

City Fiscal Conditions

2016

An aerial photograph of a city skyline, featuring a prominent blue skyscraper under construction in the foreground. The building has a distinctive stepped top and is surrounded by other high-rise buildings. In the background, a large body of water is visible, along with a park area and a stadium. The image is overlaid with a blue grid pattern. A large blue diagonal shape is on the left side of the page, containing the title text. The year '2016' is written in large white numbers at the bottom left.

About the National League of Cities

The National League of Cities (NLC) is the nation's leading advocacy organization devoted to strengthening and promoting cities as centers of opportunity, leadership and governance. Through its membership and partnerships with state municipal leagues, NLC serves as a resource and advocate for more than 19,000 cities and towns and more than 218 million Americans. NLC's Center for City Solutions and Applied Research provides research and analysis on key topics and trends important to cities, creative solutions to improve the quality of life in communities, inspiration and ideas for local officials to use in tackling tough issues, and opportunities for city leaders to connect with peers, share experiences, and learn about innovative approaches in cities.

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Acknowledgements

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City Fiscal Conditions 2016

Table of Contents

- 1** Executive Summary
- 2** Meeting Fiscal Needs
- 6** Revenue and Spending Trends
- 10** Tax Revenues
- 15** Fiscal Policy Actions
- 16** Ending Balances and Fiscal Planning
- 19** Beyond 2016

In the wake of a slow recovery, the fiscal condition of U.S. cities is strengthening. The nation's city finance officers widely report improved fiscal health, driven by better-than-anticipated General Fund revenue growth and solid performance of ending balances.

Each year, the National League of Cities surveys city finance officers about actual and budgeted revenues and expenditures as well as policy actions and priorities. Taken together, their responses provide a snapshot of the “average city” within the municipal sector.



Executive Summary

This year's City Fiscal Conditions survey finds that:

- **General Fund revenues** grew 3.73% in 2015, and are expected to grow 0.54% as cities close the books on 2016. **Expenditures** grew 3.57% in 2015 and are budgeted to increase 3.71% in 2016.
- **Property tax revenue** growth is returning to pre-recession levels, with a sizable increase of 3.77% in 2015 and anticipated growth of 2.60% in 2016.
- **Sales tax revenues** are continuing to post strong growth, with 5.49% in 2015 and 1.99% expected in 2016.
- Despite post-recession volatility, **income tax revenues** grew 5.82% in 2015 and are expected to grow 3.47% in 2016.
- **Ending balances** are returning to historic highs, standing at 24.48% of General Fund expenditures in 2015 and budgeted for 21.67% of expenditures in 2016.

Despite improved fiscal stability for day-to-day operations, local budgets continue to confront mounting challenges. Infrastructure and employee- and retiree-related costs, matched with inequitable recovery in some local housing and labor markets, threaten longer-term fiscal sustainability. These concerns are foremost on the minds of city leaders, some of whom are implementing pension reforms and leveraging fiscal planning tools.

These strategies are particularly important given that city revenues have not fully recovered from the Great Recession. As a result, many may be operating with suppressed revenues when and if another recession emerges in the coming years. For now, though, city fiscal conditions are showing signs of vitality, with local governments reinvesting in areas critical to growth and community quality of life including infrastructure and public safety.

What is the City Fiscal Conditions Survey?

The City Fiscal Conditions Survey is a national survey of finance officers in U.S. cities conducted in the spring-summer of each year. This is the 31st annual edition of the NLC survey, which began in 1986.

Meeting Fiscal Needs



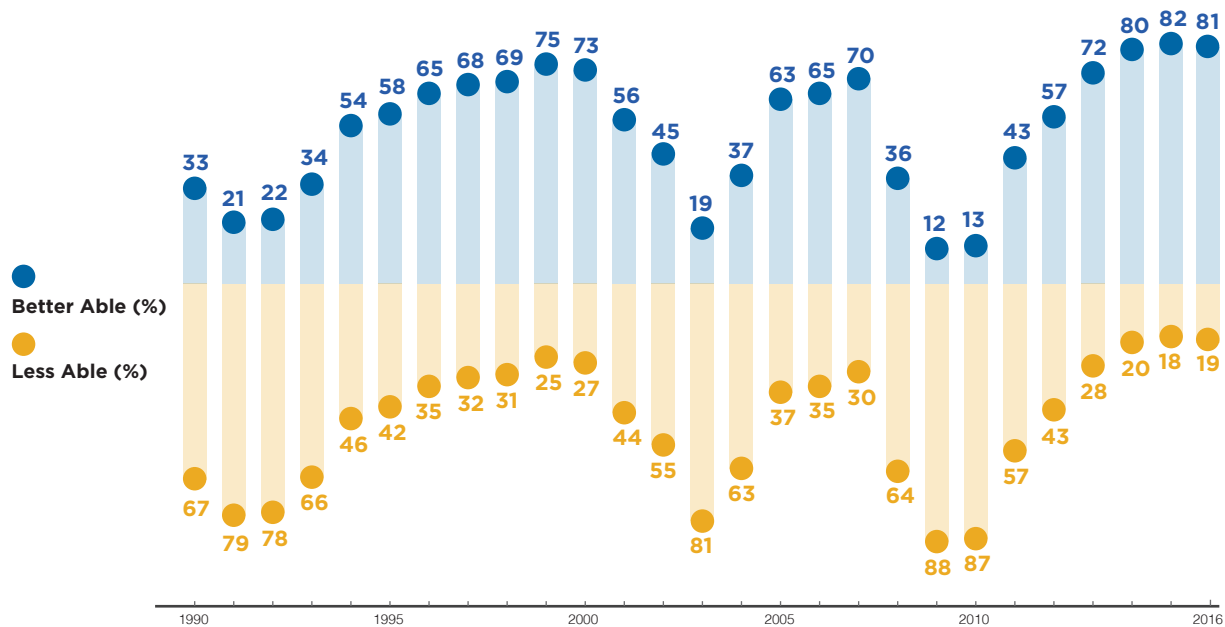
City finance officers are confident that cities are in a better fiscal position this year than last. Eighty-one percent of city finance officers report that their cities are better able to meet the financial needs of their communities in 2016 than in 2015 (see Figure 1).¹ This level of optimism among finance officers is similar to last year, indicative of continuing fiscal recovery in cities.

A number of factors combine to impact the ability of cities to meet their fiscal needs.

A number of factors combine to impact the ability of cities to meet their fiscal needs. Each year, the survey presents city finance directors with a list of factors that determine revenue performance, spending levels, and the overall fiscal

condition of cities.² Respondents are asked whether each of these factors increased or decreased from the previous year, and which three factors had the most positive and negative influence on the city's overall fiscal picture.

Figure 1 Percent of Cities “Better Able/Less Able” to Meet Financial Needs



Trending with last year, the factors most widely reported to have decreased are gas and oil prices (63%), state aid (27%), and federal aid (26%) (**see Figure 2**).

The factors most often cited as having increased during the past year are employee wages and salaries (94%), infrastructure needs (88%), and prices, inflation, or costs of services (86%).

When asked about the most impactful factors on their budgets, the value of the local tax base (60%), health of the local economy (52%), and gas and oil prices (30%) have the greatest positive influences. Infrastructure needs (42%), retiree health benefit costs (36%), and employee and employee wages and salary (32%) weigh most negatively on city budgets (**see Figure 3**). Public safety (31%) and pension (30%) expenditures are also significant negative factors.

These issues are not new to cities, but the confluence of a slow recovery and growing need are exacerbating the impact of these challenges on local budgets. In the area of infrastructure, underfunding maintenance has reached critical proportions. The need for new and expanded infrastructure is also growing as residents and businesses move back to cities.

Although borrowing costs are quite low for most municipalities, the repayment schedule often means that debt repayment competes with basic operating needs of a city.³ The long-term economic and community growth potentials of cities could be compromised should cities and other partners not address the infrastructure crisis soon.

During the recession, spending on employee wages – both wage levels and total municipal employment – declined sharply. Local job losses were felt most heavily in public safety, public works, public health, social services and parks and recreation.⁴ As noted by finance officers, cities are increasing expenditures on employee wages and salary, most notably in the area of public safety. Cities have led public sector job recovery – but, despite gains, municipal employment remains more than 88,500 jobs below its post-recession peak (December 2008) of 6.5 million jobs, according to the Bureau of Labor Statistics.

In addition to expenditures related to current employees, retiree health benefits and pensions rank among top budgetary stressors. Interestingly, health benefits and other post-employment benefits (OPEBs) only comprise about 1.5 percent of operating revenues for many local governments.⁵ However, the rising costs of claims and prescription drugs combined with an aging workforce are adding budgetary pressures.⁶

For pensions, the portion of combined state and local government spending dedicated to retirement system contributions is only about 4%.⁷ The funding levels and the extent of pension challenges, however, varies considerably from city to city based on their underlying economy, tax capacity, state fiscal health, and availability of policy choices.

Figure 2 Change in Selected Factors

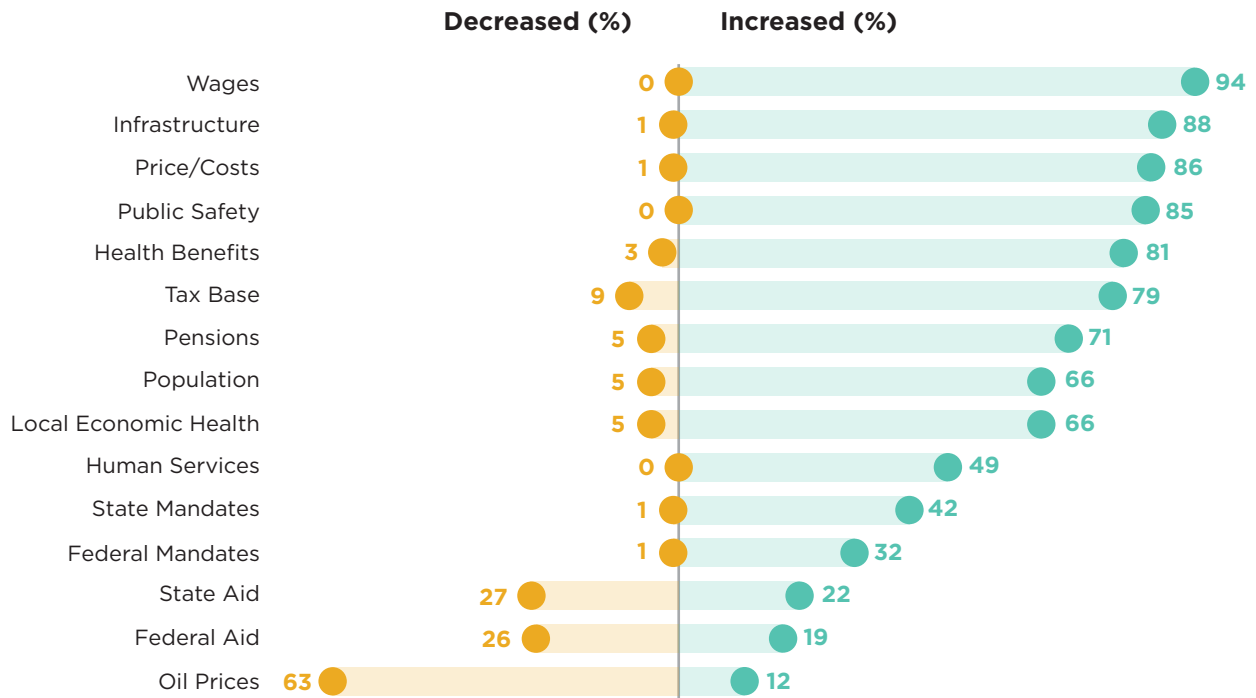
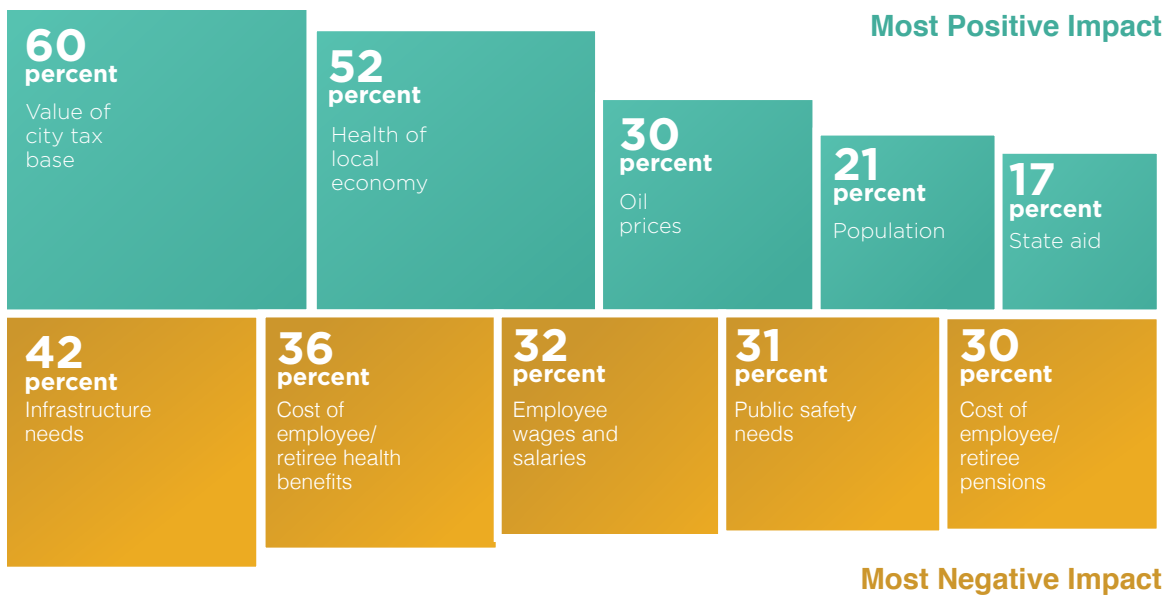


Figure 3 Most Positive and Negative Factors



Revenue and Spending Trends



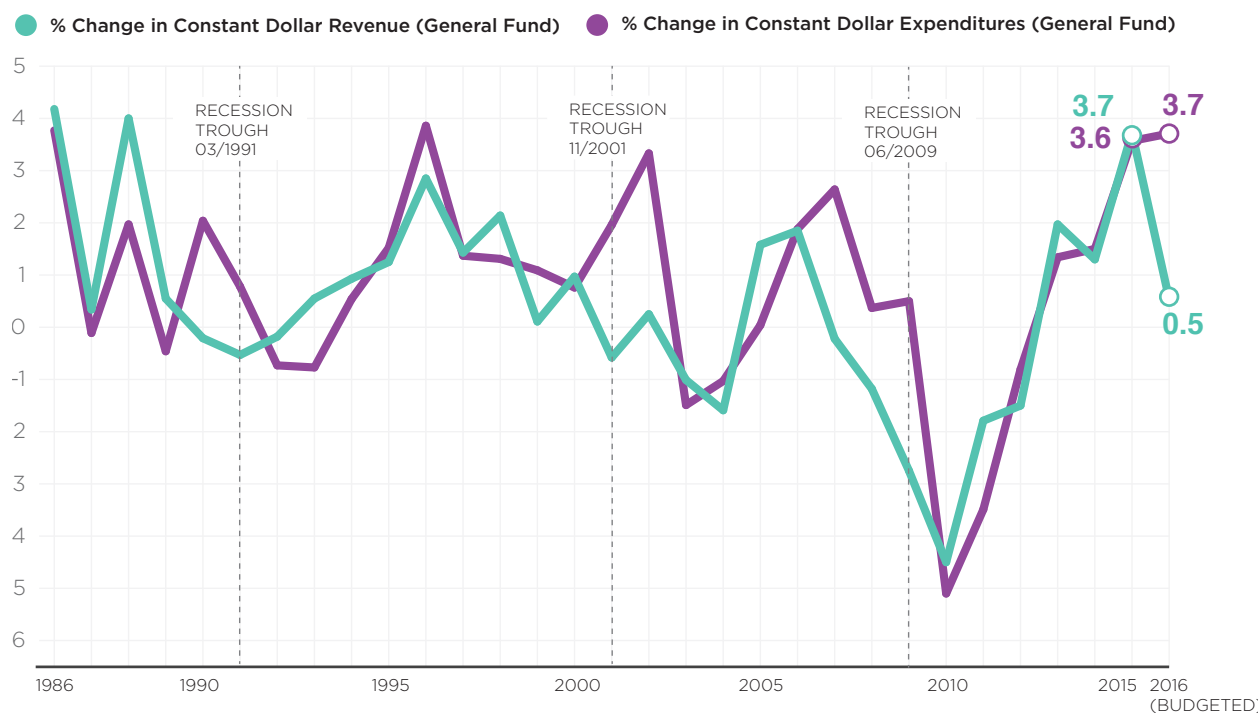
Each year, we ask city finance officers to provide information about the portion of their city’s budget referred to as the General Fund. General Fund revenues are derived from property and other taxes, user fees, and shared revenues. Given these sources, the changes in General Fund revenues tend to reflect the changing economic and fiscal environment within which cities operate.

Additionally, the General Fund provides funding to cities’ general operations and constitutes more than 55% of total city spending. General Fund expenditures are mostly discretionary and can be allocated to services such as police, fire, trash pick-up, or economic development as city leaders see fit.

The changes in General Fund revenues tend to reflect the changing economic and fiscal environment within which cities operate.

In constant dollars (adjusted to account for inflationary factors in the state-local sector), General Fund revenues grew 3.73% in 2015 over 2014 (**see Figure 4**).⁸ Revenues are expected to continue to grow 0.54% in 2016.⁹ Expenditures experienced growth in 2015 as well,

Figure 4 Year-to-Year Change in General Fund Revenue and Expenditures

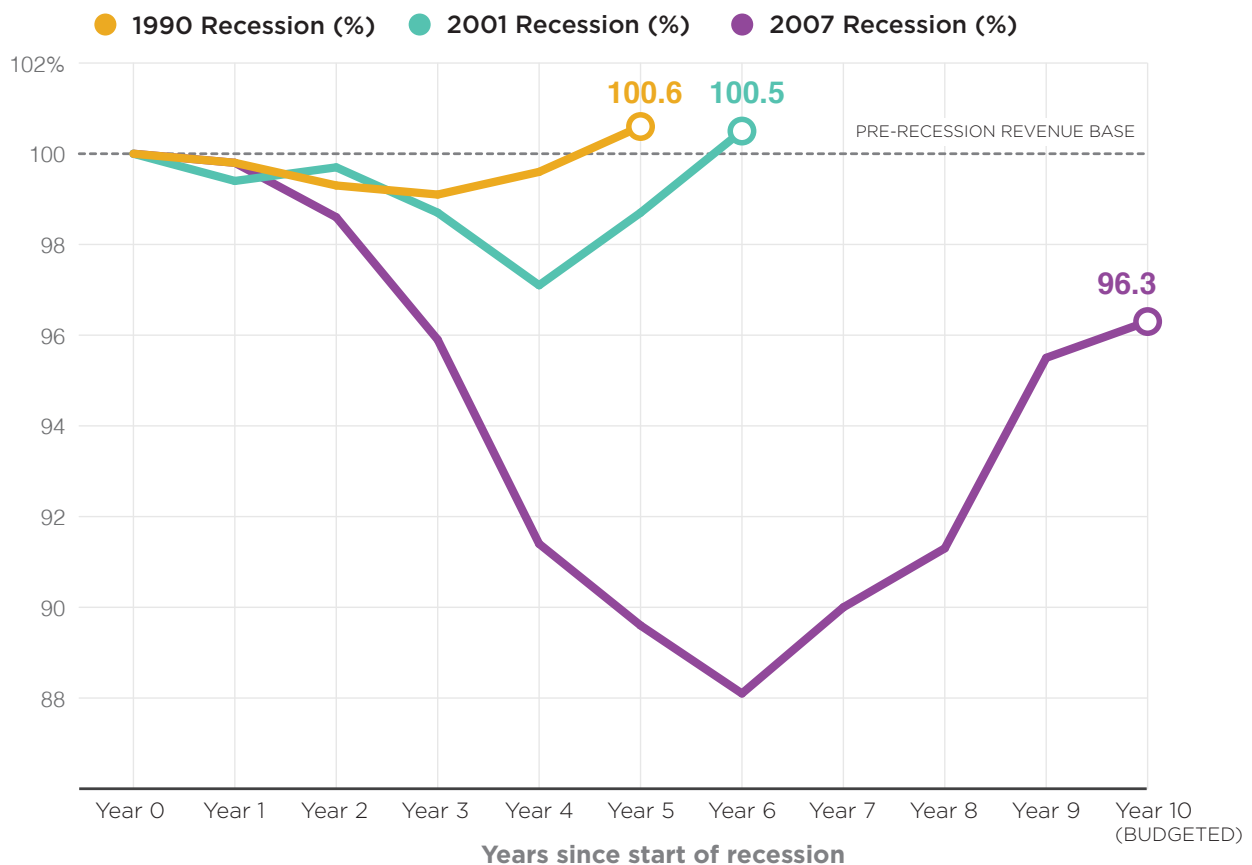


increasing 3.57% over 2014. City spending levels are projected to grow by 3.71% as cities close the books on 2016.

Taking a closer look at revenue behavior during the current business cycle, city revenues registered declines for six consecutive years following the recession (see **Figure 5**). As of 2016, revenues have recovered to about 96% of pre-recession (2006) levels.¹⁰

When compared to the 1990 and 2001 recessions, it becomes clear that the fiscal impacts from the most recent recession are much more substantial than in years prior, both in terms of depth and duration. During the 1990 recession, cities experienced three years of decline, recovering to pre-recession revenue levels in less than two years. During the 2001 recession, cities experienced revenue decline and volatility for four years, but fully recovered in two.

Figure 5 General Fund Revenue Recovery During Recent Recessions



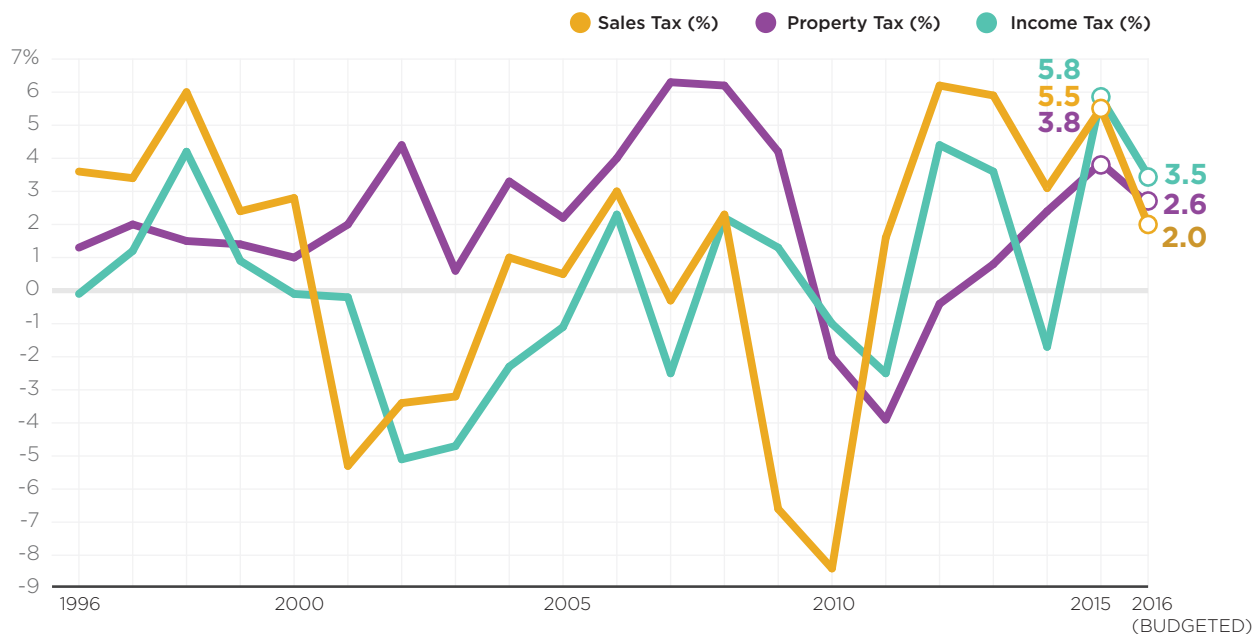
Tax Revenues



Understanding the performance of key tax sources and their connections to economic conditions helps explain the forces behind city revenue behavior. The fiscal condition of individual cities varies depending on local tax structure and revenue reliance.¹¹ While nearly all cities have access to a local property tax, more than half are also authorized to collect local sales taxes, and some cities (fewer than 10% nationally) are authorized to collect local income or wage taxes. Cities with a stronger mix of revenue sources are better able to buffer against economic downturns and to capture revenue growth during periods of economic expansion.¹²

Cities with a stronger mix of revenue sources are better able to buffer against economic downturns and to capture revenue growth during periods of economic expansion.

Figure 6 Year-to-Year Change in General Tax Receipts



Property Taxes. Local property tax revenues are driven by the value of residential and commercial property, with property tax bills determined by local governments' assessment of the value of property. Property tax revenues are considered more inelastic or less responsive to economic changes because it typically takes deeper, longer-term economic shifts to impact housing values and assessment practices are such that property owners are billed today for the value of housing from two or more years ago.

Additionally, property tax assessment cycles vary across jurisdictions; some reassess property annually, while others reassess every few years. Consequently,

Due to this lag, the sharp drop in the real estate market that set the Great Recession into motion did not hit property tax rolls until 2010. Cities faced several years of declining property tax revenues following 2010 even though real estate markets across the country had already begun to stabilize. The property market has improved in recent years, driven largely by increases in existing home prices. Low inventory and new construction, however, pose challenges to housing affordability and create broader economic and fiscal uncertainty.¹³

In 2015, property tax revenue growth returned to pre-recession levels of growth with a sizable increase of 3.77%, and is

Current property tax bills and property tax collections typically reflect the value of a property anywhere from 18 months to several years prior to collection.

property tax collections, as reflected in property tax assessments, lag behind economic changes (both positive and negative). As a result, current property tax bills and property tax collections typically reflect the value of a property anywhere from 18 months to several years prior to collection (for more on the lag which takes place between economic changes and city revenues, **see page 20**).

anticipated to grow 2.60% in 2016 (**see Figure 6**).

Sales Taxes. Sales taxes are considered more elastic than property taxes because consumer sales are generally quicker to respond to economic shifts. When consumer confidence is high, people spend more on goods and services, and city governments with sales-tax authority

reap the benefits through increases in sales tax collections.

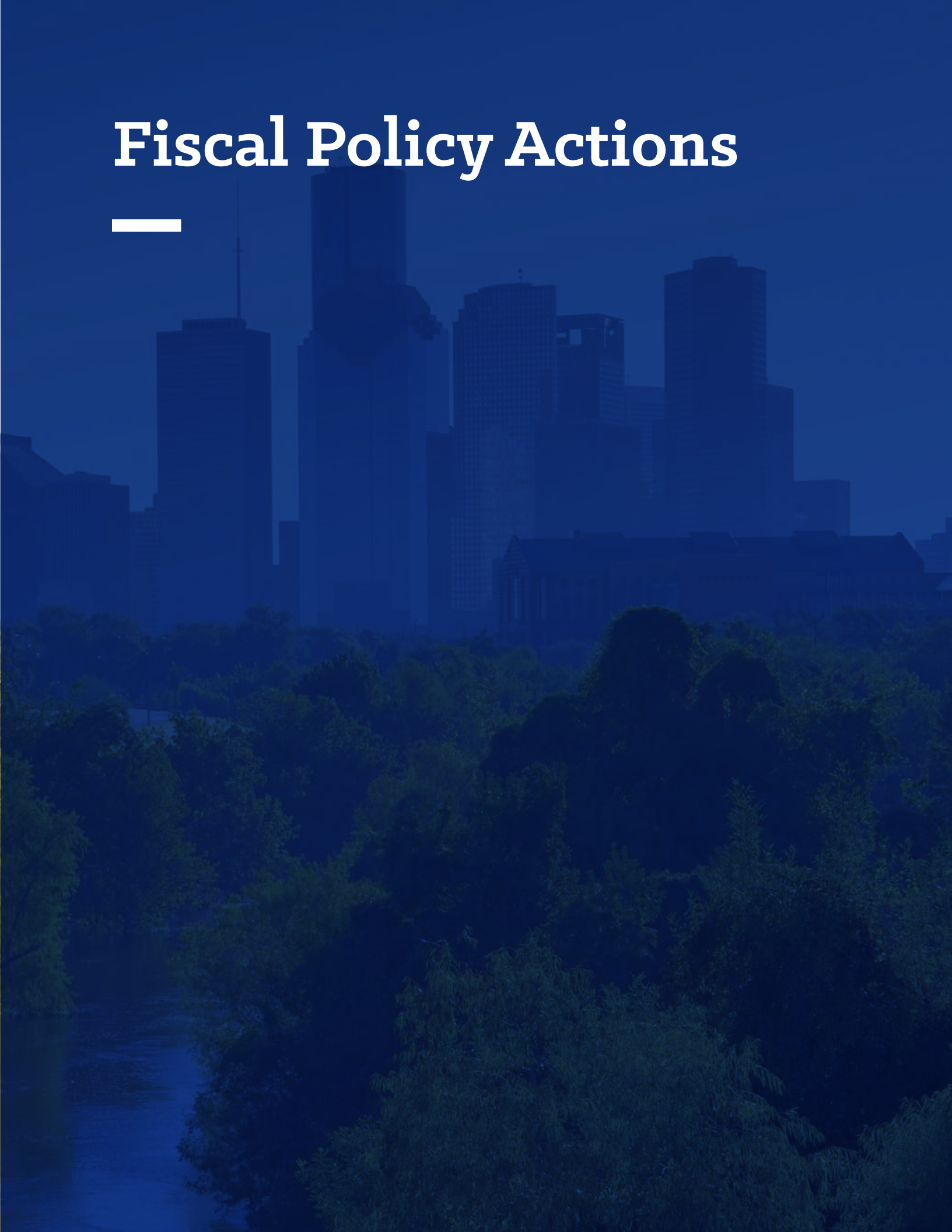
For many years prior to the recession, consumer spending was fueled by a strong real estate market that provided additional wealth to homeowners. The struggling economy and declining real estate market reduced consumer wealth and confidence, resulting in less consumer spending and declining sales tax revenue.

Recent job growth has improved consumer confidence in the broader economy, and this trend is reflected in strong local sales tax revenue growth. In 2015, sales tax revenues grew 5.49%, and are budgeted to grow 1.99% in 2016.

Income Taxes. Local income tax revenues are driven primarily by income and wages (not by capital gains). Like sales taxes, income taxes are a more elastic source of revenue because personal incomes respond more quickly to local economic circumstances.

Median household income grew in 2015 for the first time since the recession.¹⁴ National unemployment and poverty rates also continue to improve – trends that are bolstering income tax revenues. Income tax receipts grew 5.82% in 2015 and are expected to grow 3.47% in 2016. Despite these improvements, slow employment and wage growth, widening income inequality, and a lack of expansion of middle income jobs continue to contribute to the general volatility and uncertainty of this tax source.

Fiscal Policy Actions



Most cities are required to balance their budgets on an annual basis. This means that they are actively adjusting revenues and expenditures throughout the year. To better understand these fiscal policy responses, we asked city finance officers about specific revenue and spending actions taken in 2016.

As has been the case for much of the past two decades, regardless of the state of national, regional, or local economies, the most common action taken to boost city revenues has been to increase fees charged for services. Two in five (41%) city finance officers report that their city has raised fee levels (**see Figure 7**). In the past year, approximately one in five cities increased the number of fees that are applied to city services (20%).

Twenty-two percent of cities increased local property tax rates in 2016. Since the mid-1990s, irrespective of economic conditions, the percentage of city finance officers reporting increases in property taxes in any given year has been reported at about this same level, reflecting state- and voter-imposed restrictions on local property tax authority as well as the political challenges of raising property tax rates. Increases in sales, income, or other types of tax rates are even less common, and this has continued to be the case in 2016.

When asked about expenditure actions taken in 2016, most cities increased employee wages (84%), public safety expenditures (79%), and infrastructure spending (71%) (**see Figure 8**).

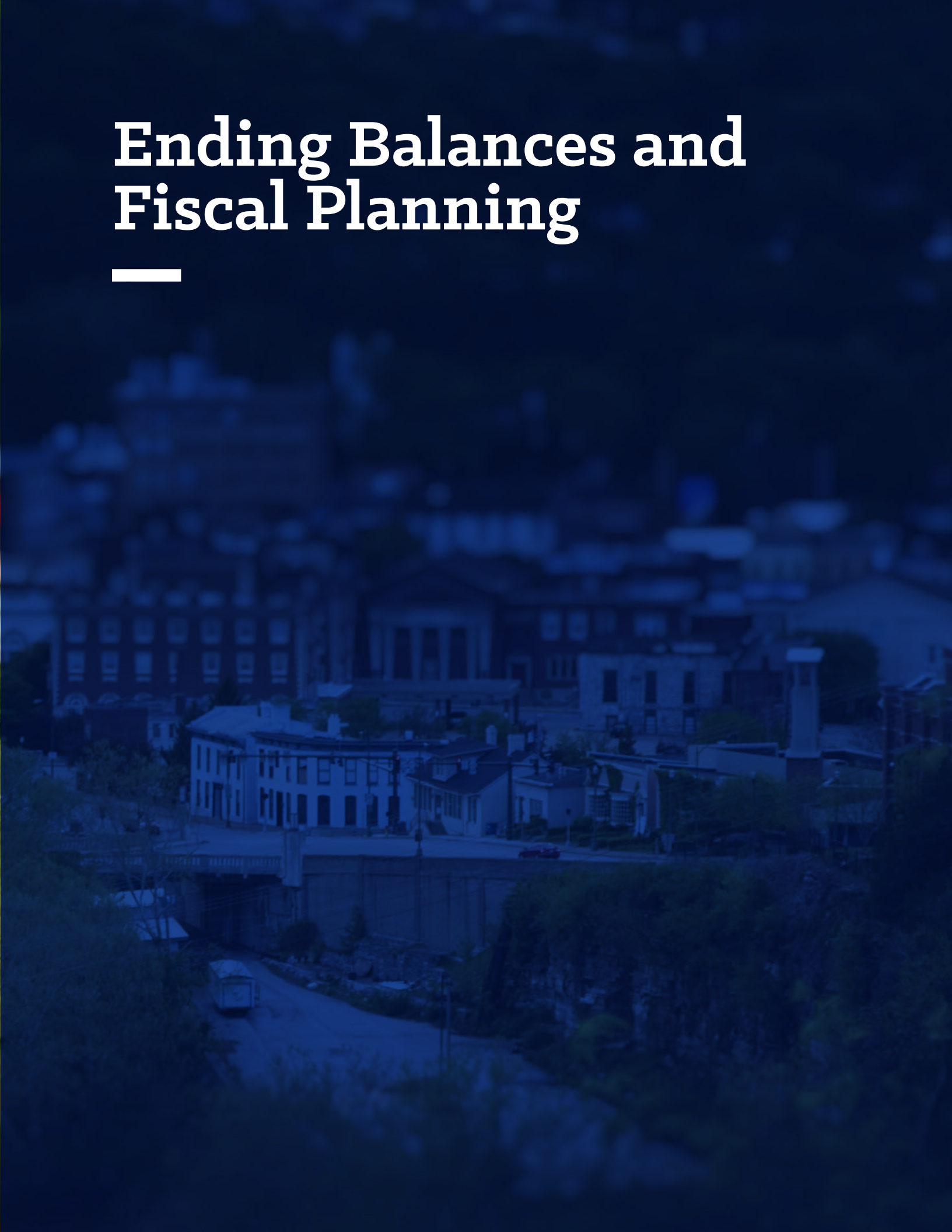
Figure 7 City Revenue Actions

	Decrease	Increase
Fee Levels	1%	41%
Property Tax Rate	10	22
Level of Impact Fees	2	20
Number of Fees	1	20
Other Tax Rate	1	9
Sales Tax Rate	1	6
Tax Base	4	6
# of Other Taxes	1	4
Income Tax Rate	1	1

Figure 8 City Spending Actions

	Decrease	Increase
Wages	1%	84%
Public Safety	1	79
Infrastructure	7	71
Capital Projects	8	63
Workforce	7	50
Other City Services	3	45
Health Benefits	6	38
Pension Benefits	5	32
Human Services	1	31
Contracting	1	15
Education	4	14
Interlocal	1	12

Ending Balances and Fiscal Planning



One way that cities prepare for economic downturns is to maintain adequate levels of General Fund ending balances. Ending balances are similar to reserves, or what might be thought of as cities' equivalents to "rainy day funds" in that they provide a financial cushion for cities in the event of a fiscal downturn or the need for an unforeseen outlay. However, unlike states' reserves or "rainy day funds," there is no trigger mechanism, such as an increase in unemployment, to force release of the funds – instead, reserves are available for spending at any time or for saving for a specific purpose.

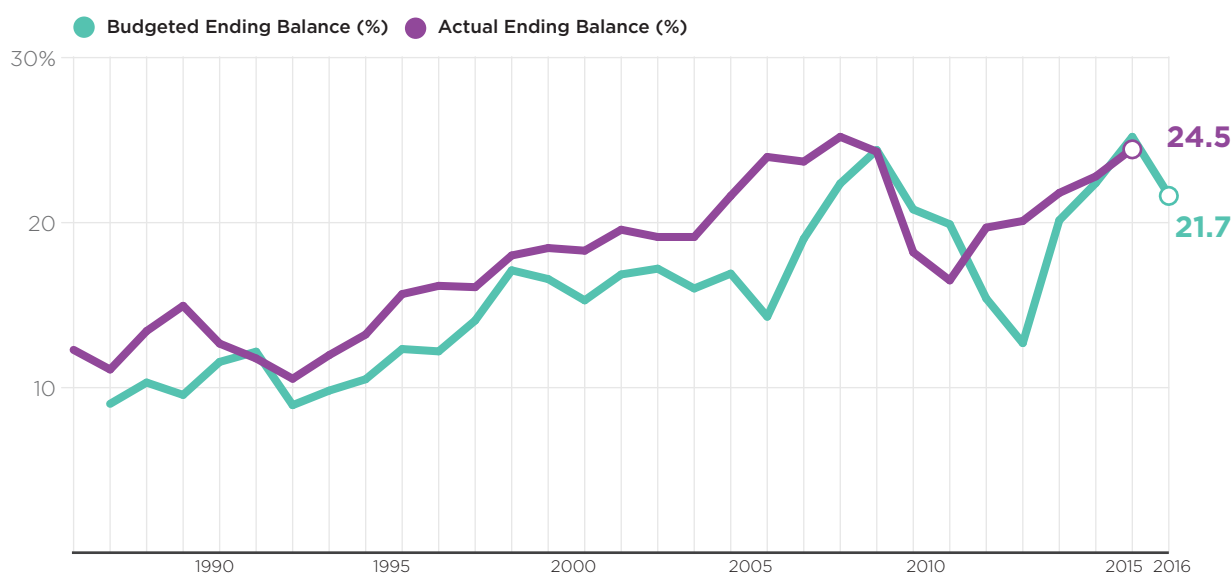
City ending balances, which are transferred forward to the next fiscal year in most cases, are maintained for many reasons. For example, cities build up healthy balances in anticipation of unpredictable events such as natural

One way that cities prepare for economic downturns is to maintain adequate levels of General Fund ending balances.

disasters and economic downturns. But ending balances are also built up for specific purposes, much like a personal savings account, to set aside funds for planned events such as construction of capital projects.

Bond underwriters also look at reserves as an indicator of fiscal responsibility, which can increase credit ratings and decrease the costs of city debt, thereby

Figure 9 Ending Balances as a Percentage of General Fund Expenditures



saving a city money in annual debt service costs. Finally, as federal and state aid to cities has become a smaller proportion of city revenues over time, cities have become more self-reliant and are much more likely to set aside funds for emergencies or other purposes.

Prior to the recession, as city finances experienced sustained growth, city ending balances as a percentage of General Fund expenditures reached a historical high (since the NLC survey was first administered) of 25%. However, as economic conditions made balancing city budgets more difficult, ending balances were increasingly utilized to fill the gap (see **Figure 9**).¹⁵

Ending balances neared historic highs, at 24.48% of General Fund expenditures in 2015 and budgeted for 21.67% of expenditures in 2016. A city's strategy to grow ending balances must also be weighed with potential forgone expenditures. The growth of ending balances does signal, however, the desire of cities to be more prepared for future fiscal downturns and the recognition that key tax revenues, along with state and federal aid, have become less reliable. Additional ways cities are planning for future downturns are through comprehensive stress tests (14.8%), revenue stress tests (8.6%), and other planning techniques such as multi-year plans (36.4%).

Beyond 2016

In 2016, stronger city revenues are building the capacity of cities to deliver critical services and improve quality of life. This trajectory of growth, however, is threatened by number of persistent concerns:

- The recovery dynamics of the real estate market, namely low inventory paired with rising prices, are depleting stocks of affordable housing throughout the country. This will lead not only to uncertainty regarding property tax collections, but as workers move further from job centers to find more affordable housing, entire regional economies will be threatened;
- The prolonged effects of slow and inequitable growth of employment and wages will weigh heavily on future city income tax revenues and sales tax receipts; and
- As cities move to shore up healthcare and pension liabilities, the additional expenditures required in their General Funds will compete for scarce resources with other city services, confronting city leaders with difficult choices among employee and retiree benefits, city service levels, and raising new revenues.

These concerns are foremost on the minds of city leaders, some of whom are implementing pension reforms and leveraging fiscal planning tools. These strategies are particularly important given that city revenues have not fully recovered from the Great Recession. As a result, many may be operating with suppressed revenues when and if another recession emerges in the coming years. For now, though, city fiscal conditions are showing signs of vitality, with local governments reinvesting in areas critical to growth and community quality of life including infrastructure and public safety.

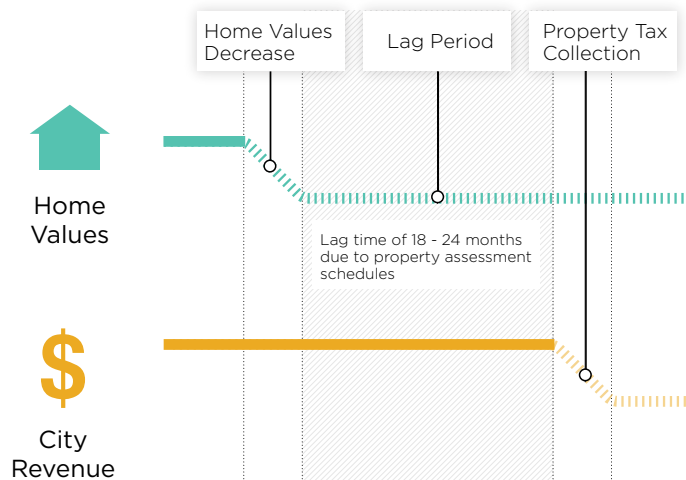
The Lag Between Economic & City Fiscal Conditions

We often refer to the lag between changes in the economic cycle and the impact on city fiscal conditions.

What does this mean? The lag refers to the amount of time between the point when economic conditions change and the point when those conditions have an impact on reported city revenue collections. In fact, cities likely feel the impacts of changing economic conditions quite early. However, because reporting of city fiscal conditions occurs in most cases on an annual basis, whether through annual budget reporting or NLC’s annual survey, those impacts tend to not become evident until some point after the changes have started to occur.

How long is the lag? The lag is typically anywhere from 18 months to several years, and it is related in large part to the timing of property tax collections. Property tax bills represent the value of the property in some previous year, when the last assessment of the value of the property was conducted. A downturn in real estate prices may not be noticed for one to several years after the downturn began, because property tax assessment cycles vary across jurisdictions; some reassess property annually, while others reassess every few years. Consequently,

Lag Between Economic and City Fiscal Conditions



property tax collections, as reflected in property tax assessments, lag behind economic changes (both positive and negative) by some period of time. Sales and income tax collections also exhibit lags due to collection and administration issues, but typically no more than a few months.

Figure 4 shows year-to-year change in city general fund revenues and expenditures, and includes markers for the official U.S. recessions from 1991, 2001 and 2007, with low points, or “troughs,” occurring in March 1991, November 2001 and June 2009, respectively, according to the National Bureau of Economic Research (NBER). Comparing the dates of the recessions to the low point of city revenue and expenditures as reported in NLC’s annual survey (typically conducted

between April and June of every year), the low point for city revenues and expenditures after the 1991 recession occurred in 1993, approximately two years after the trough of the U.S. economic recession (March 1991 to March 1993). After the 2001 recession, the low point for city revenues and expenditures occurred in 2003, approximately 18 months after the trough of the U.S. economic recession (November 2001-April 2003). Our reporting on this lag is dependent upon when the annual NLC survey is conducted, meaning that there is some degree of error in the length of the lag – for instance, had the survey been conducted in November of 1992, rather than April of 1993, we might have seen the effects of changing economic conditions earlier. Nevertheless, the evidence suggests that the effects of changing economic conditions tend to take 18-24 months to be reflected in city budgets.

About the Survey

The City Fiscal Conditions Survey is a national email survey of finance officers in U.S. cities conducted annually from May to July. Surveys were emailed to city finance officers for a sample of 1046 cities with populations greater than 10,000, asking for their assessments of fiscal status, actions taken, and factors affecting their fiscal conditions. Budget and finance data were also requested in the survey from all cities with the exception of the 100 largest cities by population. Budget and finance data from those cities were collected directly from online city budget documents. In total, the 2016 data are drawn from 277 cities, for a response rate of 27 percent. The data allow for generalizations about the fiscal condition of cities.


The number and scope of governmental functions influence both revenues and expenditures. For example, many Northeastern cities are responsible not only for general government functions but also for public education. Some cities are required by their states to assume more social welfare responsibilities than other cities. Some assume traditional county functions.

Cities also vary according to their revenue-generating authority. Some states, notably Kentucky, Michigan, Ohio and Pennsylvania, allow their cities to tax earnings and income. Other cities, notably those in Colorado, Louisiana, New Mexico

Categories	Survey Responses	%
TOTAL	277	100
Population		
>300,000	55	20
100,000-299,999	86	31
50,000-99,999	80	29
10,000-49,999	56	20

and Oklahoma, depend heavily on sales tax revenues. Moreover, state laws may require cities to account for funds in a manner that varies from state to state. Therefore, much of the statistical data presented here must also be understood within the context of cross-state variation in tax authority, functional responsibility, and state laws. City taxing authority, functional responsibility, and accounting systems vary across the states.¹⁶

When we report on fiscal data such as General Fund revenues and expenditures, we are referring to all responding cities' aggregated fiscal data included in the survey. As a consequence, the data is influenced by the relatively larger cities that have larger budgets and that deliver services to a preponderance of the nation's cities' residents. When asking for fiscal data, we ask city finance officers to provide information about the fiscal year for which they have most recently closed the books (and therefore have verified the final numbers), which we generally



refer to as FY 2015, and the budgeted (estimated) amounts for the current fiscal year (FY 2016).

When we report on non-fiscal data (such as finance officers' assessment of their ability to meet fiscal needs, fiscal actions taken, or factors affecting their budgets), we are referring to percentages of responses to a particular question on a one-response-per-city basis. Thus, the contribution of each city's response to these questions is weighted equally.

DATA TABLES

FIGURE 4: Year-to-Year Change in General Fund Revenue and Expenditures

Change in Constant Dollar Revenue (General Fund), Percent

1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
4.18%	0.34%	4%	0.55%	-0.21%	-0.53%	-0.18%	0.55%	0.93%	1.25%	2.85%	1.43%	2.14%	0.11%	0.97%	-0.58%
2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
0.25%	-1.01%	-1.59%	1.58%	1.85%	-0.22%	-1.18%	-2.75%	-4.50%	-1.79%	-1.50%	1.97%	1.30%	3.73%	0.54%	

Change in Constant Dollar Expenditures (General Fund), Percent

1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
3.77%	-0.11%	1.97%	-0.46%	2.04%	0.78%	-0.73%	-0.77%	0.54%	1.52%	3.86%	1.37%	1.31%	1.09%	0.76%	1.96%
2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
3.33%	-1.49%	-1.03%	0.04%	1.88%	2.64%	0.37%	0.50%	-5.10%	-3.49%	-0.81%	1.34%	1.50%	3.57%	3.71%	

FIGURE 5: General Fund Revenue Recovery During Recent Recessions

1990 Recession

Year 0	Year 1	Year 2	Year 3	Year 4	Year 5										
0	-0.21%	-0.74%	-0.92%	-0.37%	0.57%										

2001 Recession

Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6									
0	-0.58%	-0.34%	-1.34%	-2.93%	-1.35%	0.50%									

2007 Recession

Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10					
0	-0.22%	-1.40%	-4.14%	-8.64%	-10.43%	-11.93%	-9.96%	-8.73%	-4.46%	-3.66%					

FIGURE 6: Year-to-Year Change in General Tax Receipts

Sales Tax, Percent

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
3.6%	3.4%	6.0%	2.4%	2.8%	-5.3%	-3.4%	-3.2%	1.0%	0.5%	3.0%	-0.3%	2.3%	-6.6%	-8.4%
2011	2012	2013	2014	2015	2016									
1.6%	6.2%	5.9%	3.1%	5.5%	2.0%									

Income Tax, Percent

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
-0.1%	1.2%	4.2%	0.9%	-0.1%	-0.2%	-5.1%	-4.7%	-2.3%	-1.1%	2.3%	-2.5%	2.2%	1.3%	-1.0%
2011	2012	2013	2014	2015	2016									
-2.5%	4.4%	3.6%	-1.7%	5.8%	3.5%									

Property Tax, Percent

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1.3%	2.0%	1.5%	1.4%	1.0%	2.0%	4.4%	0.6%	3.3%	2.2%	4.0%	6.3%	6.2%	4.2%	-2.0%
2011	2012	2013	2014	2015	2016									
-3.9%	-0.4%	0.8%	2.4%	3.8%	2.6%									

DATA TABLES

FIGURE 9: Ending Balances as a Percent of General Fund Expenditures

Actual Ending Balance, Percent

1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
11.54%	12.29%	11.10%	13.43%	14.96%	12.67%	11.77%	10.54%	11.97%	13.22%	15.67%	16.17%	16.09%	18.01%	18.46%	18.30%
2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
19.57%	19.13%	19.13%	21.62%	23.98%	23.70%	25.20%	24.30%	18.20%	16.50%	19.70%	20.10%	21.80%	22.80%	24.48%	N/A

Budgeted Ending Balance, Percent

1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
N/A	N/A	9.02%	10.31%	9.56%	11.56%	12.18%	8.94%	9.82%	10.51%	12.34%	12.20%	14.07%	17.11%	16.58%	15.29%
2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
16.86%	17.21%	16.01%	16.91%	14.30%	19.02%	22.37%	24.40%	20.80%	19.90%	15.40%	12.70%	20.14%	22.40%	25.20%	21.67%

Endnotes

1 When asking for fiscal data, we ask city finance officers to provide information about the fiscal year for which they have most recently closed the books (and therefore have verified the final numbers), which we generally refer to as FY 2015, the year prior (FY 2014) and the budgeted (estimated) amounts for the current fiscal year (FY 2016).

2 The factors include: infrastructure needs/costs, public safety needs/costs, human service needs/costs, wages, pension costs, health benefit costs, prices and service costs, federal aid, state aid, federal mandates, state mandates, city population, city tax base, the health of the local economy, and gas and oil prices.

3 Darrell Preston, Bloomberg, September 13, 2016. Mega Deals Lead Ballot Measures as Infrastructure Makes Comeback. <http://www.bloomberg.com/news/articles/2016-09-13/mega-deals-lead-ballot-measures-as-infrastructure-makes-comeback>

4 National League of Cities, National Association of Counties and U.S. Conference of Mayors, July 2010. Local Governments Cutting Jobs and Services. <http://www.nlc.org/documents/Find%20City%20Solutions/Research%20Innovation/Finance/Local-governments-cutting-jobs-services-rpt-jul10.pdf>

5 Moody's Investor Services, March 2015. Moody's: Most large local governments have low retiree healthcare outlays, although outliers are present. https://www.moody.com/research/Moodys-Most-large-local-governments-have-low-retiree-healthcare-outlays--PR_319991

6 Center for State and Local Excellence and University of Tennessee, Institute for Public Service, December 2014. Local Government Strategies to Address Rising Healthcare Costs. <http://slge.org/wp-content/uploads/2014/12/LG-Strategies-to-Address-Rising-Health-Care-Costs1.pdf>

7 National Association of State Retirement Agencies, February 2015. State and Local Government Spending on Public Employee Retirement Systems. <http://www.nasra.org/costsbrief>

8 "Constant dollars" refers to inflation-adjusted dollars. "Current dollars" refers to non-inflation-adjusted dollars. Constant dollars

are a more accurate source of comparison over time because the dollars are adjusted to account for differences in the costs of state and local government. To calculate constant dollars, we adjust current dollars using the U.S. Bureau of Economic Analysis (BEA) National Income and Product Account (NIPA) estimate for inflation in the state and local government sector. Importantly, inflation between 2014 and 2015 is essentially zero.

9 It is typical for revenue estimates for the current year (i.e. FY2015) to be conservative and for expenditure estimates to be greater than revenue estimates.

10 This estimate is calculated from the compounded year-over-year decline/growth in constant dollar General Fund revenues for each recession, with the year prior to the start of each recession (1989, 2000, 2006) as the base year (i.e. Year 0 in figure 5).

11 For more information on variation in local and state tax structures, see Cities and State Fiscal Structure (NLC 2015) at <http://www.nlc.org/find-city-solutions/city-solutions-and-applied-research/finance/cities-and-state-fiscal-structure>

12 Robert Tannenwald, "Fiscal disparities among the states revisited," *New England Economic Review*, 1999, pp. 3-25.

13 National Associate of Realtors, August 24, 2016. Existing-Home Sales Lose Steam in July. <http://www.realtor.org/news-releases/2016/08/existing-home-sales-lose-steam-in-july>

14 U.S. Census Bureau, September 2016. Income and Poverty in the United States: 2015. <https://www.census.gov/content/dam/Census/library/publications/2016/demo/p60-256.pdf>

15 The Government Finance Officers' Association (2009) recommends that cities maintain an ending balance, at a minimum, of no less than one to two months of regular general fund operating expenditures. <http://www.gfoa.org/determining-appropriate-level-unrestricted-fund-balance-general-fund>

16 For more information on variation in local and state tax structures, see Cities and State Fiscal Structure (NLC 2015) at <http://www.nlc.org/find-city-solutions/city-solutions-and-applied-research/finance/cities-and-state-fiscal-structure>



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