

Municipal Finance: Conditions, Local Responses, and Outlook for the Future

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

Michael A. Pagano, Dean, College of Urban Planning & Public Affairs,
University of Illinois at Chicago

Strengthening Neighborhoods in Weak Markets

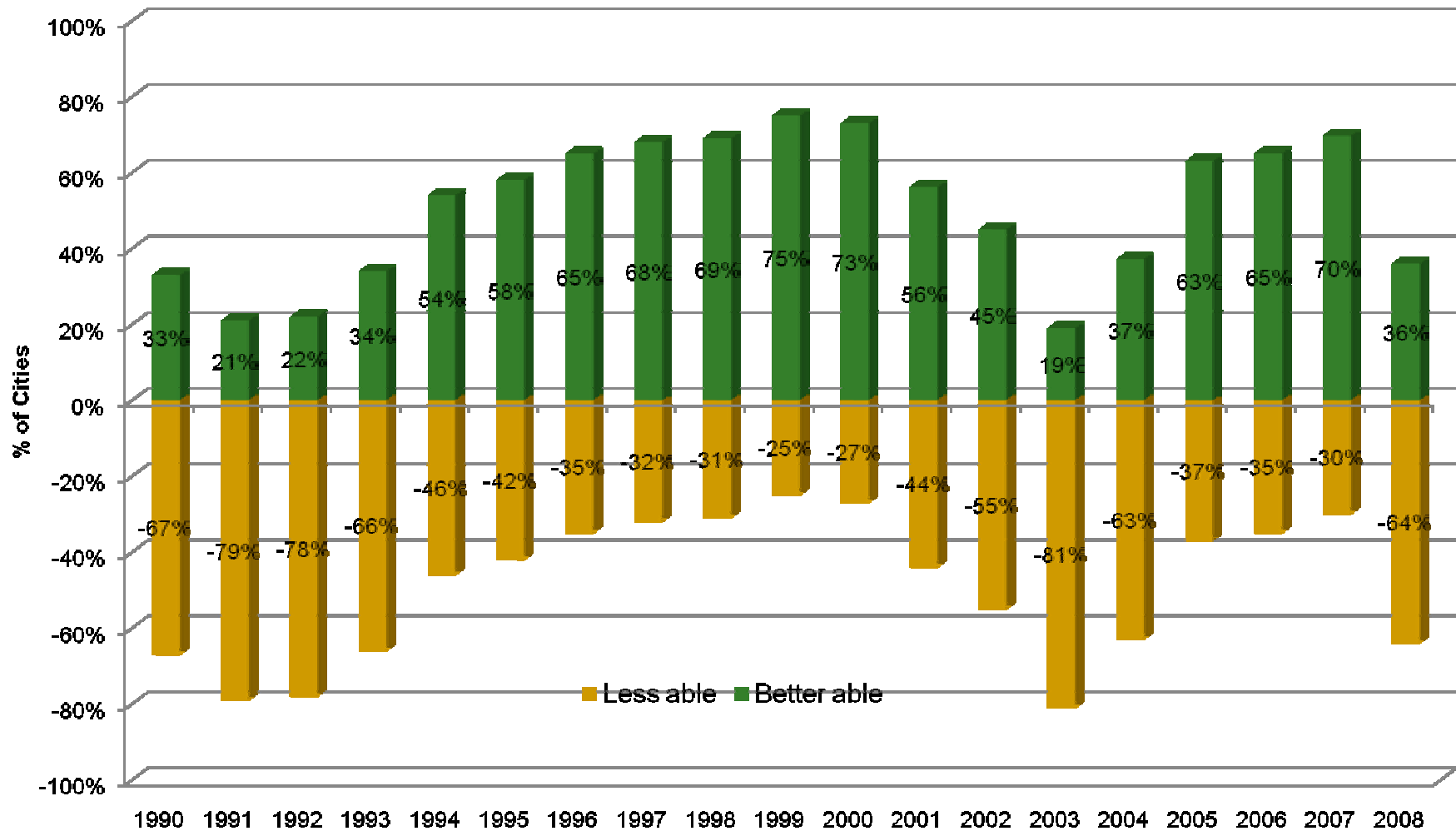
Federal Reserve Bank of St. Louis

September 24, 2008

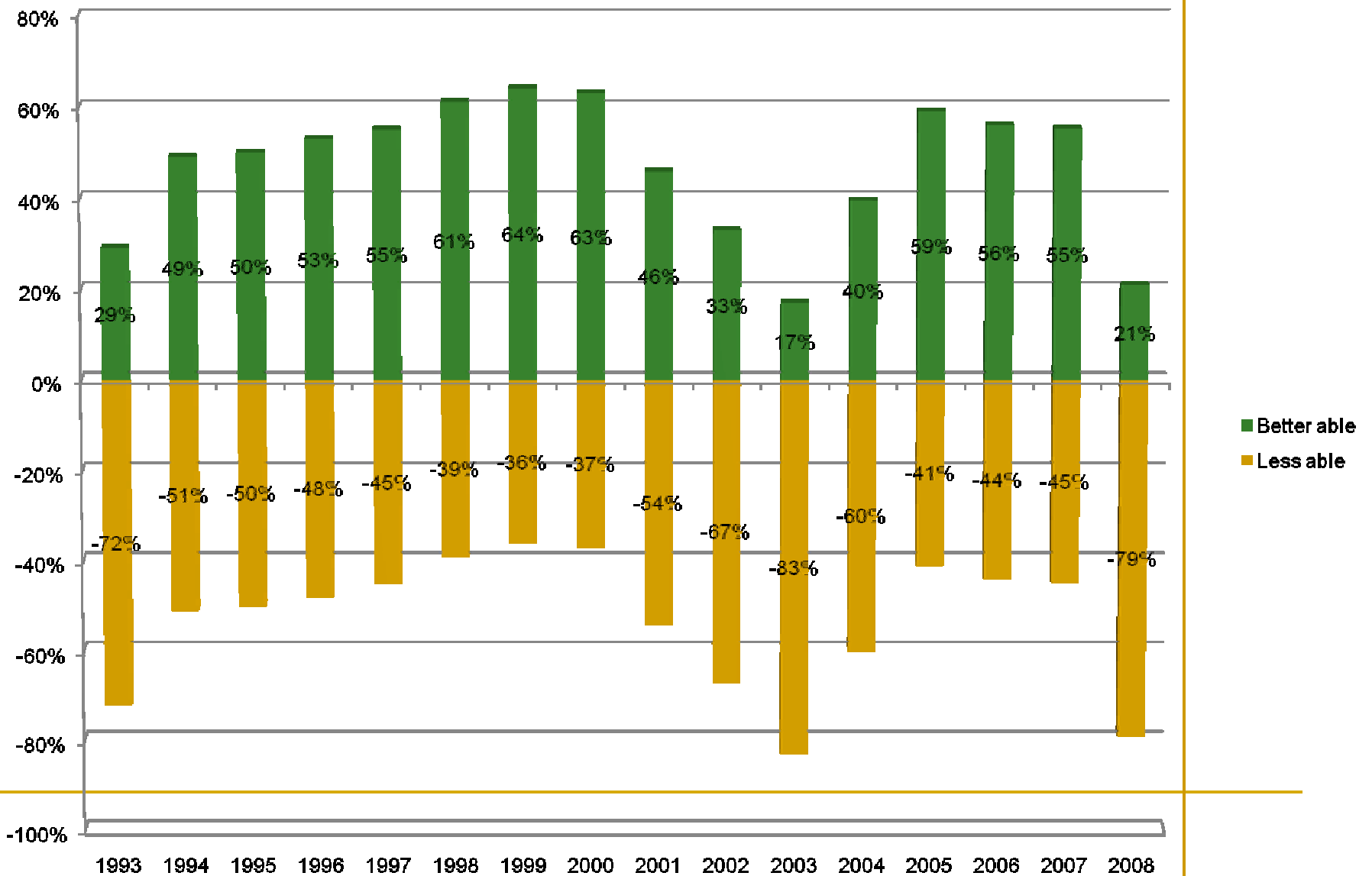
Topics to cover

- **City fiscal conditions**
 - Housing finance and foreclosures – local impacts and responses
 - Revenue structure and spatialization
 - The outlook for the future
-

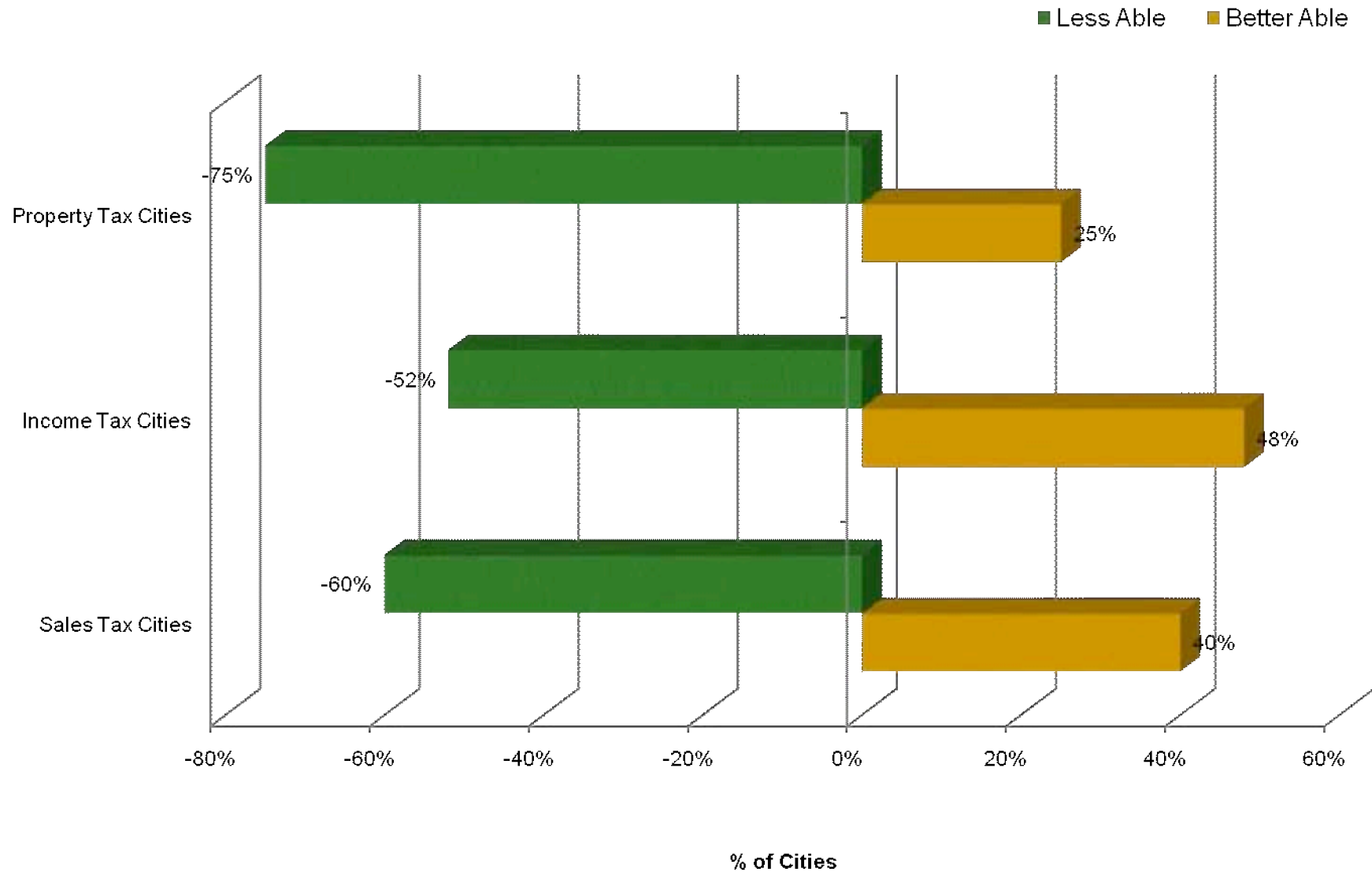
Percentage of Cities "Better Able/Less Able" to Meet Needs in Current Fiscal Year



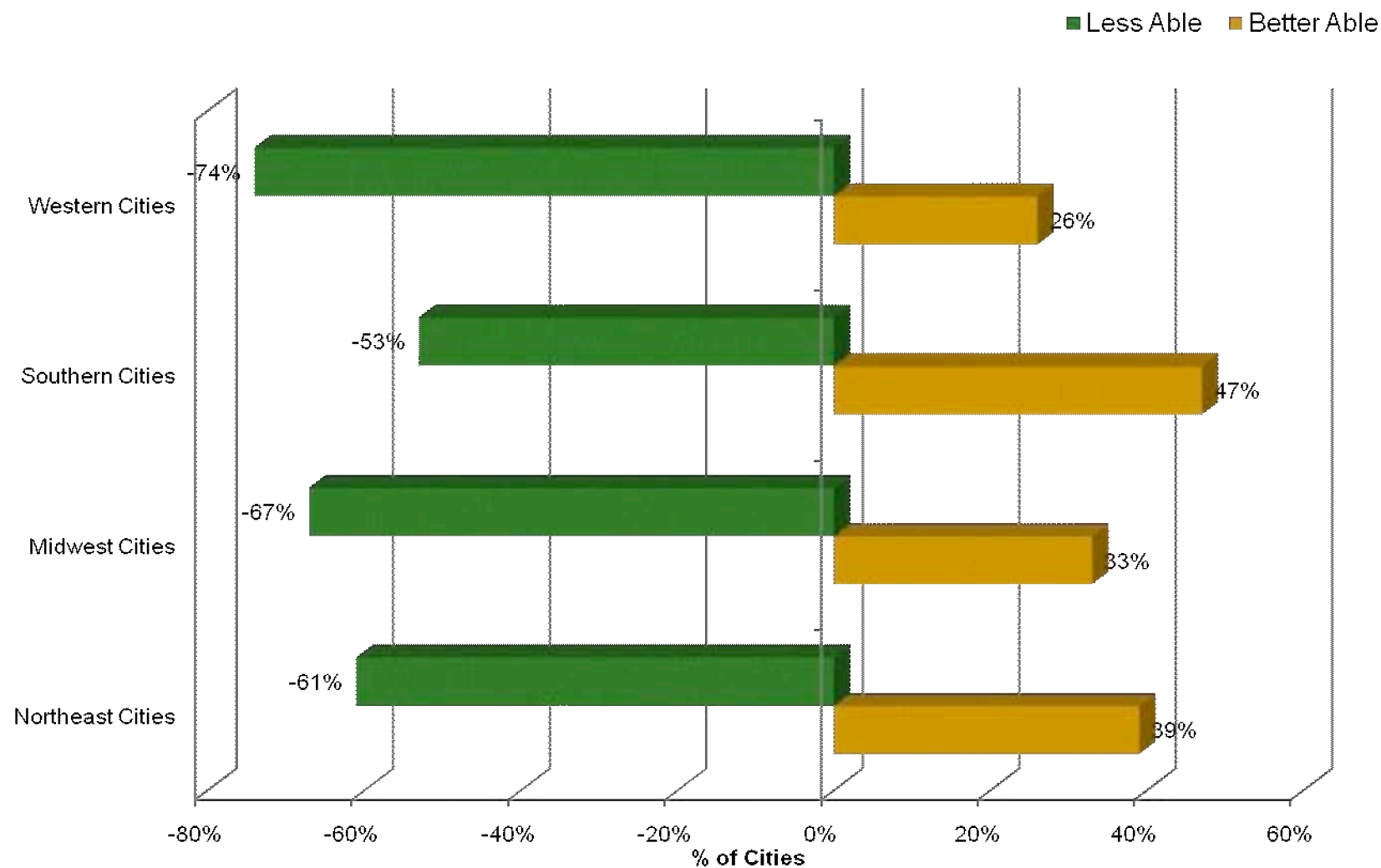
Percentage of Cities “Better Able/Less Able” to meet needs next year than in current year



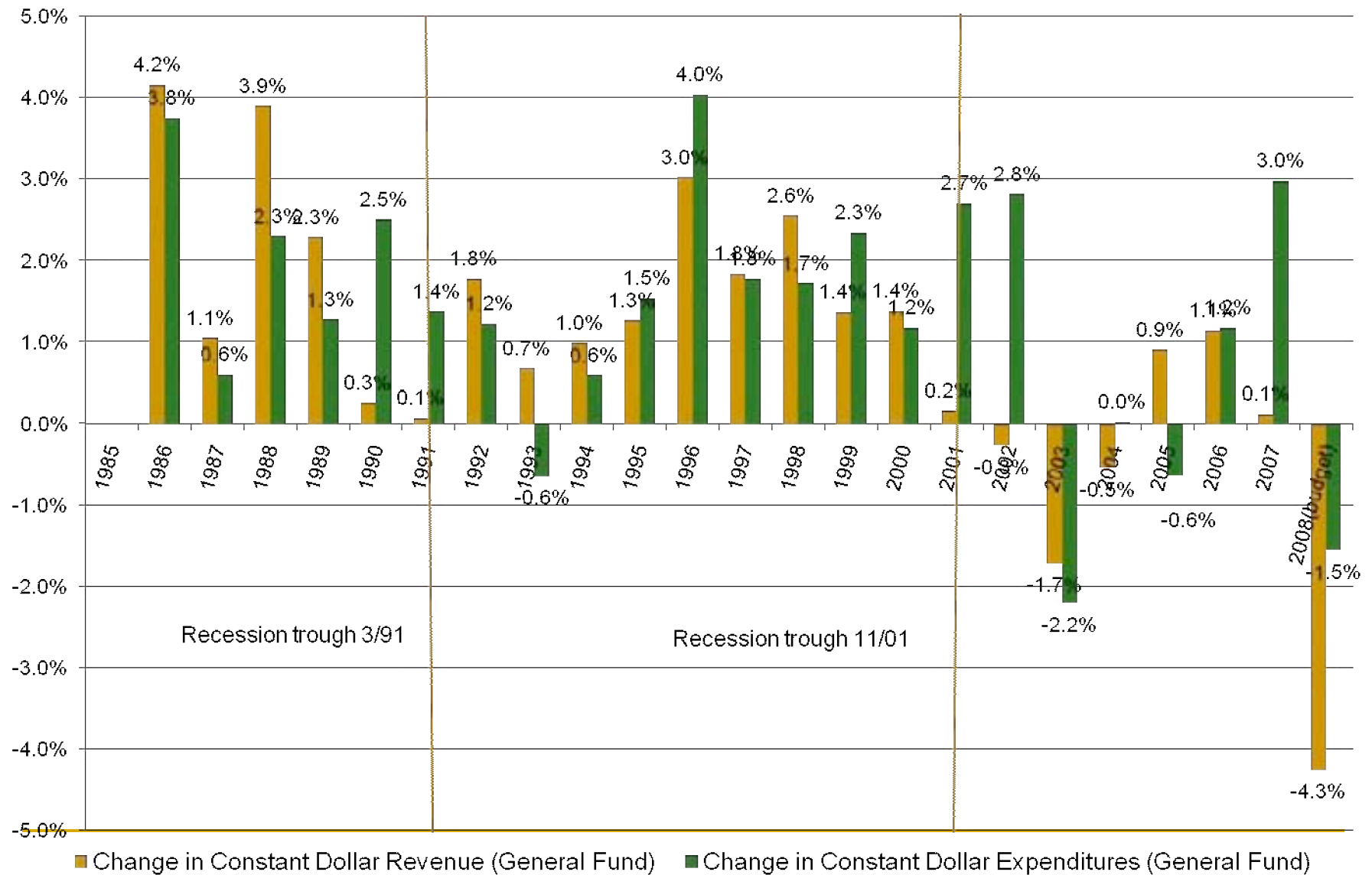
Percentage of Cities "Better Able/Less Able" to Meet Financial Needs in FY 2008, by Tax Authority



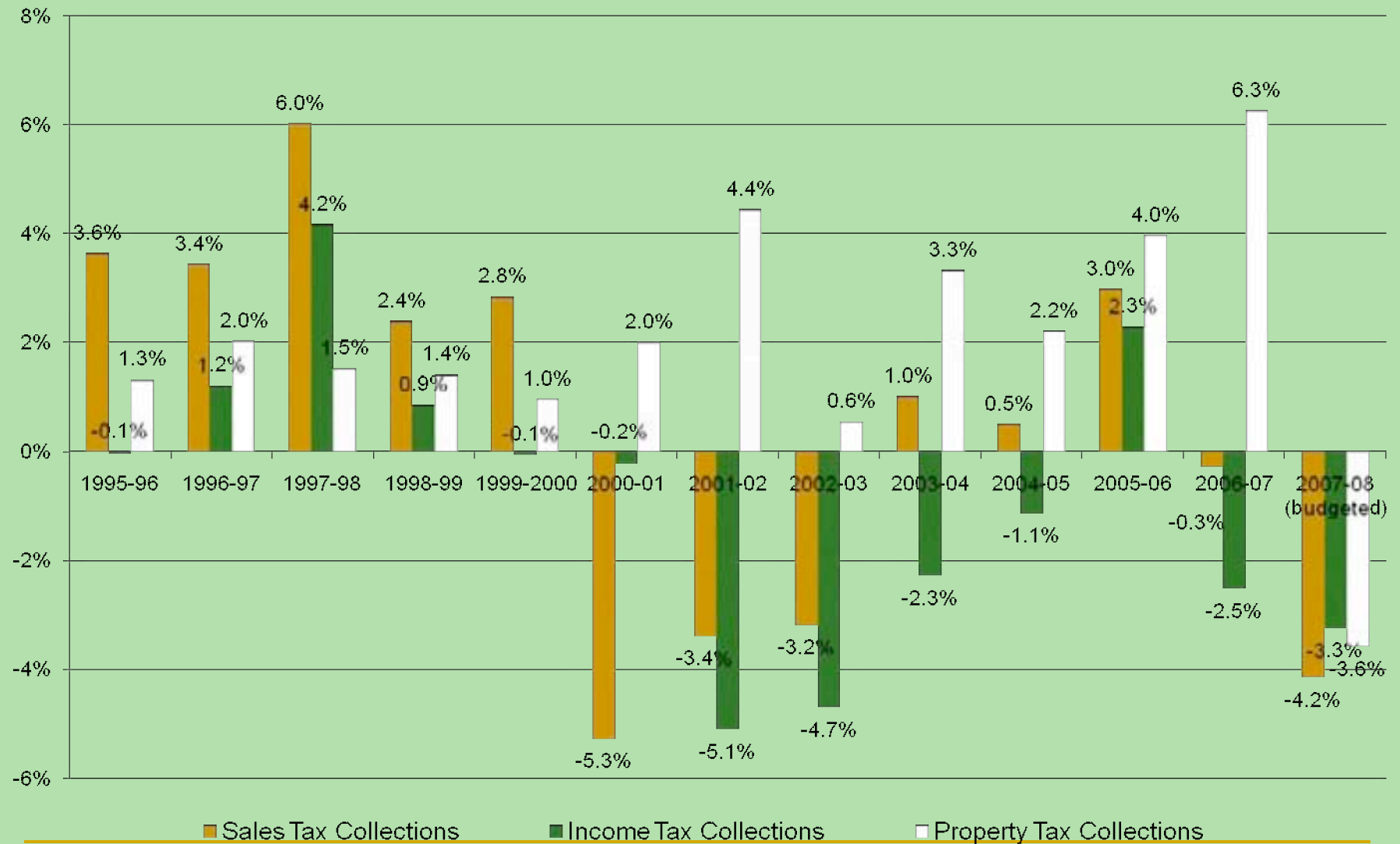
Percentage of Cities "Better Able/Less Able" To Meet Financial Needs in FY 2008, by Region



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



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



Factors Negatively Impacting City Budgets

(% 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 FY08

(% of city finance officers listing factor)

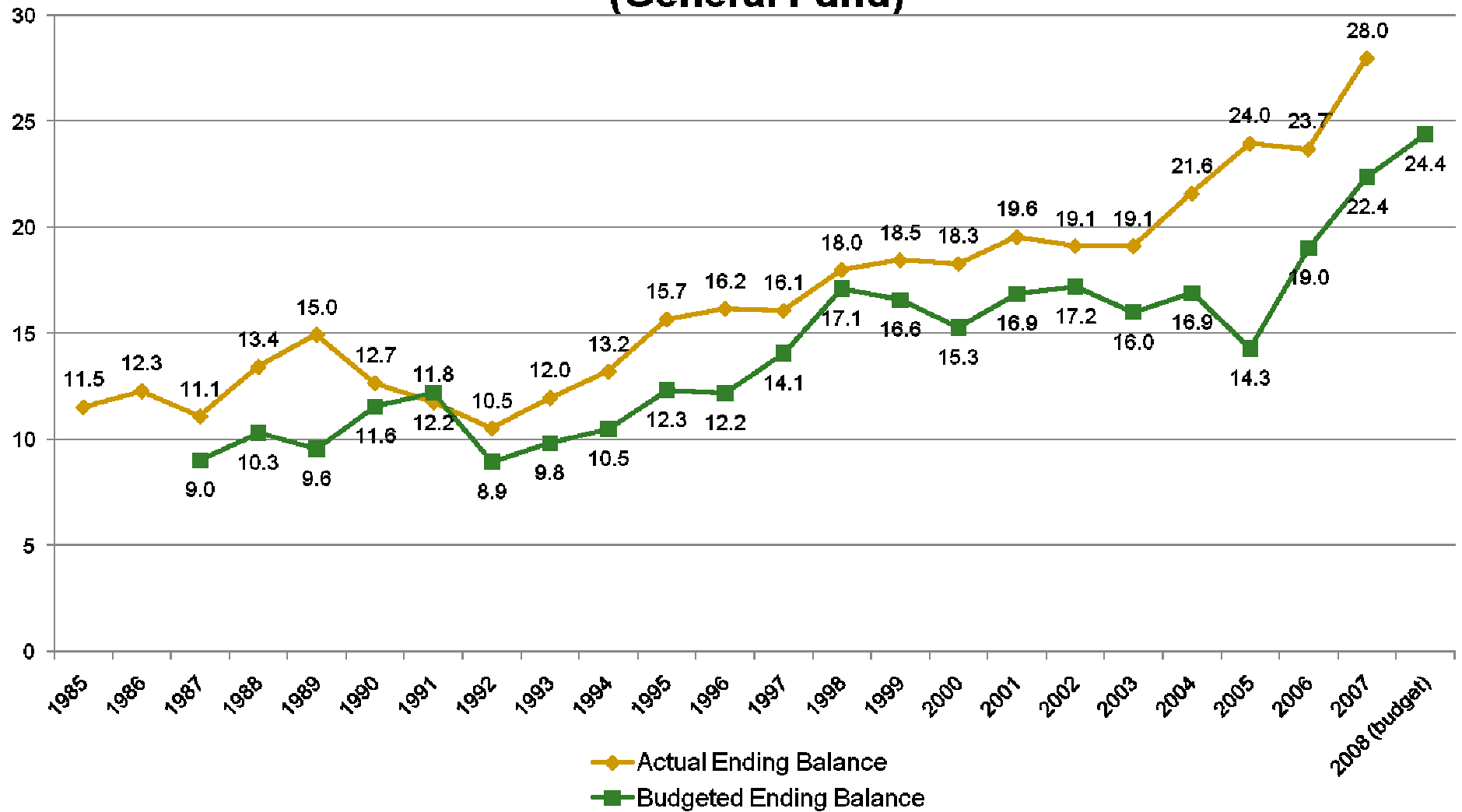
Revenue Actions

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

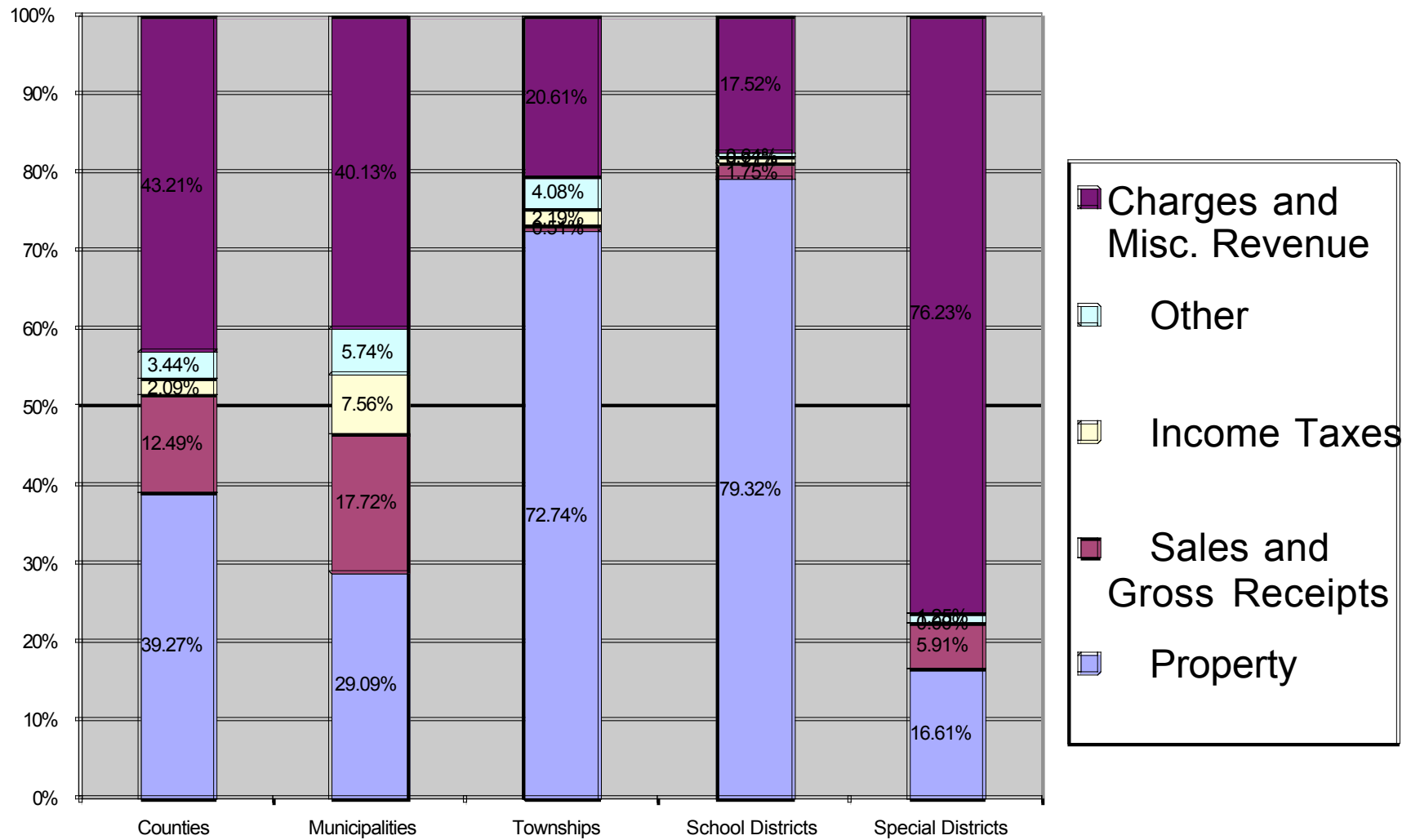
Expenditure Actions

- Increase pub. safety – 73%
- Increase infrastructure & capital – 52%
- Increase operations – 42%
- Increase productivity – 37%
- Increase human serv – 35%
- Increase workforce – 33%
- Decrease operations – 23%
- Decrease workforce – 22%

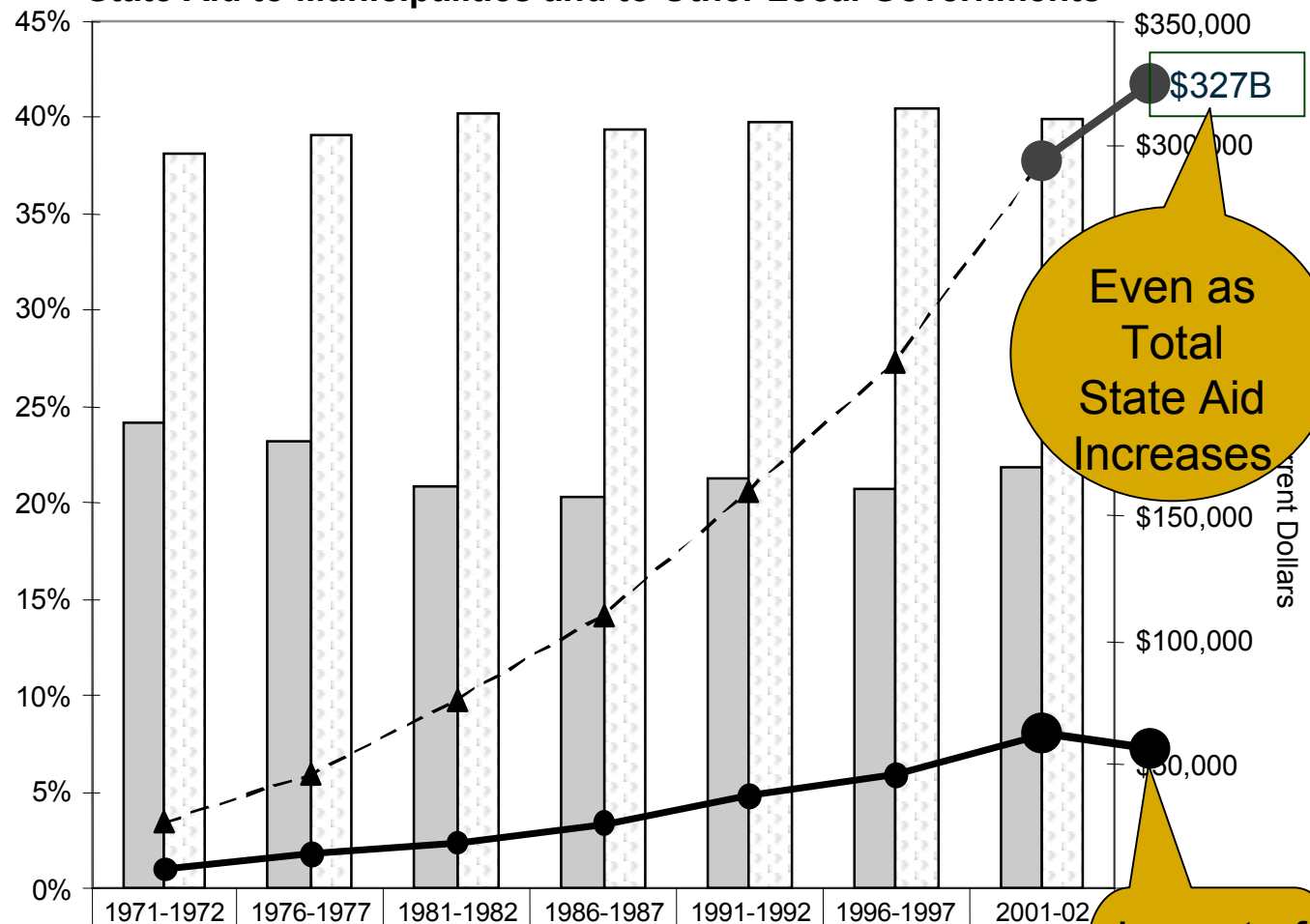
Ending Balances as a Percentage of Expenditures (General Fund)



Own -Source Revenue Composition, 2002



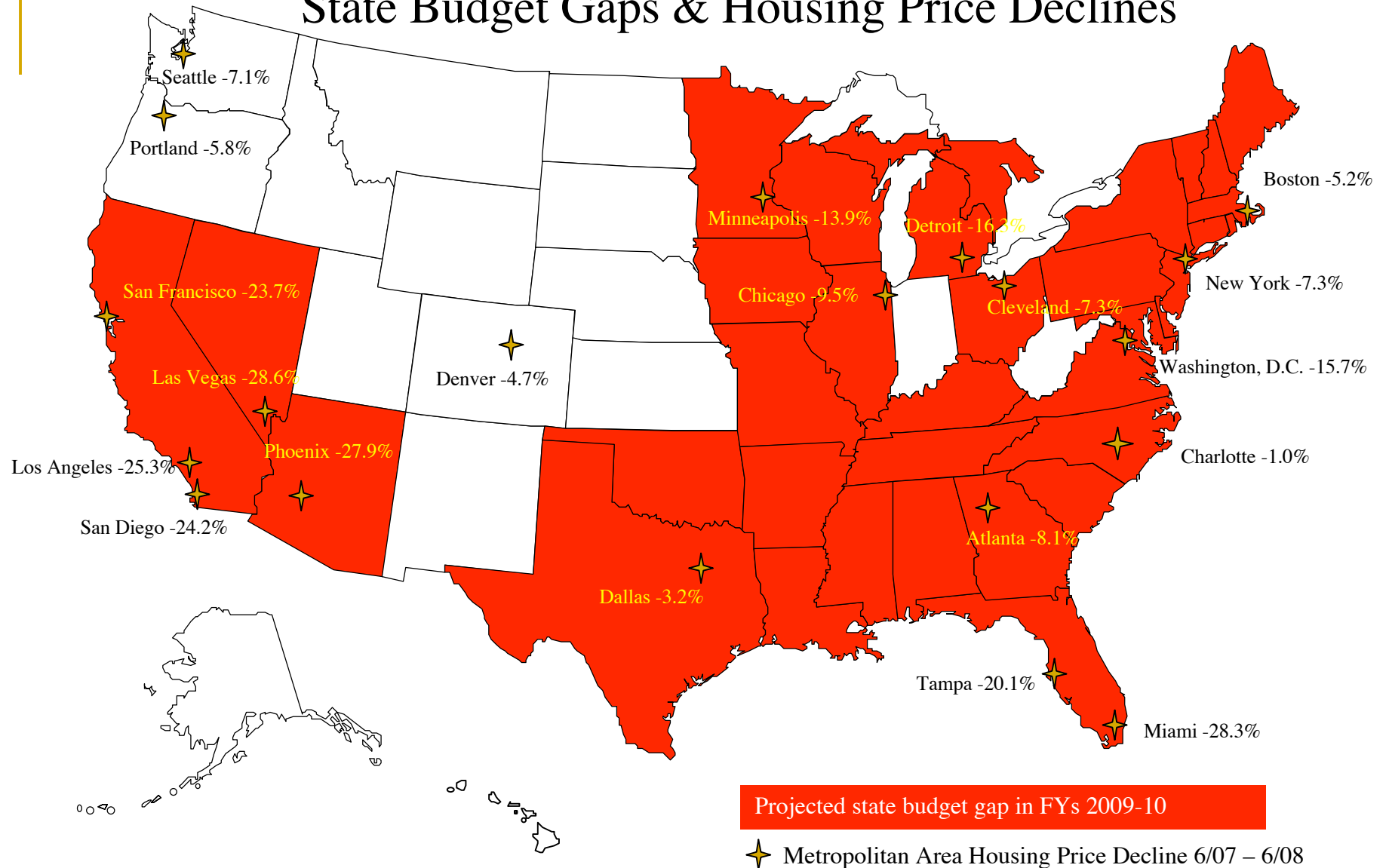
State Aid to Municipalities and to Other Local Governments



Even as
Total
State Aid
Increases

Impact of
state
fiscal
crisis,
FY04,
\$57B

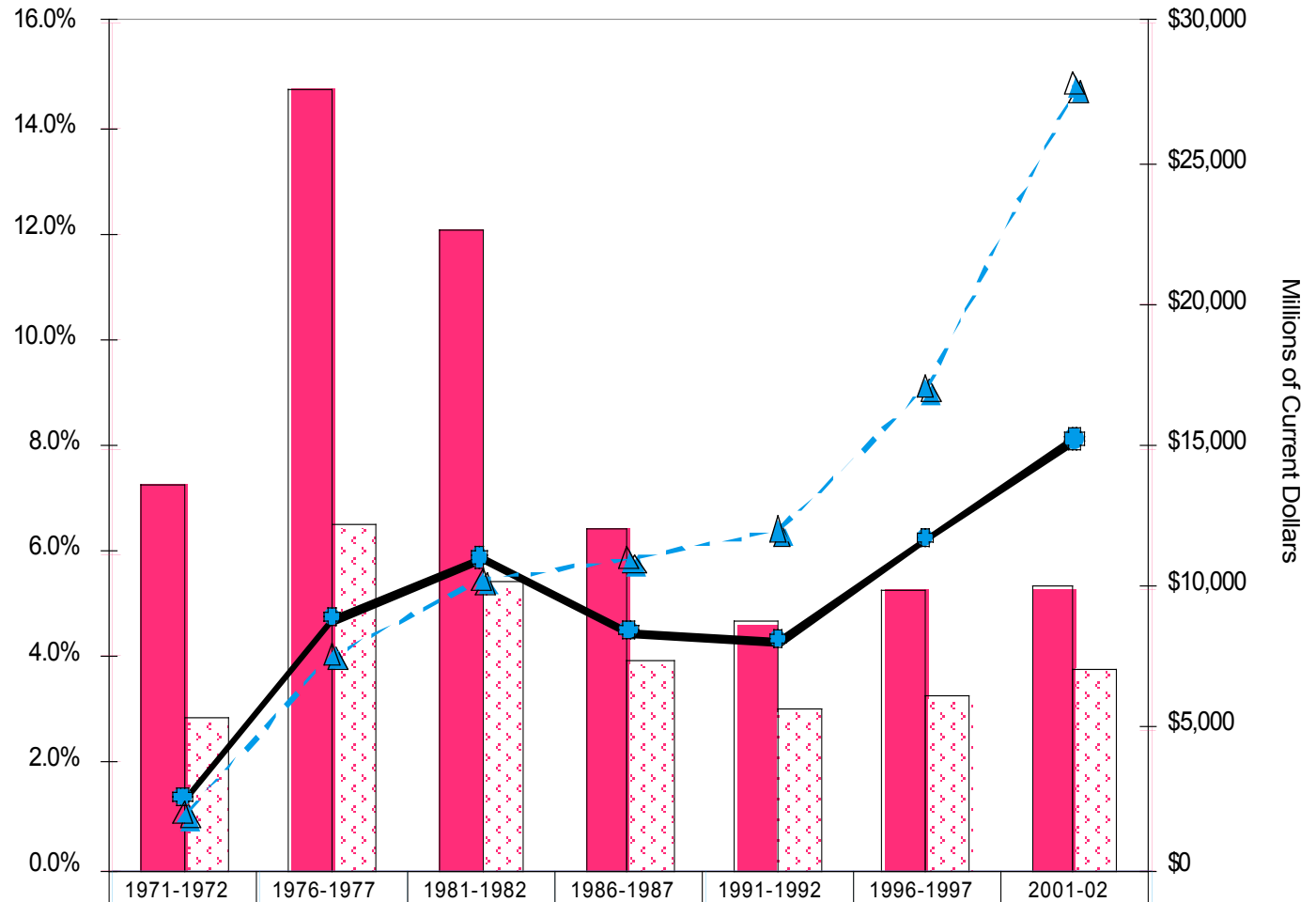
State Budget Gaps & Housing Price Declines







Source, State Budget Gaps: Center on Budget and Policy Priorities, September 2008

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

Federal Aid to Municipalities and to Other Local Governments

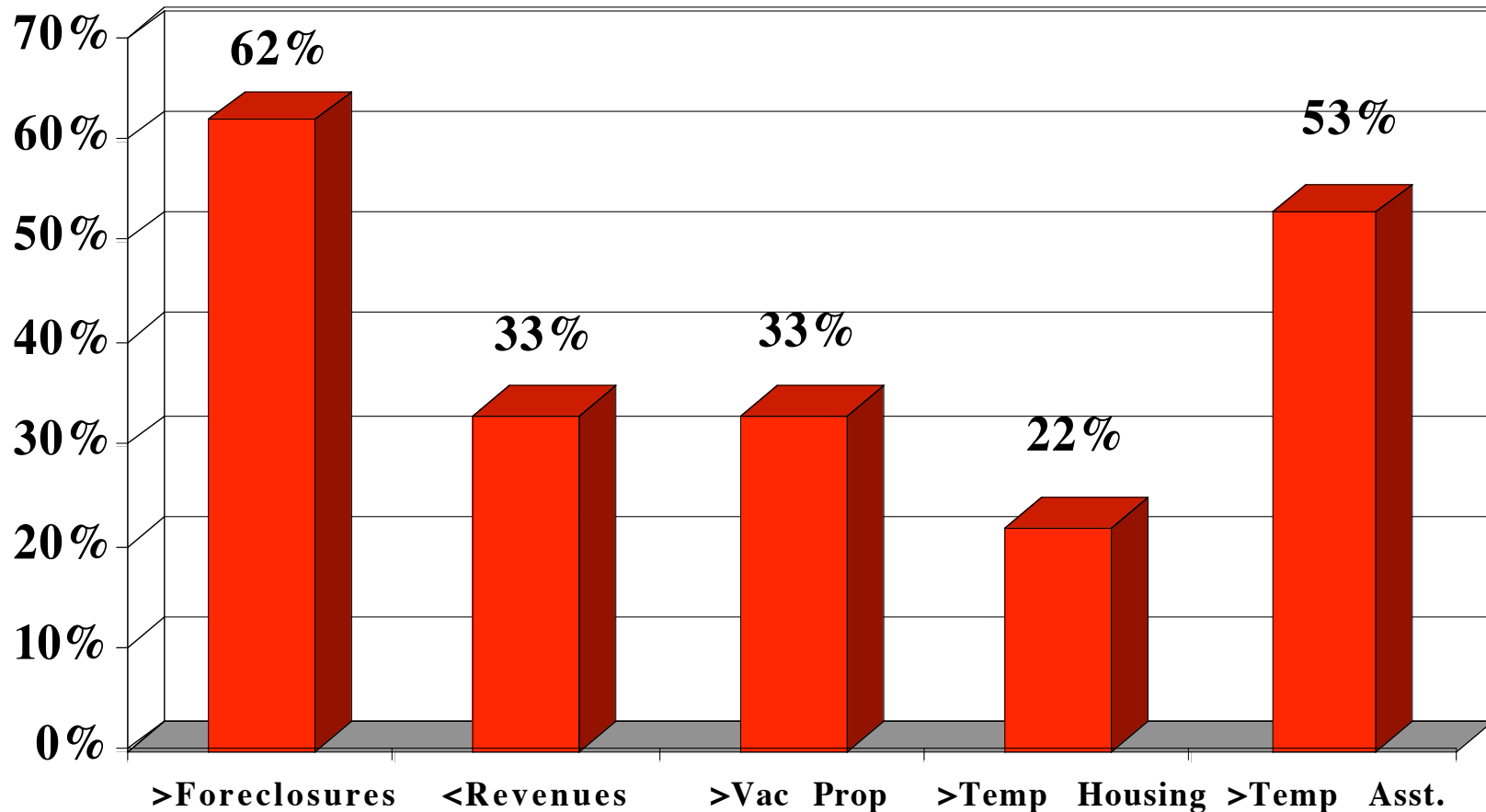


	Fed aid as Percentage of General Municipal Revenue	7.3%	14.7%	12.0%	6.4%	4.6%	5.3%	5.3%
	Fed aid as Percentage of General Local Government Revenue, Excluding Municipalities	2.9%	6.5%	5.4%	3.9%	3.0%	3.3%	3.8%
	Federal Aid to Municipalities (\$Millions)	\$2,538	\$8,910	\$10,996	\$8,390	\$8,103	\$11,699	\$15,201
	Federal Aid to Local Governments, Excluding Municipalities (\$Millions)	\$2,013	\$7,644	\$10,260	\$11,005	\$12,004	\$17,069	\$27,750

Topics to cover

- City fiscal conditions
 - **Housing finance and foreclosures – local impacts and responses**
 - Revenue structure and spatialization
 - The outlook for the future
-

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.

Local Response & Collaboration

(% of city officials)

Local Response

- Adjust budget/decrease spending – 18%
- Increase temp. assistance – 17%
- Increase property oversight/code enf. – 11%
- Build internal capacity – 6%

Collaboration

- 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.

City Practices

- Steps to help families on brink of foreclosure
 - ❑ Counseling on pre- and post-loan programs
 - ❑ Coalitions and partnerships (Louisville, Seattle, many others)
 - ❑ City help lines (Baltimore & Chicago)
 - ❑ Emergency (trust) fund/stabilization loan programs (Seattle, Louisville, Chicago, New Bedford, San Antonio, Boston)
 - Foreclosures & vacant properties
 - ❑ Mapping foreclosure and at-risk properties/borrowers
 - ❑ Upkeep, maintenance, and revitalization (Boston, Sacramento, many others)
 - ❑ Foreclosures to workforce housing (Charlotte, Cleveland, Denver, Montgomery County, MD, Fairfax County, VA, many others)
 - ❑ Purchase (or seized) & resale, land banks (Flint, Syracuse)
 - Mortgage industry
 - ❑ Education and collaboration
 - ❑ Requiring lenders to register foreclosed properties with city and retain property management company (Chula Vista)
 - ❑ Lawsuits (Baltimore, Cleveland, Buffalo, Worcester)
-

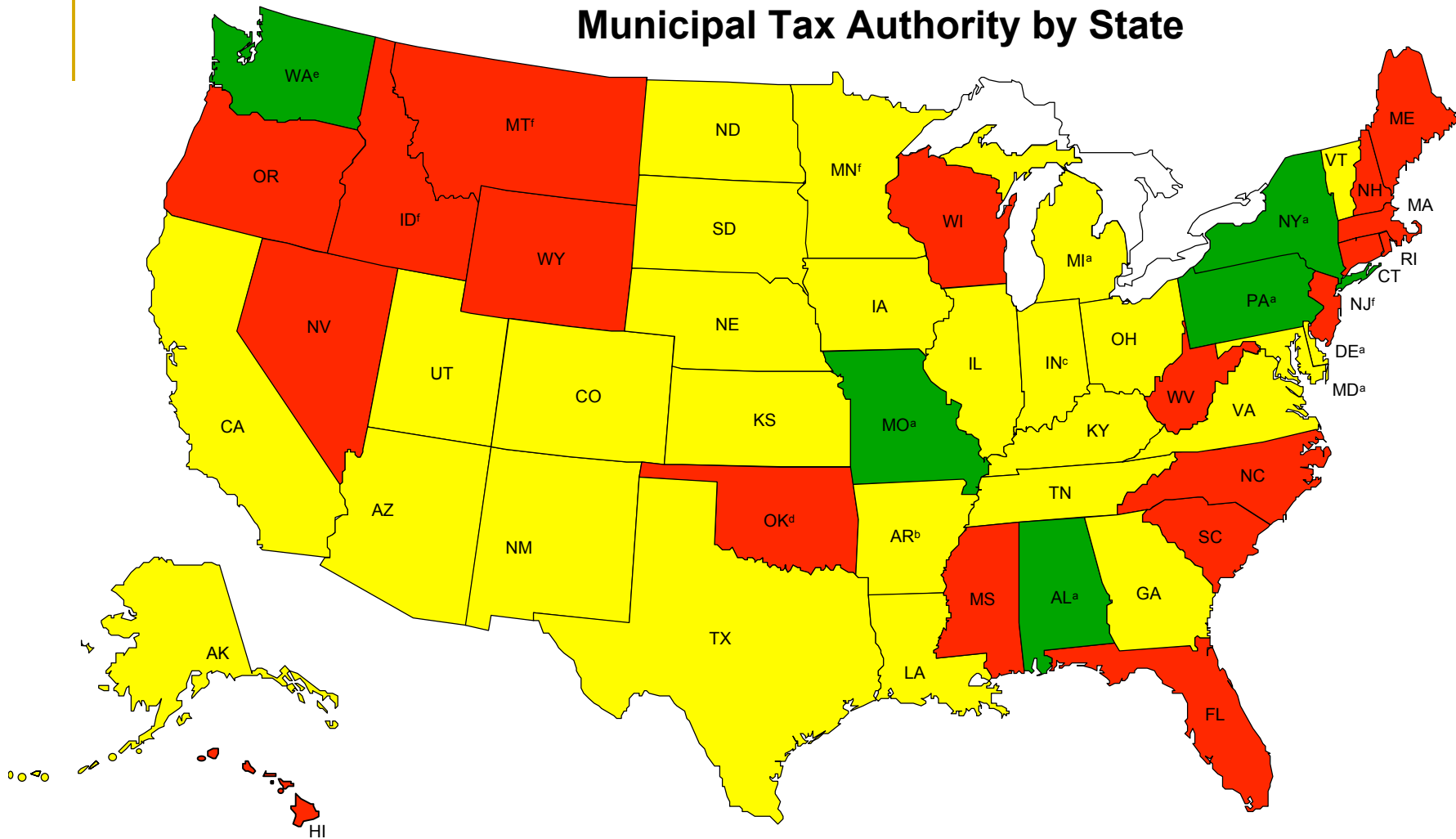
Gap areas where cities need help...

- Funding for loan/stabilizations programs
 - Mapping & tracking foreclosure activity
 - Establish programs to help lower-capacity jurisdictions
 - Coordinate and facilitate cross-jurisdictional responses
-

Topics to cover

- City fiscal conditions
 - Housing finance and foreclosures – local impacts and responses
 - **Revenue structure and spatialization**
 - The outlook for the future
-

Municipal Tax Authority by State



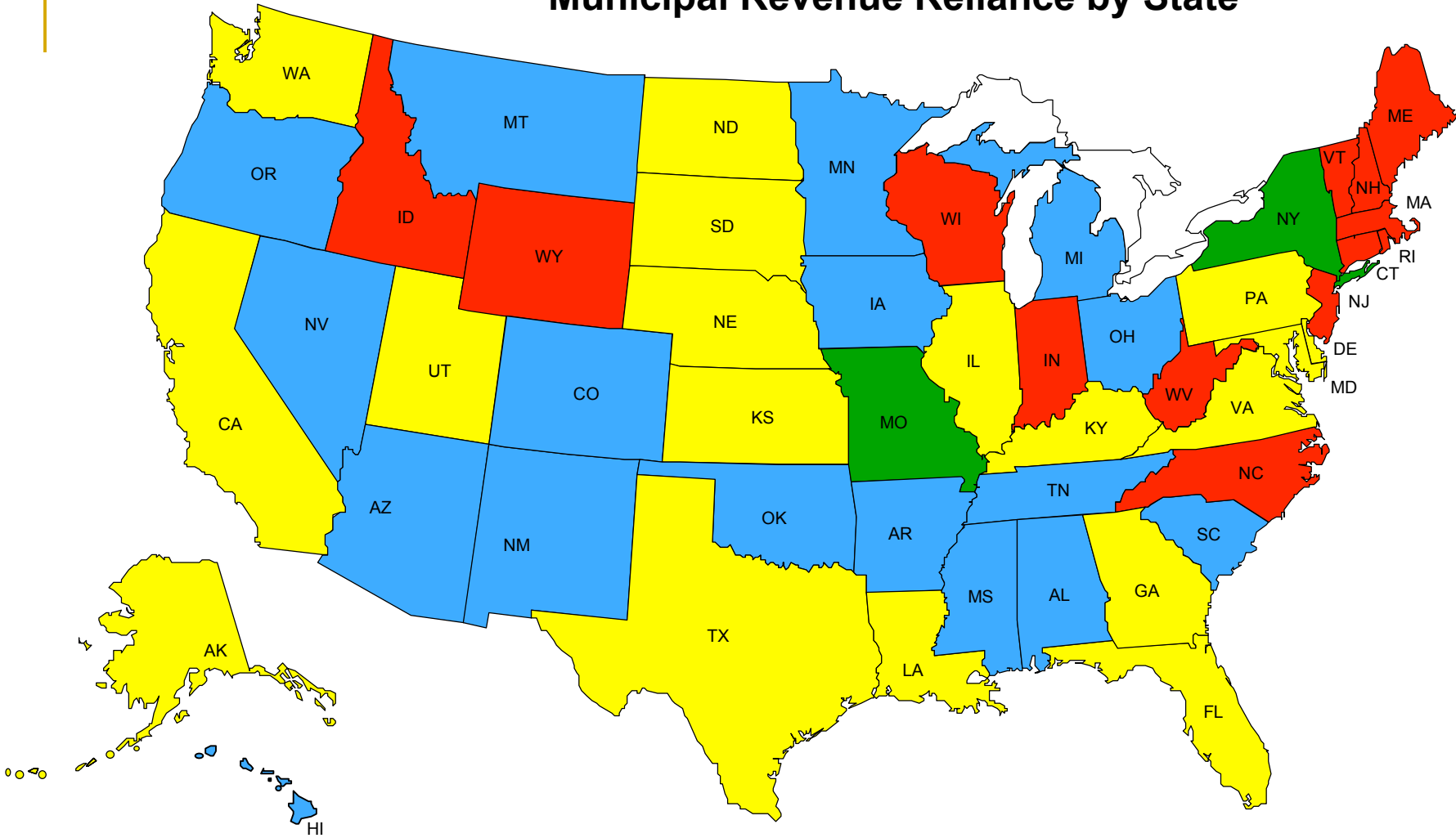
a Income or sales tax for selected cities. **b** Cities can levy a local income tax, but no locality currently does so. **c** A local income tax under certain circumstances. **d** Sales tax only; cities can levy a property tax for debt-retirement purposes only. **e** Cities can impose the equivalent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

Property + sales + income

Property + sales OR income

Property or sales only

Municipal Revenue Reliance by State



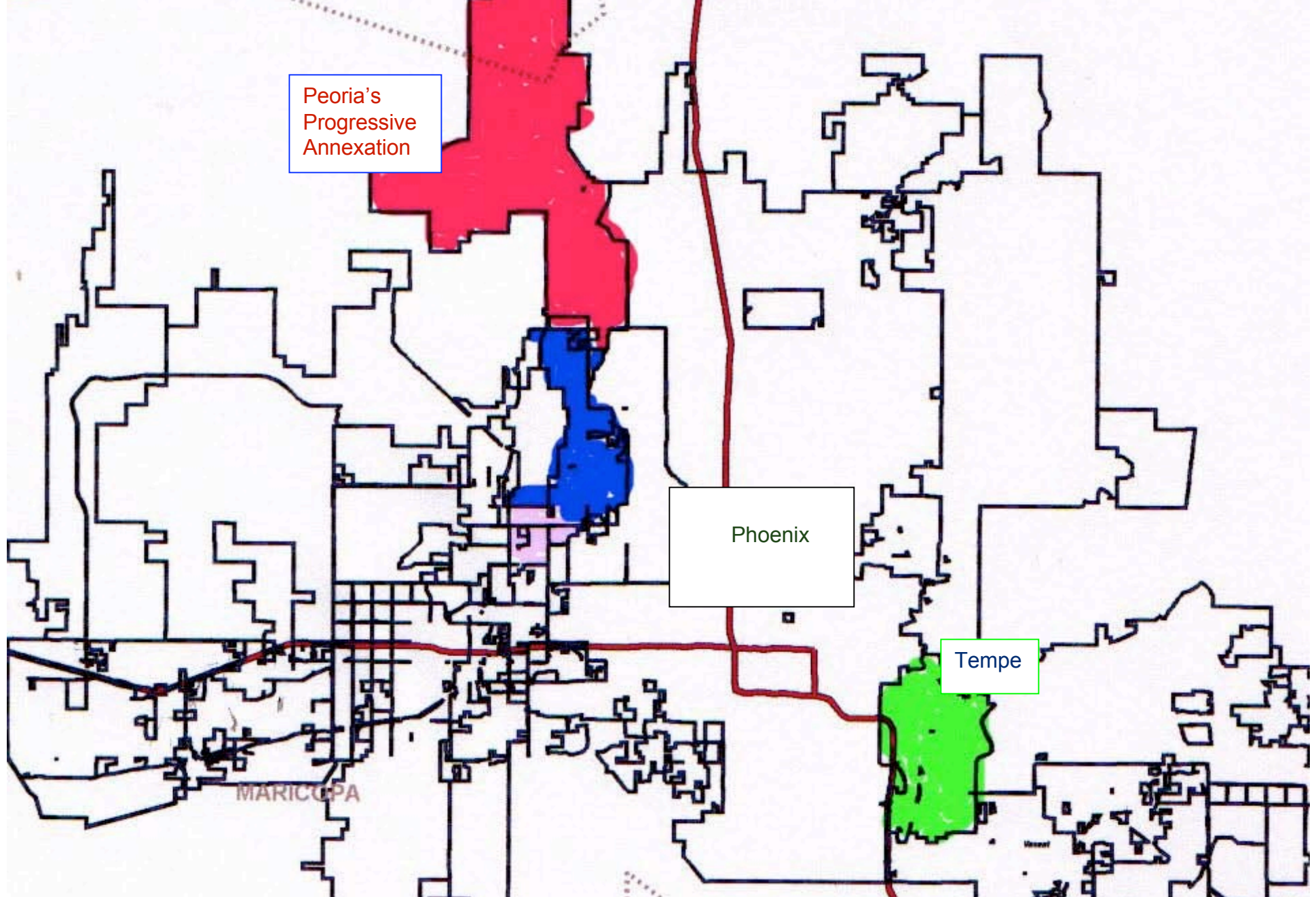
Three tax sources — Two tax sources — One source + low 2nd source — One tax source

Cities' strategic behavior to maximize individual and community well-being derives from three principal imperatives of municipalities in a federal system:



First, because cities must pursue policies that augment or, at a minimum, maintain the economic vitality of the community, policy officials are induced to use land to its highest and best use.

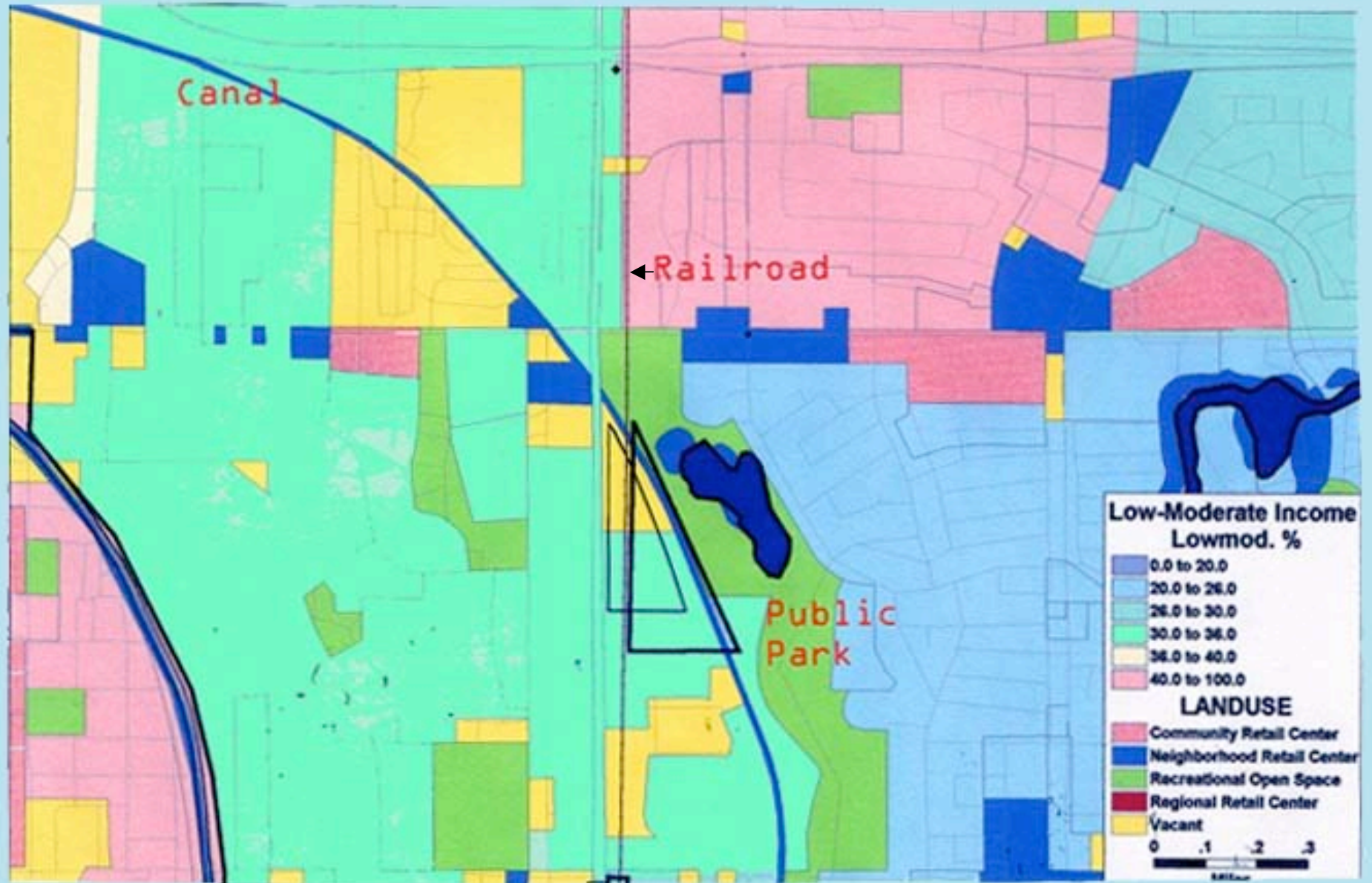
Incorporated Places in Maricopa County





Second, because cities must pursue policies that minimize social disruption and protect property values, policy officials are encouraged to assemble, zone, and dedicate land for the purpose of simulating natural barriers and protecting property values.

Fences and Canals in Tempe

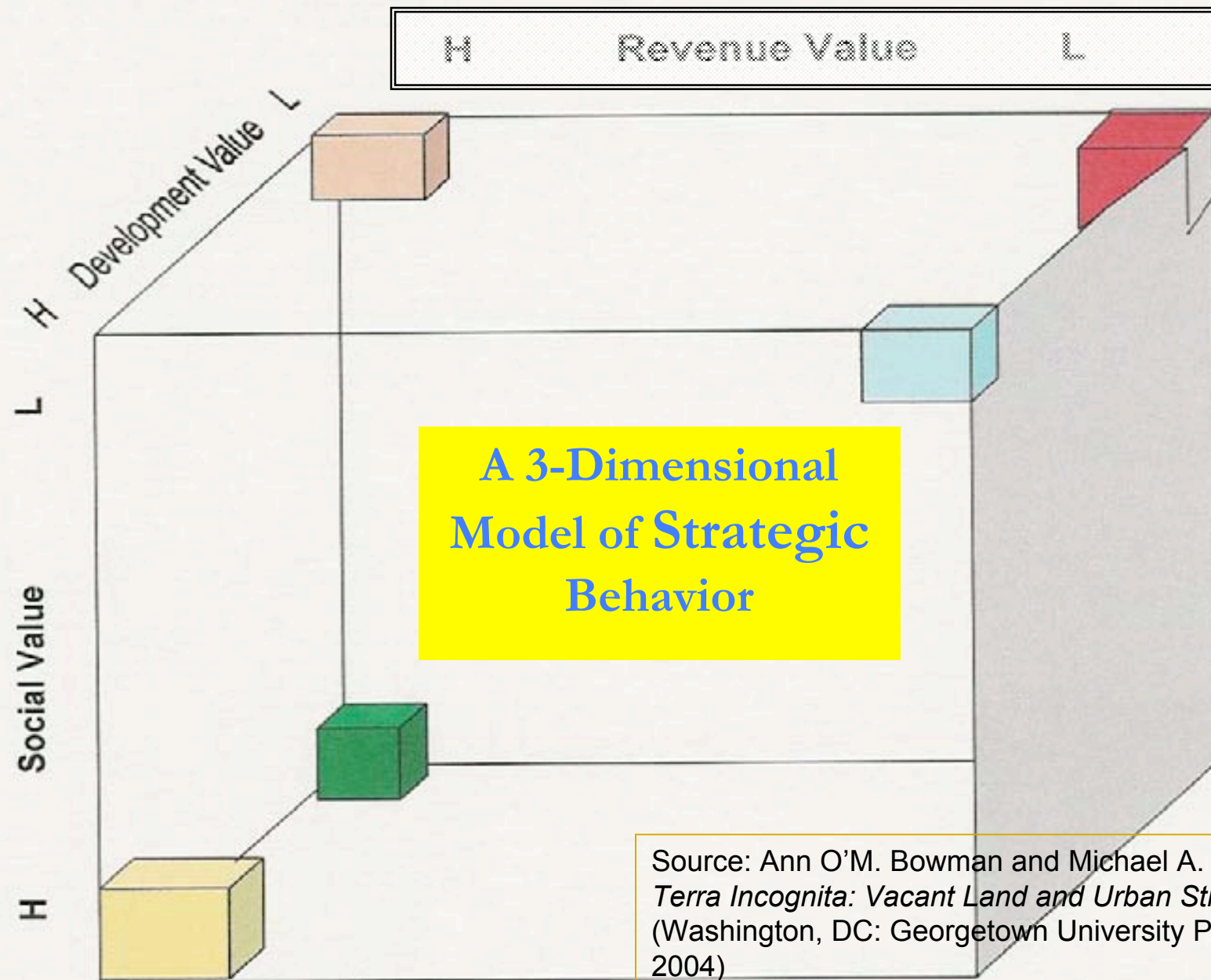






Third, because cities must pursue policies that enhance their fiscal condition, policy officials are motivated to consider development options that either maximize revenues or minimize costs.

Figure 1: The Revenue-Generating, Social Value, and Development Value Importance of Vacant Land in Three-Dimensional Space



Red Cube Land



Vacant Land and Cities' General Taxing Authority

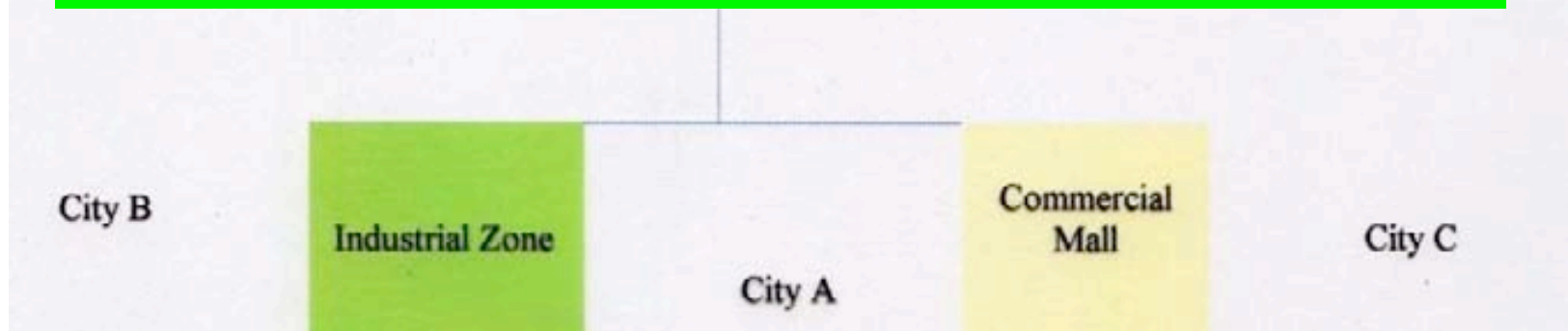
	<i>General Tax Authority</i>	<i>N</i>	<i>Mean</i>
Vacant Land as a Percentage of Total Land Area	Diversified (Sales or Income or Sales and Income)	106	0.175
	Property Tax Only	38	0.142
Number of Abandoned Structures per 1000 Population	Diversified (Sales or income or Sales and Income)	98	2.227
	Property Tax Only	32	0.895

Spatialization of Revenue Structures

Why promote development or a certain type of development at a particular location?

Given a choice, parcels will be identified for development that maximize revenues or minimize costs. The ‘mini-max incentive’ embedded within the context of a city’s revenue structure manifests itself spatially in the design, land-use designations and development patterns of the city, or the *spatialization of revenue structure*.

Figure 1: Idealized Urban Form of Property Tax Cities



STRATEGIC BEHAVIOR OF PROPERTY-TAX CITIES

Property-tax cities think strategically about development based on the market value of the development and on the possibility of shifting service-delivery costs to other jurisdictions (fiscal externalities).

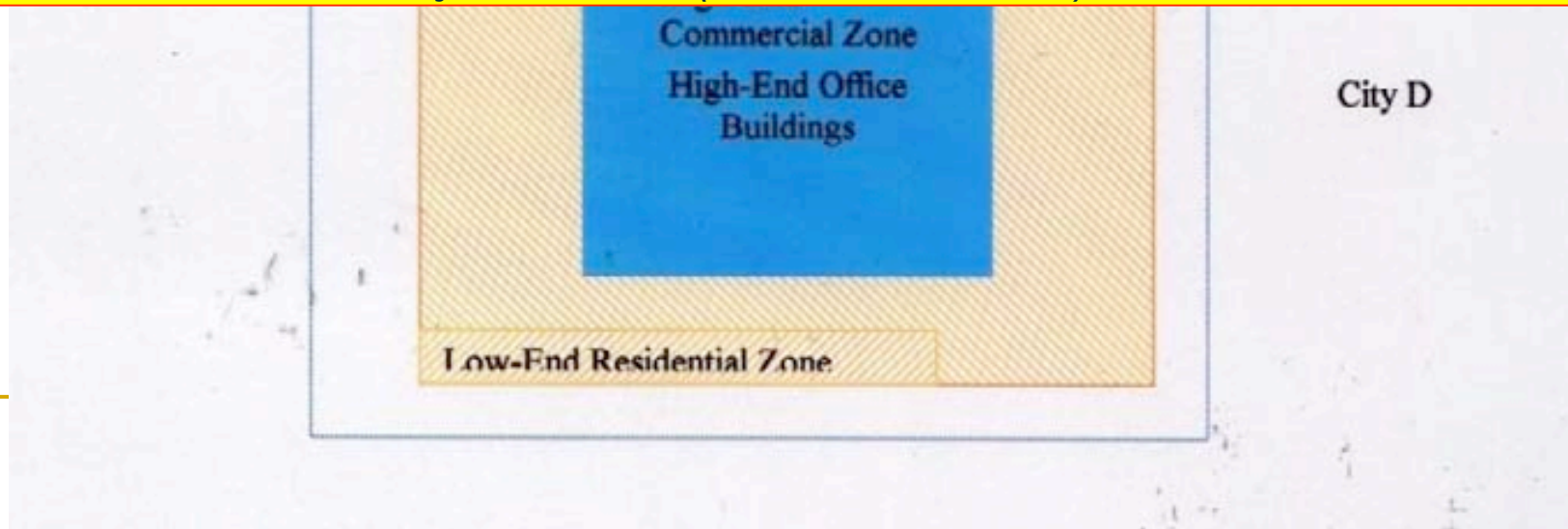
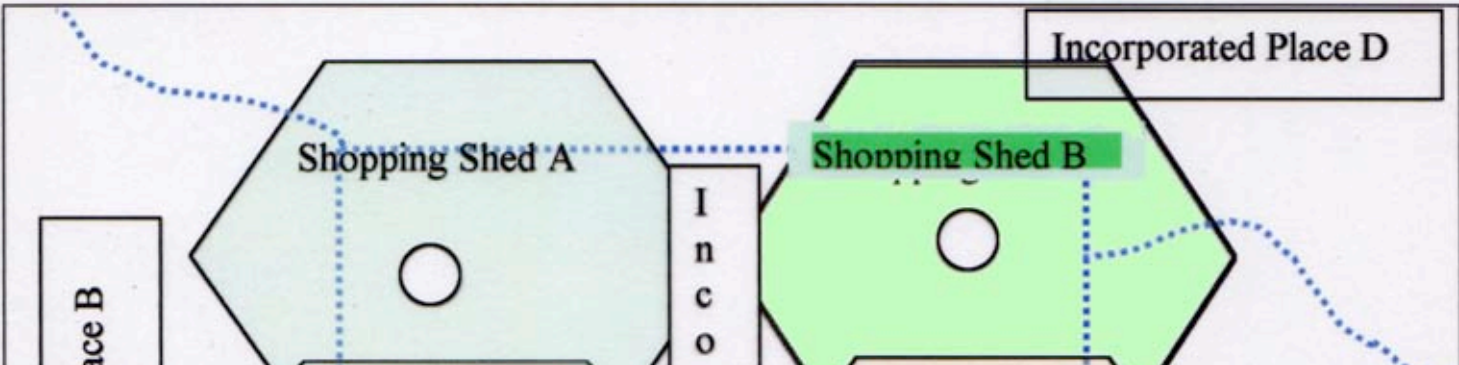


Figure 2a: Idealized Urban Form of Sales Tax Cities

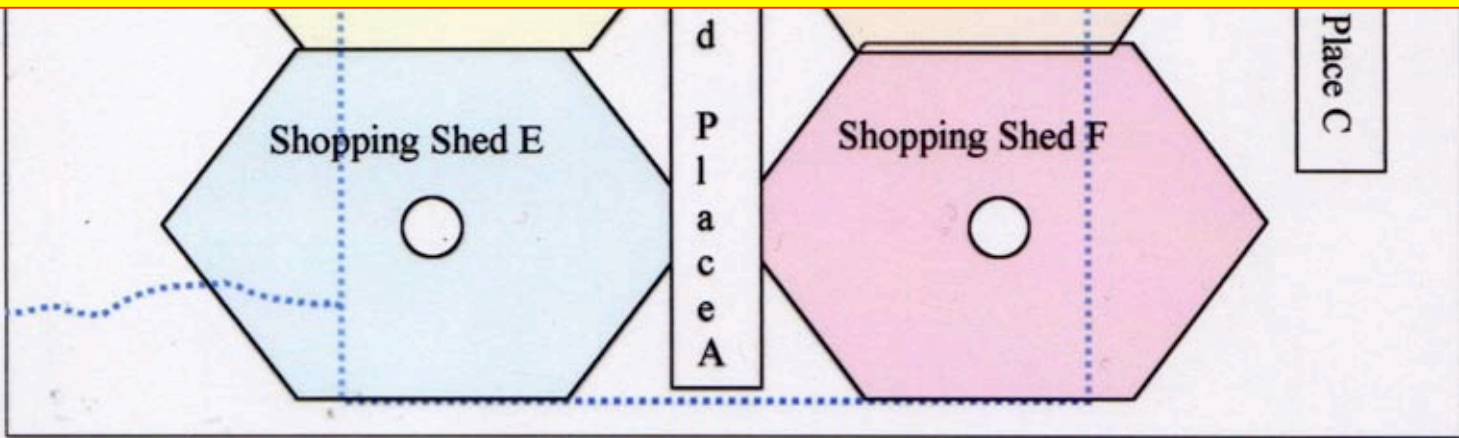


STRATEGIC BEHAVIOR OF SALES-TAX CITIES

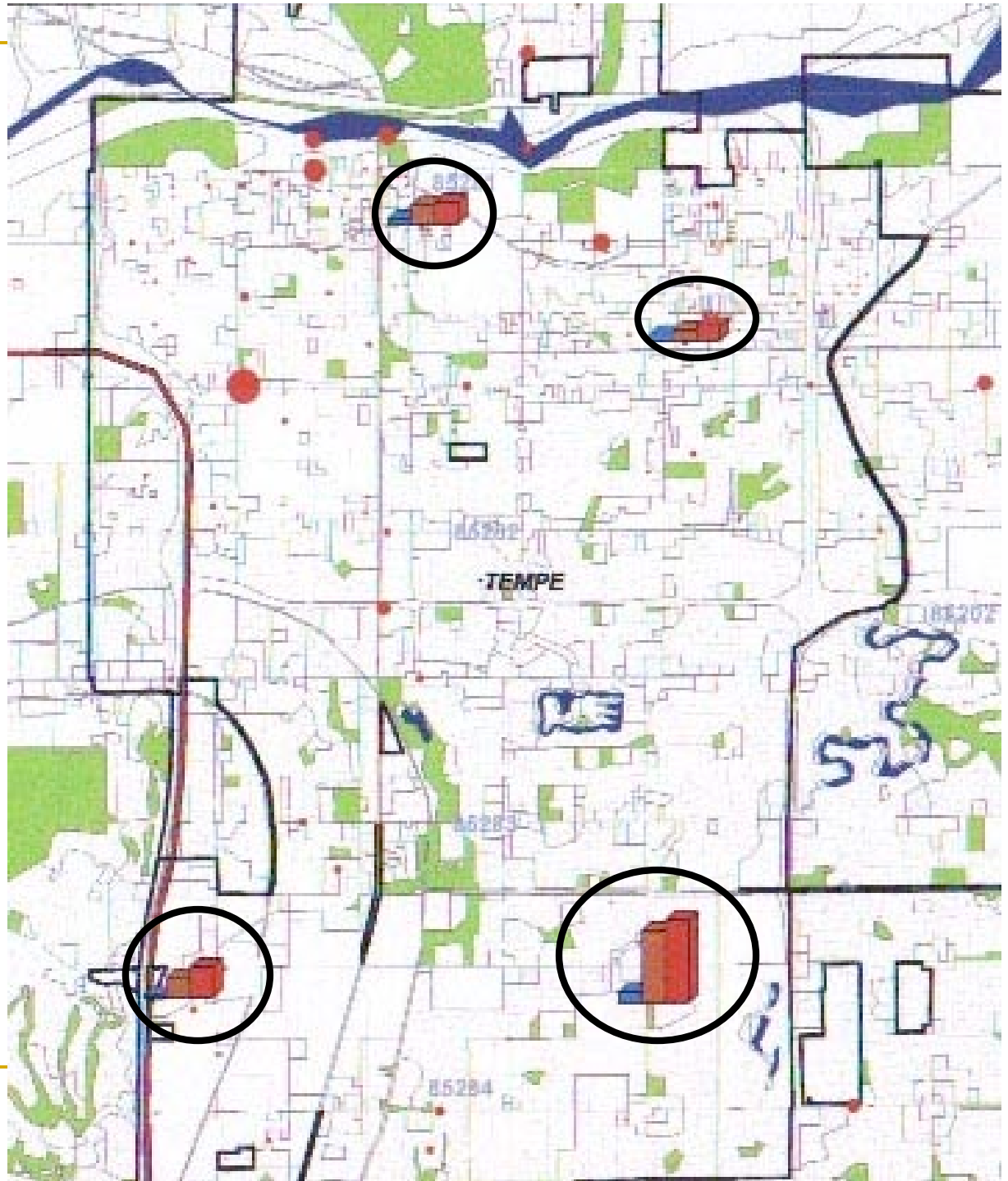
Sales-tax cities think strategically about development based on their mental constructs of “shopping sheds” and on which market transactions are taxable.

STRATEGIC BEHAVIOR OF SALES-TAX CITIES

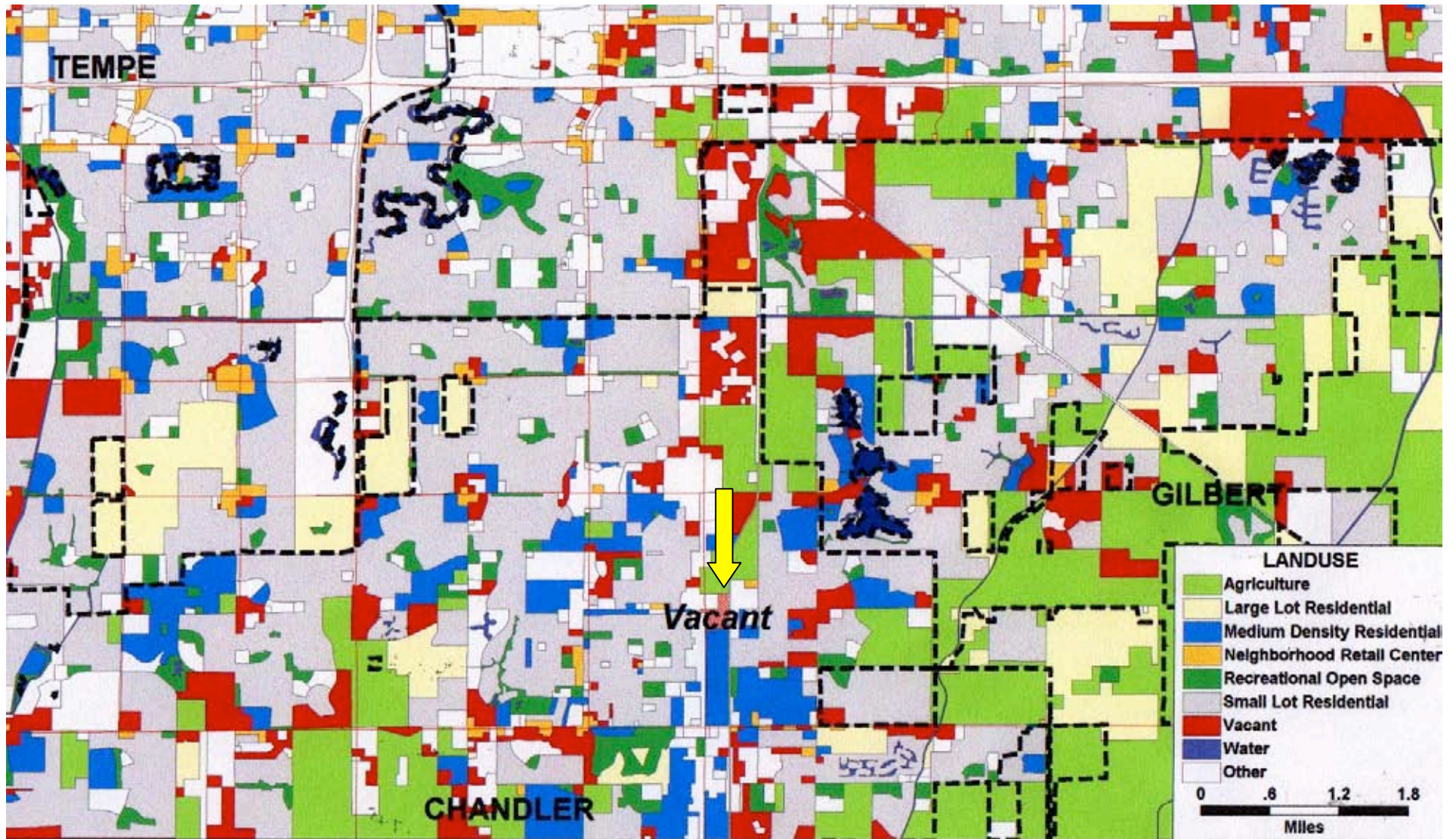
Sales-tax cities think strategically about development based on their mental constructs of “shopping sheds” and on which market transactions are taxable.

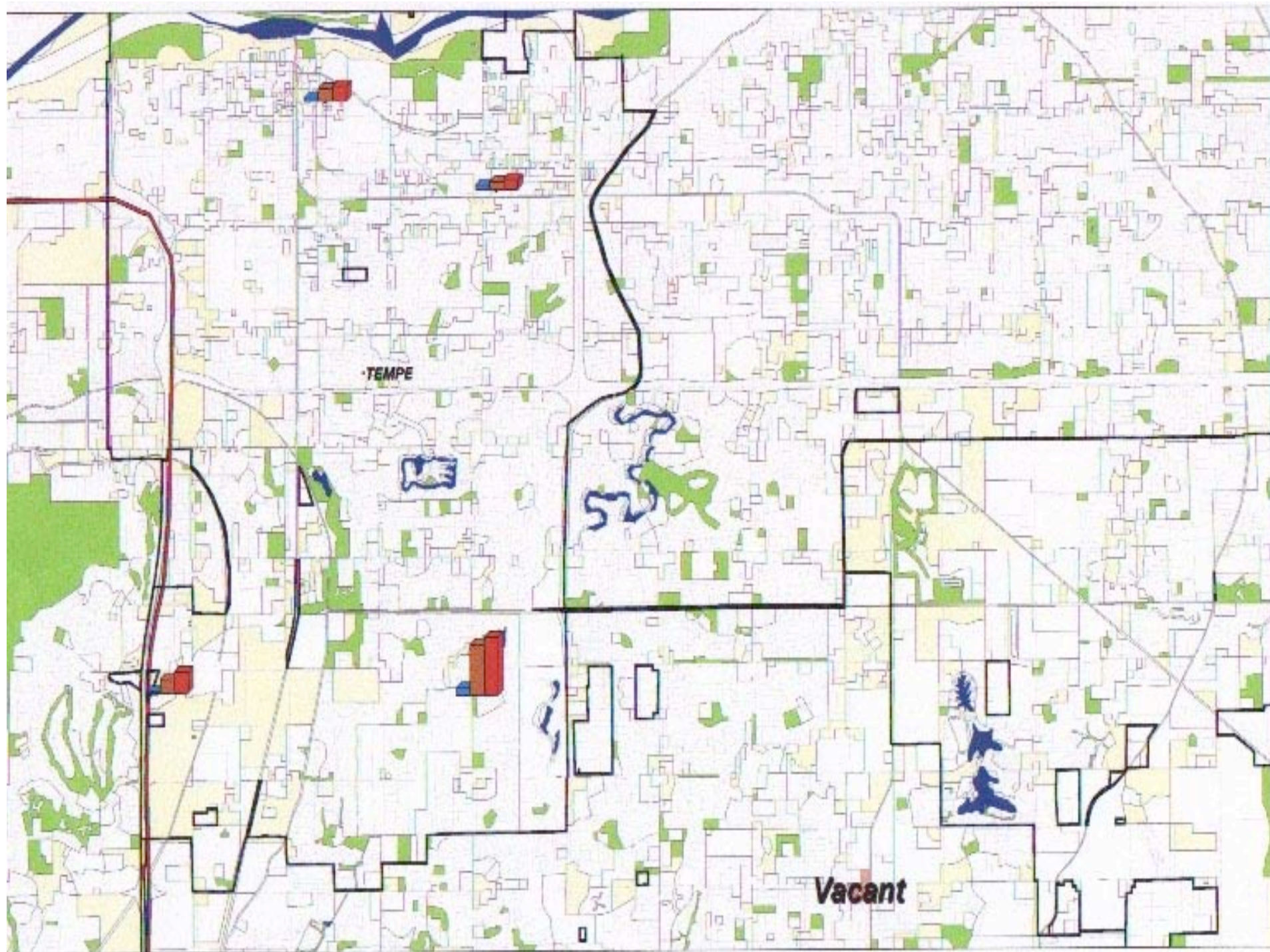


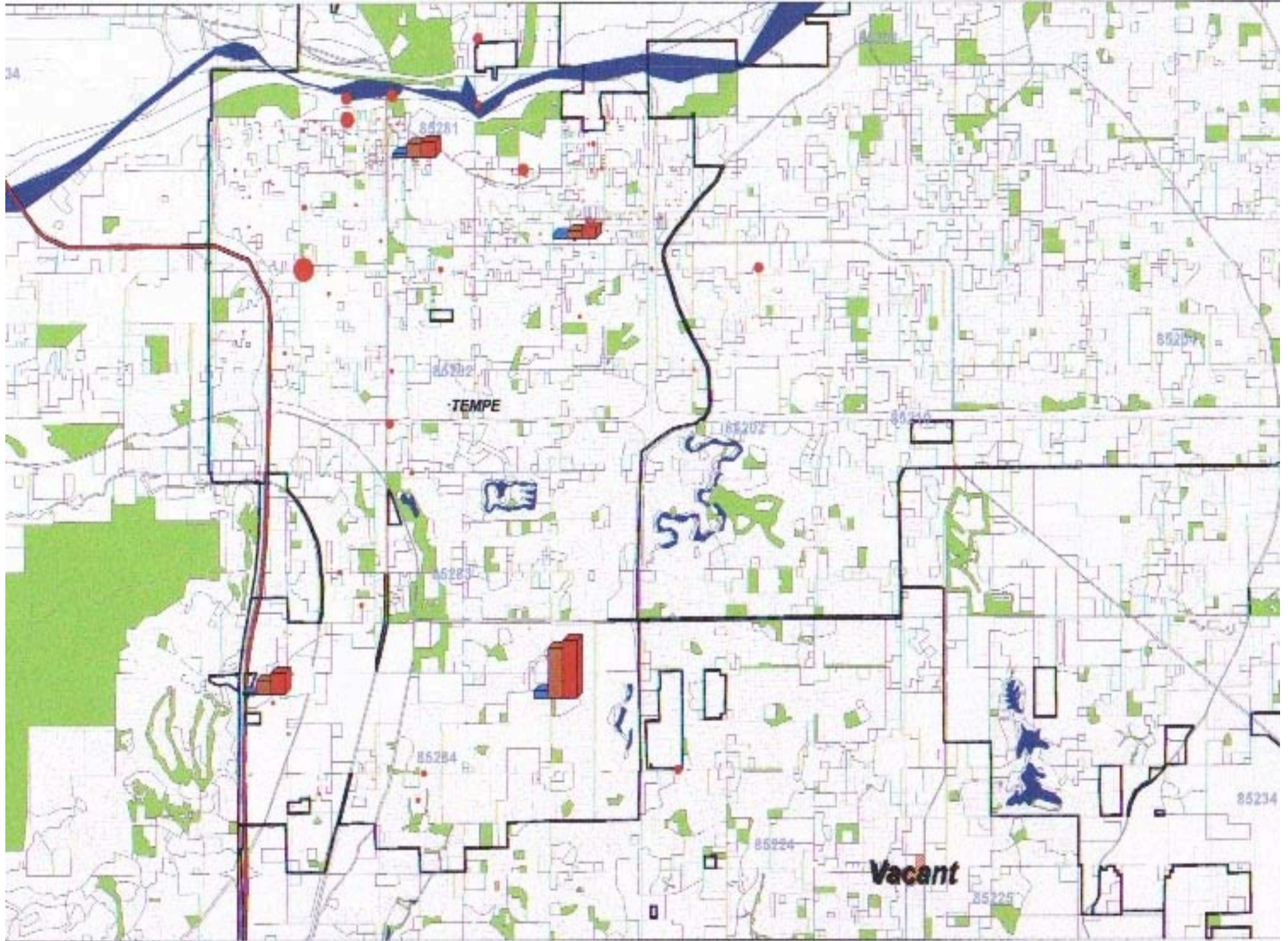
**The Growth in
Tempe's Sales Tax
Revenues (1992,
1995, 1999
[estimated] by
location.**



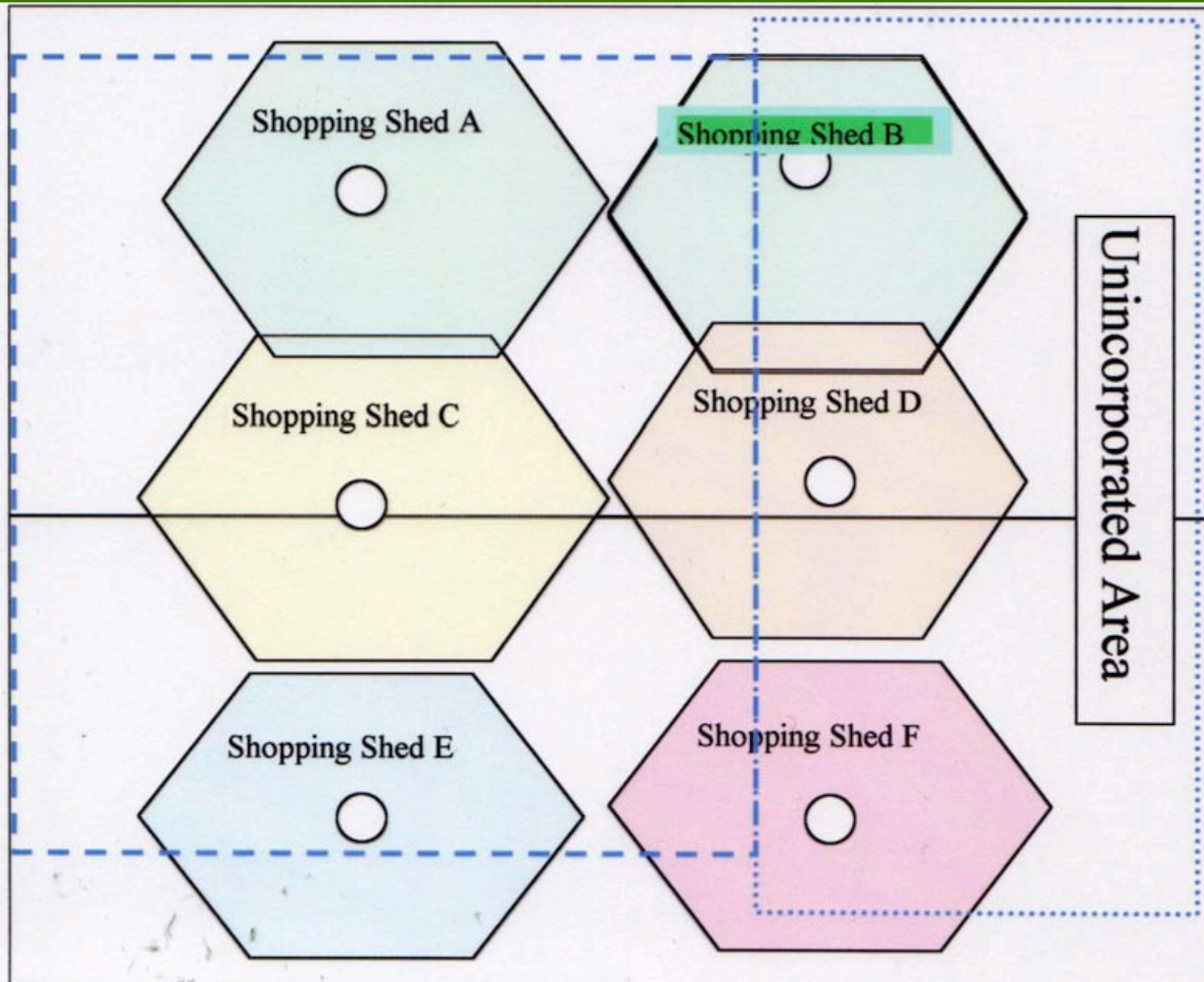
Land Use in Chandler

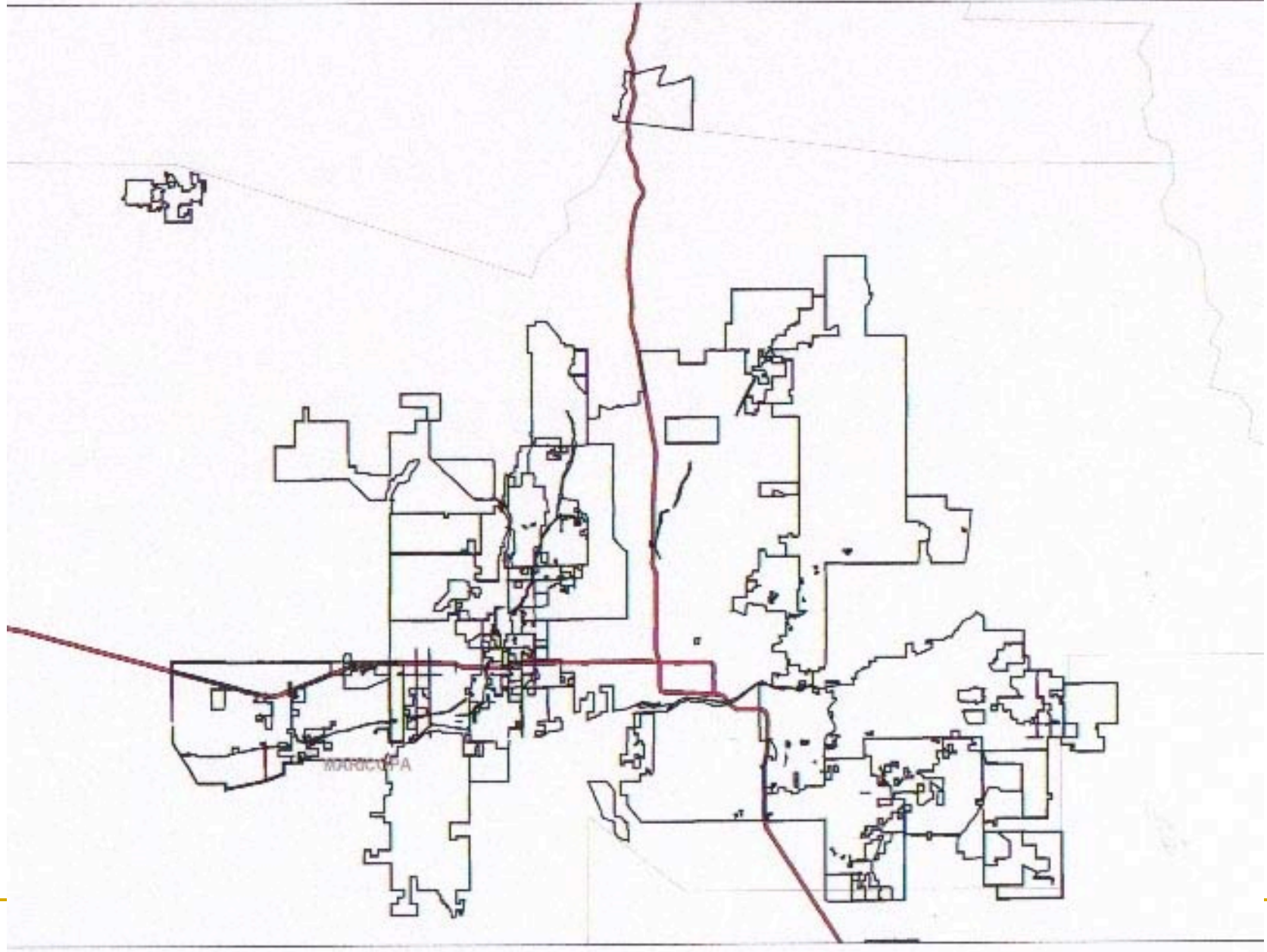






**Figure 2b: Idealized Urban Form of Sales Tax Cities
(with expansion capacity)**





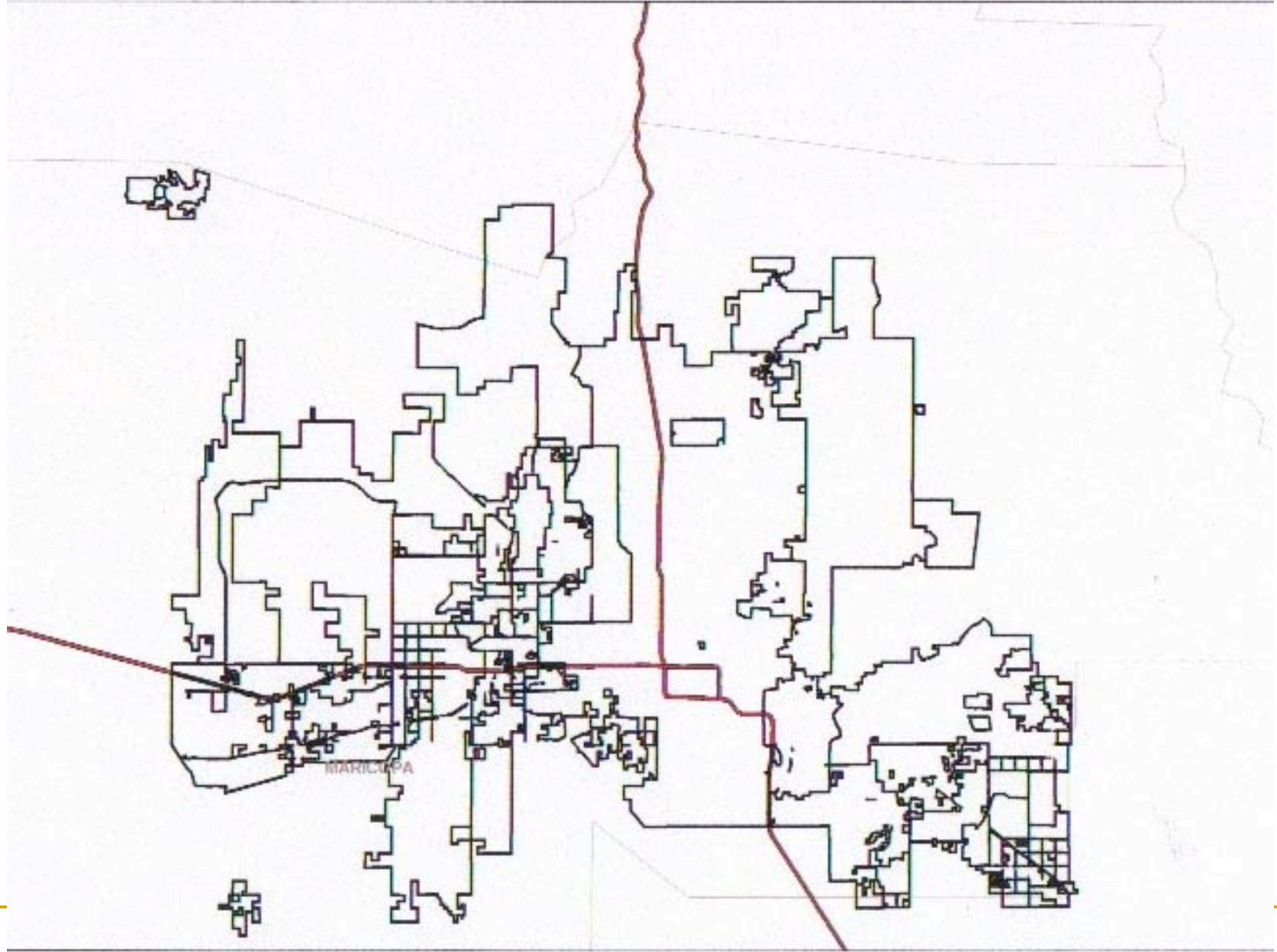
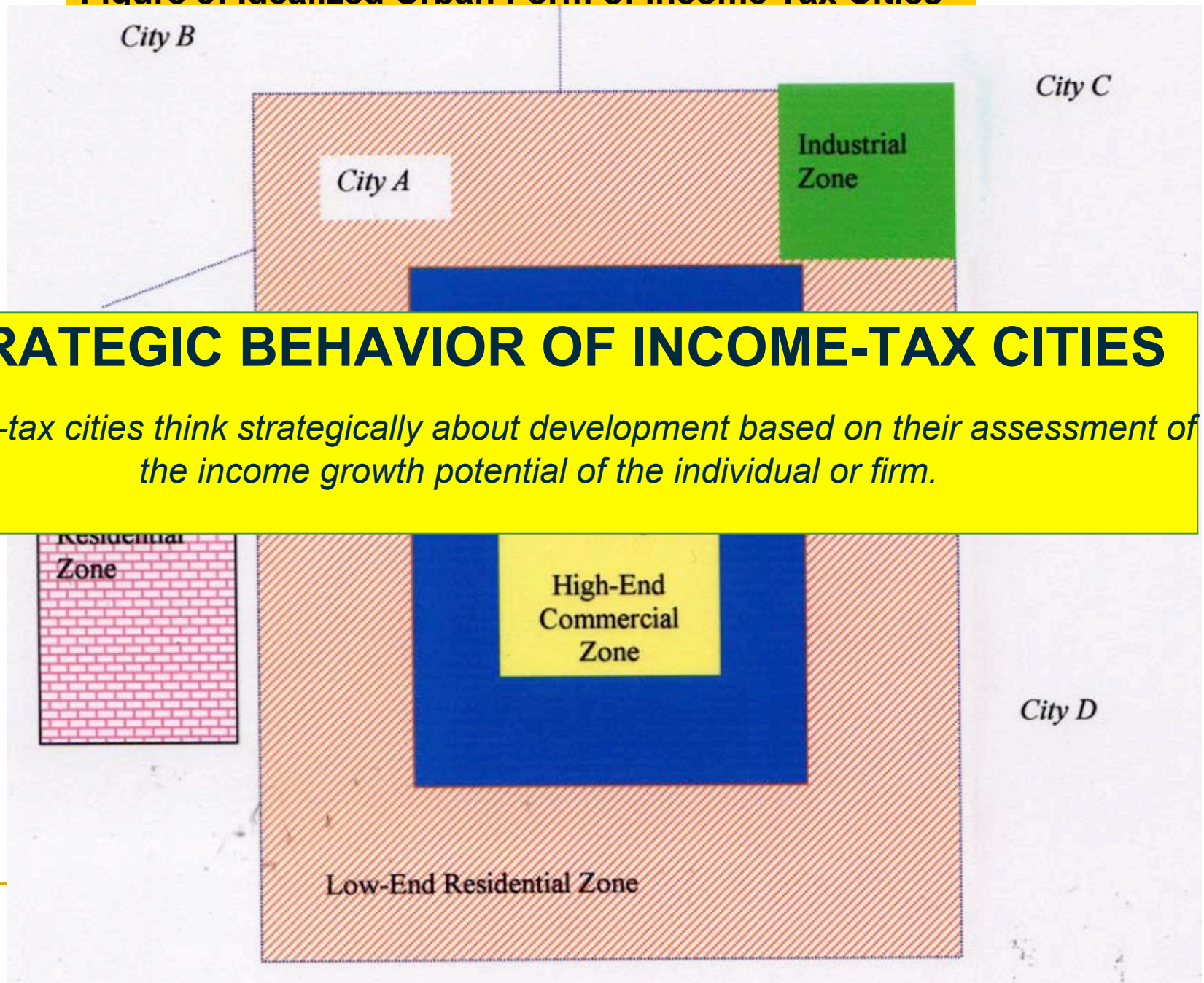


Figure 3: Idealized Urban Form of Income Tax Cities



STRATEGIC BEHAVIOR OF INCOME-TAX CITIES

Income-tax cities think strategically about development based on their assessment of the income growth potential of the individual or firm.

Figure 4: Idealized Urban Form of Site-Value Tax Cities

City A

Commercial

STRATEGIC BEHAVIOR OF SITE-VALUE TAX CITIES

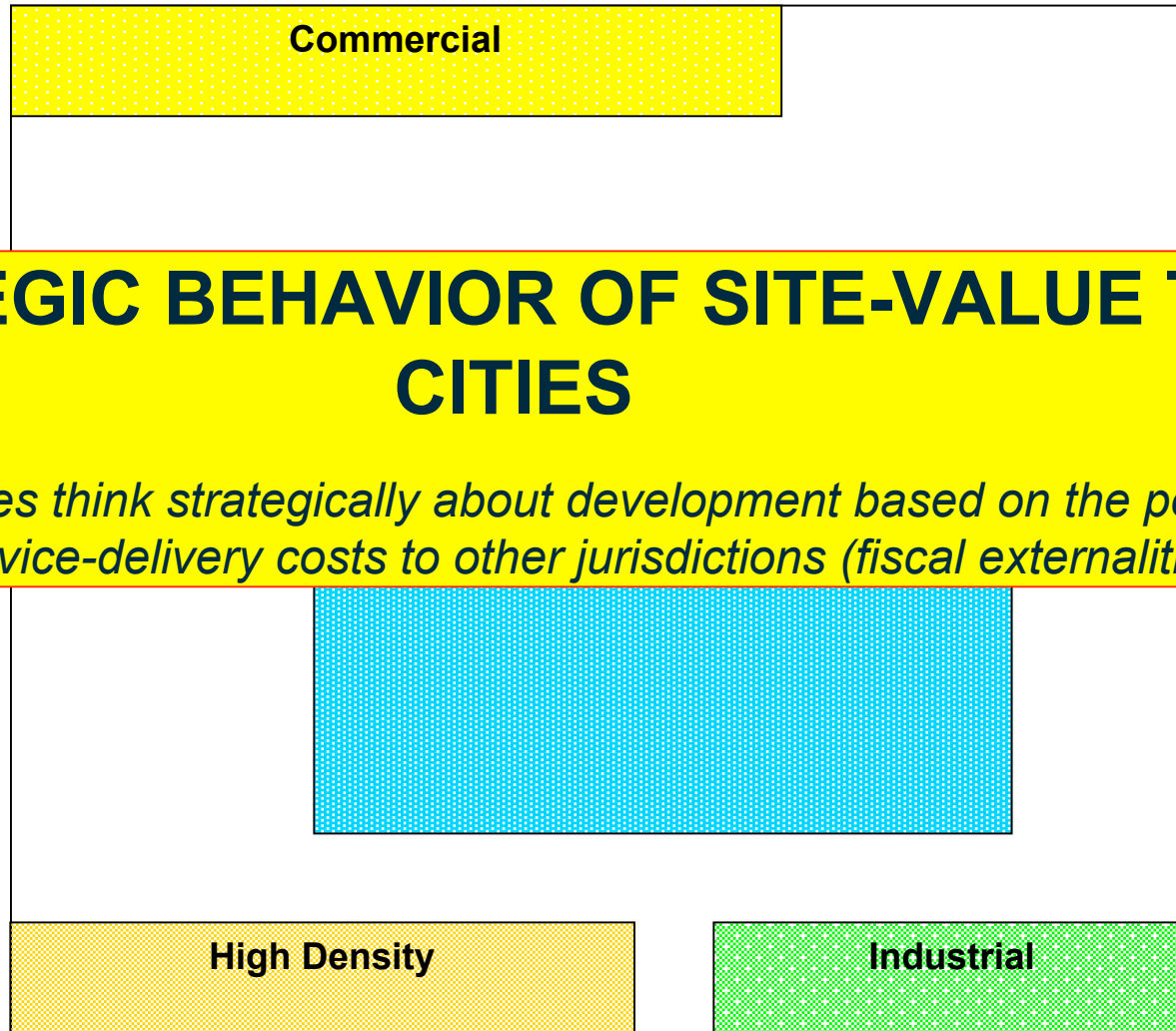
Site-value-tax cities think strategically about development based on the possibility of shifting service-delivery costs to other jurisdictions (fiscal externalities).

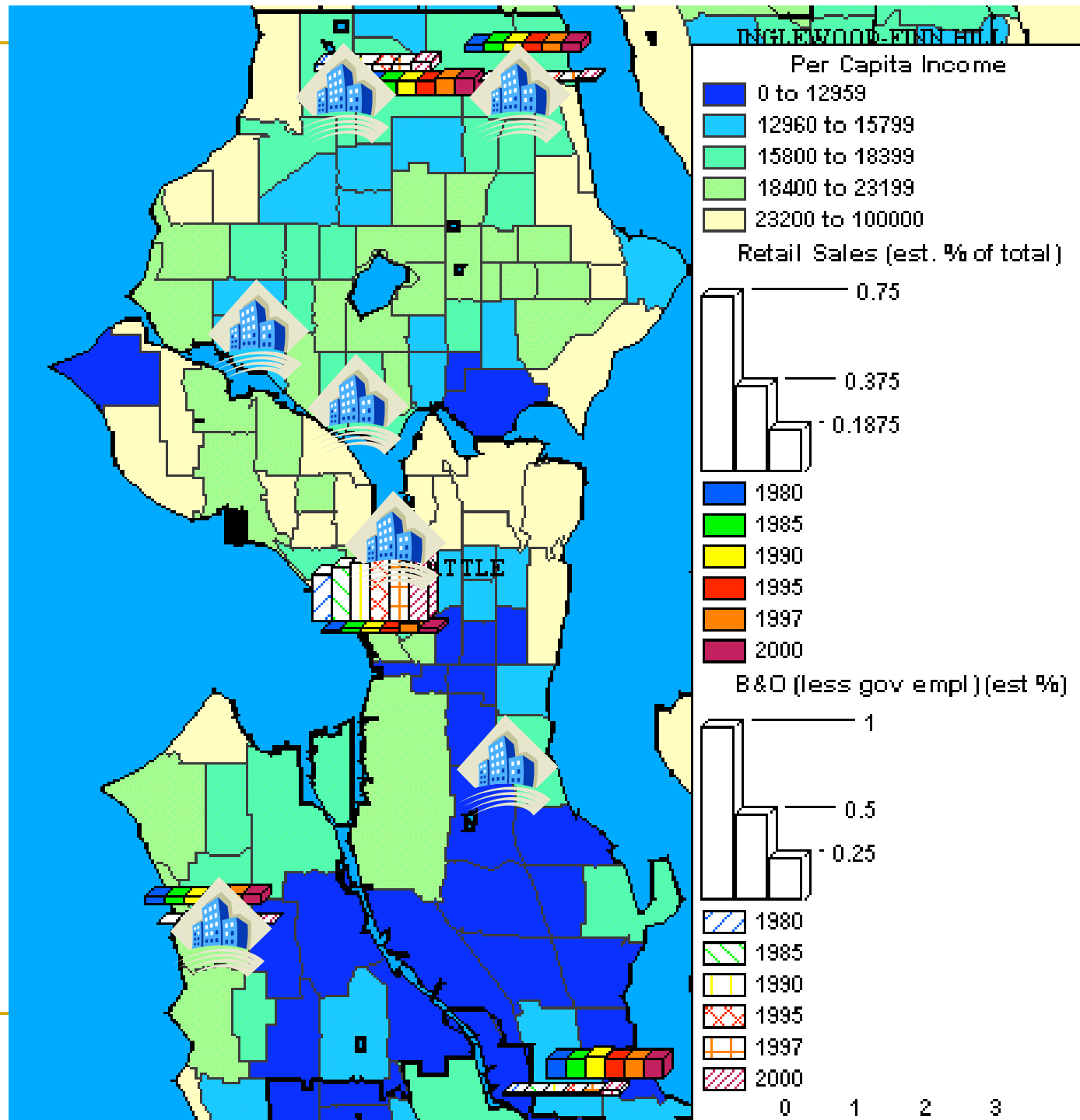
High Density

Industrial

City B

City C





Policy Questions?

1. Sprawl and transportation.

Low density growth is caused by numerous factors (e.g., transportation and land costs), but might sprawl also be encouraged because of cities' pursuit of revenues. For example, if sprawl is an outgrowth of sales-tax cities' demand for resources, would a different revenue mix curb or diminish sprawl?

2. **Regional cooperation.**

Do revenue structures influence cooperative behavior among local governments? What immediate gains to a municipality with undeveloped land near it would cooperation with a neighboring municipality generate? Unless forced by the state to adopt a cooperative face, the revenue logic of cities, especially sales-tax cities, might discourage cooperation.

3. Revenue Structures and Land Use.

If land use/zoning follows the logic of spatialization of revenue structures, how could zoning and land use change with the introduction of a different revenue system?

Topics to cover

- City fiscal conditions
 - Housing finance and foreclosures – local impacts and responses
 - Revenue structure and spatialization
 - **The outlook for the future**
-

Outlook for the Future

- City tax bases and revenue will continue to decline through 2011
 - Real estate market will be slow to recover
 - Consumer spending and wages also down
 - Inflationary/cost pressures will continue
 - Energy-related and employee costs
 - Unlikely aid from federal and state levels
 - Cities will tap into ending balances/reserves
 - Public concern will limit options
-

For more information...

Chris Hoene

Director, Policy and Research
National League of Cities
1301 Pennsylvania Avenue, NW
Washington, DC 20004
(202) 626-3172 ph.
(202) 626-3043 fax
Hoene@NLC.org

Michael A. Pagano

Dean, College of Urban Planning
and Public Affairs
University of Illinois at Chicago
412 South Peoria St. (MC 350)
Chicago, IL 60607-7064
(312) 413-3375 ph.
(312) 413-8095 fax
MAPagano@uic.edu
