments*
- *Funding state agencies to promote regional cooperation and shared services*
- *Instituting a system of proactive fiscal oversight*
- *Removing limits on revenue-raising tools*



Thank You

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