Challenges Facing Cities: Fiscal Realities, Creative Responses

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Fiscal Realities
City Fiscal Conditions in 2009

The nation’s city finance officers report that city fiscal conditions are weakening due to:

- Declining housing values
- Slowed consumer spending
- Rising unemployment/falling wages
- Restrictive credit markets
Meeting Fiscal Needs

88 percent of city finance officers say their cities will be less able to meet fiscal needs in 2009, compared to 2008 when 64 percent said they were less able to meet fiscal needs than in 2007. This is the worst change in the 24-year history of the survey.

![Bar chart showing the percentage of cities "Better Able/Less Able to Meet Financial Needs in FY 2010" from 1993 to 2009. The chart indicates a significant decline in the percentage of cities "Better Able" over the years.]
Revenue and Spending Trends

For 2009, finance officers predict revenues will decrease by -0.4 percent, while expenditures will increase by 2.5 percent. This means that cities face a budget gap of 2.1 percent.
This budget gap is the result of slowing property tax revenues (1.6 percent), combined with sales and income tax declines. Property tax revenues increased by 6.2 percent in 2008, due to recent housing price increases, but this will slow to 1.6 percent by the end of 2009. City sales tax revenues (-3.8 percent) and income tax revenues (-1.3 percent) are predicted to decline through the end of 2009.
### Projected Muni Shortfall 2010-2012

Total Shortfall of $56 to $83 billion

<table>
<thead>
<tr>
<th>Revenue Shortfall</th>
<th>3% shortfall</th>
<th>4% shortfall</th>
<th>5% shortfall</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>$11,933,408</td>
<td>$15,911,210</td>
<td>$19,889,013</td>
</tr>
<tr>
<td>2011</td>
<td>$11,575,406</td>
<td>$15,274,762</td>
<td>$18,894,562</td>
</tr>
<tr>
<td>2012</td>
<td>$11,228,143</td>
<td>$14,663,772</td>
<td>$14,359,867</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$34,736,957</strong></td>
<td><strong>$45,849,744</strong></td>
<td><strong>$53,143,443</strong></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>State Cuts</th>
<th>10% scenario</th>
<th>15% scenario</th>
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<tbody>
<tr>
<td>2010</td>
<td>$7,810,782</td>
<td>$11,716,173</td>
</tr>
<tr>
<td>2011</td>
<td>$7,029,704</td>
<td>$9,958,747</td>
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<tr>
<td>2012</td>
<td>$6,326,734</td>
<td>$8,464,935</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$21,167,220</strong></td>
<td><strong>$30,139,856</strong></td>
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</table>
Spending Cuts & Responses to Shortfalls

To cover budget shortfalls and balance annual budgets, 91 percent of cities are making spending cuts in 2009, while 81 percent predict they will make further cuts in 2010.

These cuts are coming from:

- Hiring freeze/layoffs (67 percent)
- Delay/cancel capital infrastructure projects (62 percent)
- Cuts in other services (33 percent)
- Modify employee health benefits (25 percent)
- Across the board cut (17 percent)
- Cuts in public safety (14 percent)
- Renegotiate debt (12 percent)
- Cuts in human services (11 percent)

**Figure 8: City Spending Cuts in 2009**
Creative Responses
In most places “cutback management” is the order of the day

Trims, revenue are pursued in the spirit of “orderly retrenchment.” Responses have mostly been:

✓ Incrementalist
✓ Spread around
✓ Aimed at postponement
However, the severity and duration of the coming stress will require ingenuity—and some cities are responding.

Creative cities are:

- Intervening proactively
- Looking at the revenue side
- Reengineering for the long haul
Some cities are being proactive and strategic about necessary—if difficult—responses

In Philadelphia, Mayor Nutter began early taking steps to rebalance the city’s five-year budget in November 2008:

- Moved quickly to reduce overtime, impose pay cuts, mandate furloughs, and eliminate 3,000 full- and part-time positions early
- Cut services early by: closing half of the city’s pools; reducing library services to five days a week; trimming the arts and culture budget; eliminating bulk trash and tire collections and special collections for leaves
- Did not delay in suspending wage and business tax cuts
- Did not avoid dealing with pension and health costs
Other cities are looking at creative ways to raise revenues

Chicago and LA are leasing out parking meters to private companies

Houston is charging people who do not recycle

Milwaukee is hiking its snow removal fee
Other cities are seeking to use crisis as a prod to fundamental reengineering of processes.

In **San Jose**, Mayor Reed has adopted changes for the long haul rather than one-time, short-term fixes:

- Flattening management structures

In **Mesa**, Mayor Smith has sought to fundamentally improve city processes to do more with less:

- Implementing new service delivery models, including expanded outsourcing
- Consolidating departments in part to encourage versatility, organizational flexibility, retain expertise
In sum, mayors are as always beginning to manage crisis with real innovation.
For More Information

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