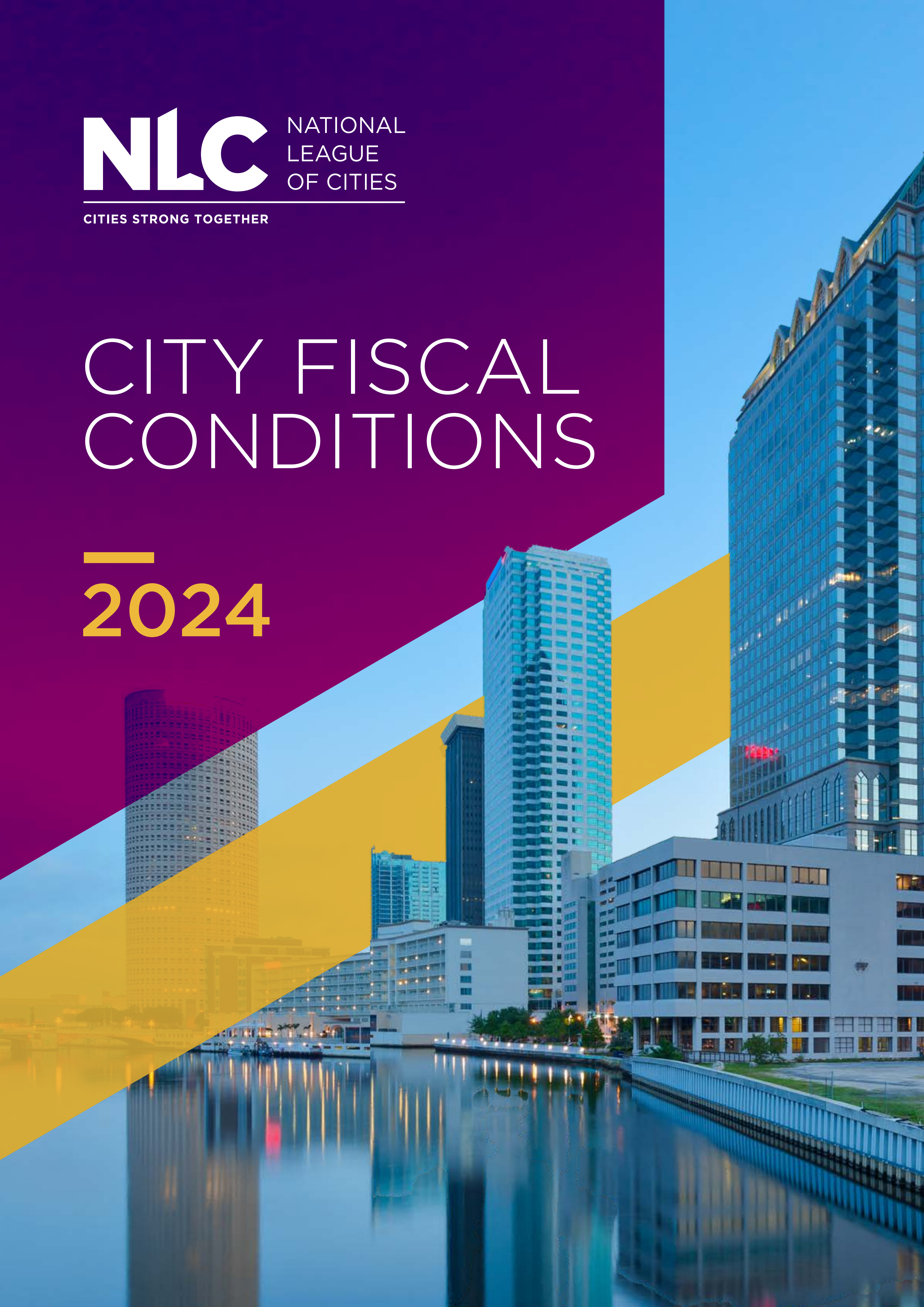
NATIONAL LEAGUE OF CITIES

CITIES STRONG TOGETHER

CITY FISCAL CONDITIONS

2024



About the National League of Cities

The National League of Cities (NLC) is the voice of America's cities, towns and villages, representing more than 200 million people. NLC works to strengthen local leadership, influence federal policy and drive innovative solutions.

About the Center for Research and Data Analysis

NLC's Center for Research and Data 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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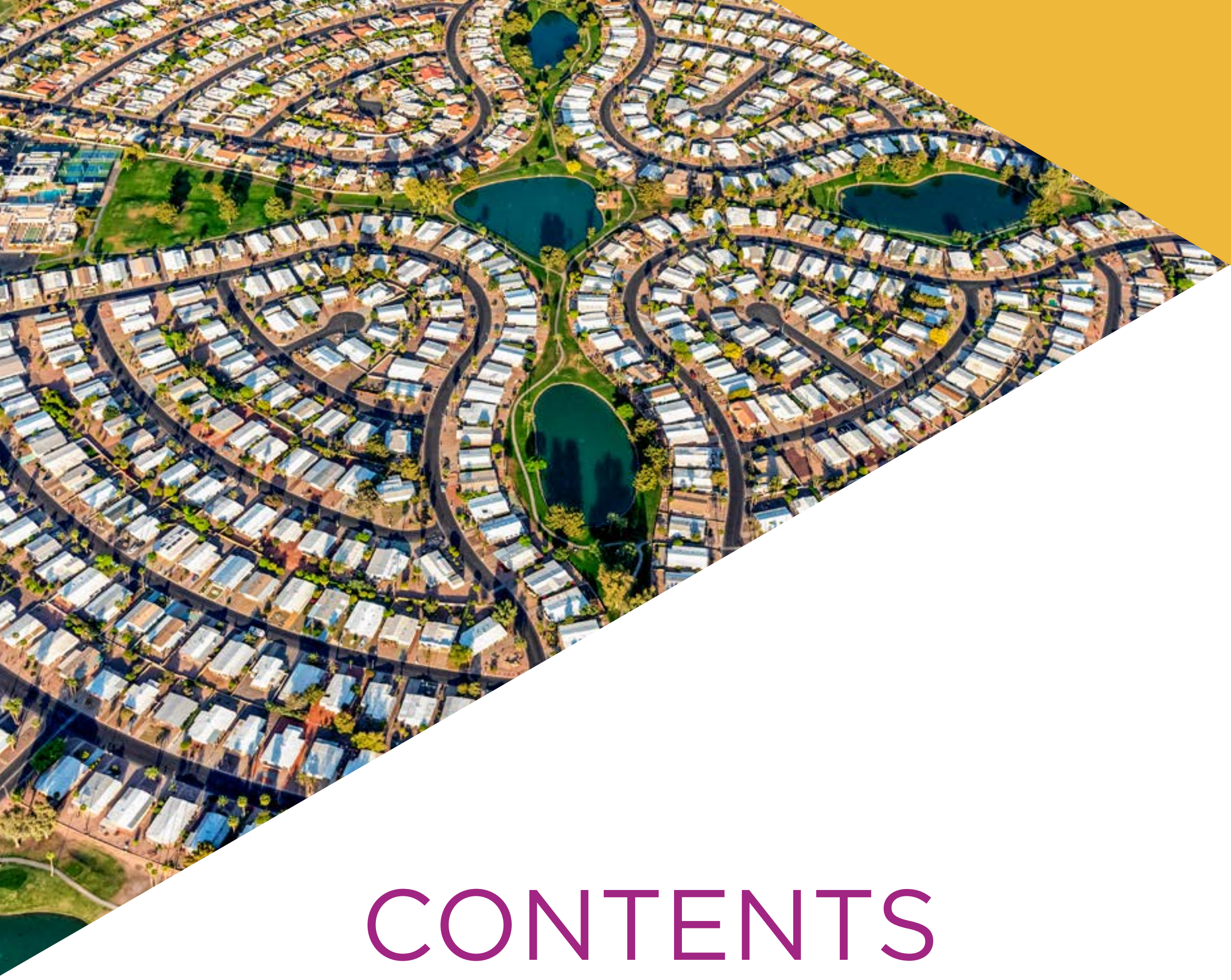
Cover photo: Tampa, FL
Contents photo: Chandler, AZ



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ATHENS, OH

FOREWORD

Now in its 39th edition, the City Fiscal Conditions 2024 report provides a comprehensive analysis of the financial health of municipalities across the United States. This report provides valuable insights into the fiscal trends observed post-COVID, including the significant increase in general fund expenditures, the impact of federal aid and the challenges local governments face in balancing their budgets.

The data presented in this report underscore the adaptability of cities, towns and villages during significant economic shifts. Despite the uncertainties surrounding the upcoming sunset of American Rescue Plan Act (ARPA) funds, municipalities have leveraged the improved fiscal opportunity to strengthen their general fund programs. This growth continued into 2024, at a tempered pace, as local governments prepare for an immediate future with less federal assistance and the uncertainties this change entails.

The report also provides a detailed analysis of the three principal general fund revenue sources – property, sales, and income taxes – and their response to changes in the underlying economy. It is fascinating to see how these revenue sources reflect the changing elements of the cities' underlying economic bases.

For the first time, the report includes a breakdown of the expenditure composition of municipal general funds, providing a clearer picture of how governments allocate their annual budgets. The data reveal that public safety is the predominant area of spending, absorbing over a quarter of the total general fund budgets.

We hope this report will provide valuable insights to policymakers, city officials and anyone interested in understanding the financial health of municipalities across the United States. The report is also a reflection of the hard work local leaders and city staff do each year balancing priorities and delivering programs and services to their residents all within the confines of limited resources.

CLARENCE E. ANTHONY
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National League of Cities


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INTRODUCTION

This year's City Fiscal Conditions (CFC) report provides an analysis of municipal fiscal trends across the United States through the lens of post-COVID conditions and dynamics. General fund expenditures saw a notable surge in 2023, due to increased reserves, conservative spending during the peak of the COVID-19 pandemic and substantial federal support in the forms of the American Rescue Plan Act (ARPA) alongside the Bipartisan Infrastructure Law (BIL). ARPA has had a transformative impact and has been a lifeline for municipalities, cushioning the blow from the COVID fiscal shock.*

The report also discusses the expansion of general fund programs in 2023 as cities experienced increased tax revenues from a surge in post-pandemic economic activities, rising property values and historically low unemployment rates. However, as cities anticipated a leveling-off in revenue collection and navigated the sunset of large-scale federal investments and planned for long-term fiscal sustainability, this expansion slowed down in 2024.

For the first time in its 39-year history, this City Fiscal Conditions report introduces an "expenditure breakdown" section, providing a more detailed view of cities' spending habits.** Notably, public safety is the primary focus in recent years, accounting for over a quarter of total expenditures for three consecutive fiscal years: 2022, 2023 and 2024. This trend underscores municipalities' commitment to maintaining safety and security, which remains a top priority for municipal spending. The detailed breakdown in the report offers readers a clearer understanding of how governments allocate their limited resources to protect and serve the community.

Overall, this year's CFC report illustrates the shifts in fiscal trends within municipal governments, emphasizing the expansion of both revenues and expenditures in recent years. It delves into the growth of property, sales and income tax revenues, underscoring the resilience of local economies. Furthermore, the report examines the pivotal role of federal investments in local governments, detailing how these infusions have strengthened municipal budgets and facilitated an era of improved fiscal health.

* You can learn more about the impacts of ARPA on local governments through a series of articles published by the National League of cities: ARPA 3-Year Anniversary: Documenting the Success of Direct Federal Aid to Cities and Towns - National League of Cities (nlc.org)

** For an in-depth analysis of municipal workforce and service provision, as well as fiscal conditions, consult our Centennial brief on History of Service Provision and Workforce, as well as Municipal Finance and Infrastructure coming this fall.

REVENUE AND SPENDING TRENDS

This analysis includes audited fiscal data for cities' Fiscal Year (FY) 2023 revenues and expenditures and budgeted FY2024 revenues and expenditures. Specifically, FY2023 is the fiscal year for which finance officers have closed the books (and therefore have verified the final numbers). FY2024 is the fiscal year that ended by June 30, 2024 for most cities and will end by December 31, 2024 for others and thus is budgeted but not finalized. We also examine year-over-year growth of general fund expenditures and revenues, adjusted for inflation (in 2017 constant dollars).*

Compared to FY2022, constant-dollar FY2023 average spending shows a significant 6.7-percent increase. While FY2024 spending levels are still increasing by an additional 1.3 percent over FY2023 figures, the increase is less significant than between 2022 and 2023, as many city governments are reining in their expenditure levels as they exhaust their ARPA dollars.**
This analysis paints a picture of broader fiscal trends observed across the United States post-COVID. In 2023, cities indeed saw a significant increase in general fund expenditures, attributed to a combination of factors. The cautious fiscal management during the peak COVID years saw limited spending and increasing reserves, allowing cities to be better prepared for inflationary pressures and to expand public services as the economy recovered. Additionally, federal aid through ARPA and BIL played a crucial role in supporting city budgets, enabling them to balance their 2023 budgets and invest in general fund programs.

As the immediate threat of the pandemic receded and the possibility of a recession waned, local governments capitalized on the improved fiscal conditions and federal aid opportunities to strengthen their general fund programs. This general fund expenditure expansion continued into 2024, albeit at a slower rate, as cities navigated the end of ARPA and planned for long-term sustainability without the same level of federal support. These trends reflect a broader economic recovery reinforced by

* To adjust our findings for inflation, we utilized the price Index (in 2017 constant dollars) for government consumption expenditures and gross investment, published quarterly by the Federal Reserve Bank of St. Louis and found at the following link: https://fred.stlouisfed.org/release/tables?rid=53&eid=16356.

** Average city general fund spending increased by $23.6 million in 2023 (over FY2022) and rose by an additional $9.4 million in 2024 (over FY2023).

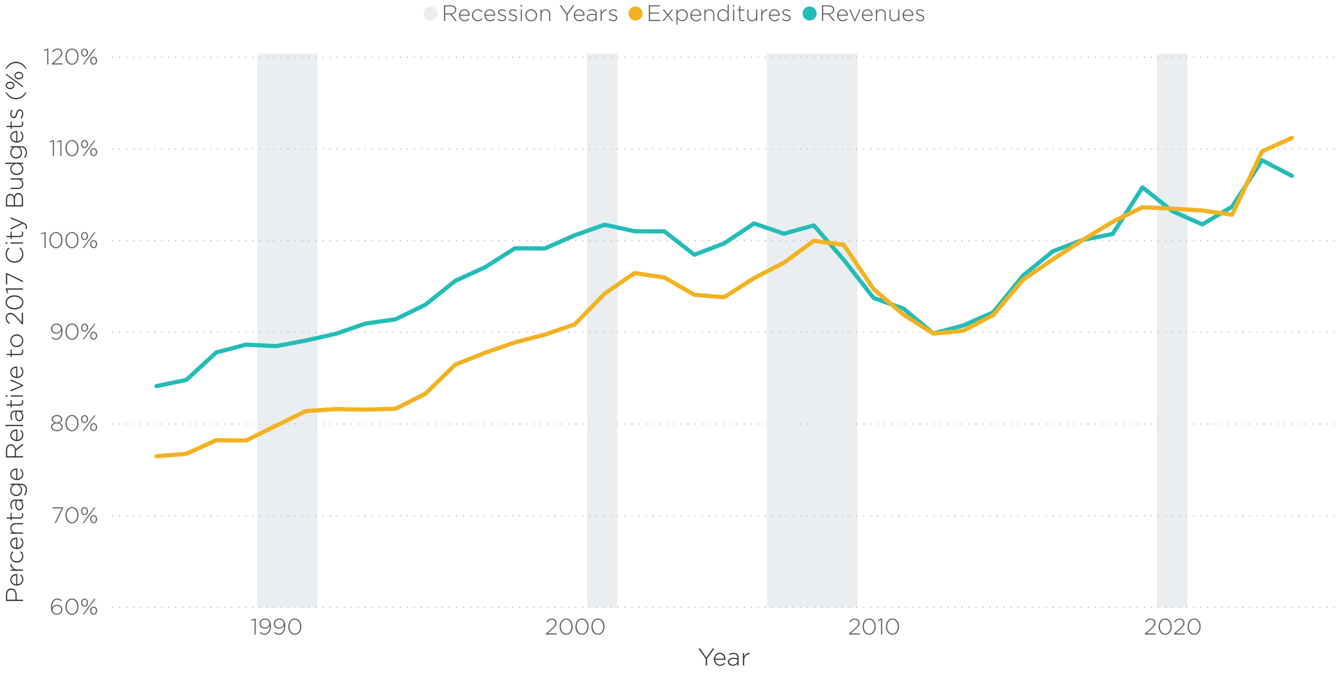
Compared to FY2022, FY2023 average spending shows a **6.7 percent** increase. FY2024 spending levels are increasing by an additional **1.3 percent** over FY2023.

Federal aid through ARPA and BIL played a crucial role in supporting city budgets, enabling them to balance their **2023** budgets and invest in general fund programs

FIGURE 1

General Funds Increase as the Immediate Threat of the Pandemic Receded

PERCENTAGE (%) OF EXPENDITURES AND REVENUES (1986-2024)



Source: NLC analysis of data from the City Fiscal Conditions Survey 2024, Annual Comprehensive Financial Reports, and Budget Financial Reports for the years 1986 to 2004 (n=213 for 2024). *Recession years source*[20]
Figure Note: All calculations provided are relative to 2017 City Budgets. Statistics for 2024 are an estimate. Refer to Appendix A and B to learn about the methodology used for calculating the annual changes for each category.

the fact that cities experienced increased tax revenues from a surge in post-pandemic economic activities, rising property values and historically low unemployment rates.

Constant-dollar general fund revenues increased by 4.9 percent in FY2023 compared to FY2022, while cities anticipate a year-over-year decline of 1.6 percent for FY2024. This is mainly because both sales and income tax revenues are expected to stabilize after a period of strong growth that occurred when the economy rebounded after the fiscal shock of the COVID-19 pandemic.[1]

In 2023, many cities experienced a significant increase in general fund revenue, attributed to the economic recovery following the COVID-19 recession and to a robust housing market, which boosted sales and property tax collections.[2] This surge was a part of the fiscal recovery facilitated by federal support through such means as ARPA support. However, as we move into 2024, a slight decline in general fund revenue is anticipated, possibly due to the expiration of ARPA funds and the normalization of the post-pandemic economy. These fluctuations underscore the challenges cities face in maintaining sustainable revenue streams in the midst of shifting economic conditions.

Several cities experienced noteworthy revenue expansion attributable to a combination of factors.

Dearborn, MI, witnessed a remarkable 26 percent increase in revenue. This surge can be largely attributed to an increase in federal grants.[3]

Chandler, AZ, also experienced substantial growth in revenue (21.5 %), with sales tax and other state-shared revenue increases contributing to the rise.[4]

Similarly, **Melbourne, FL,** saw a revenue increase of 20 percent, primarily due to elevated property taxes and a surge in intergovernmental revenues.[5]

CHANDLER, AZ

TAX SOURCES

For over 29 years, the annual City Fiscal Conditions report has tracked three principal general fund revenue sources. As Figure 2 demonstrates, the year-over-year changes in each of the three major sources of revenue – property, sales and income taxes – reflect the changing elements of the underlying economic bases of the cities. Both property and sales tax receipts increased, rather substantially, in 2023 over the previous fiscal year mainly because of the healthy and strong housing market and because businesses in many states continued revenue growth trends after the reopening of the economy.[6]

Income tax collections, while overshadowed by steeper increases in property and sales taxes, also experienced positive 1.5 percent growth in 2023 (in 2017 constant dollars), due to a healthy job market and the lowest unemployment rates in more than 50 years.[7]

The two revenue sources that respond immediately to changes in the underlying economy, sales tax and income tax, generally follow the business cycle and are considered elastic. As the economy slows, retail sales tax receipts and income tax revenue decline at the same time; as the economy grows, sales and income taxes tend to increase. Property tax receipts, however, lag the underlying economy's changes due to assessment practices[8] as well as to the fact that property does not change hands frequently, requiring assessors to estimate the value of real estate property. Consequently, property tax receipts today tend to reflect the value of property from one, two or three years in the past.[9]

The analysis of city budgetary data from 213 US cities indicates an anticipated 2.1 percent increase in property tax collections for 2024, likely driven by the sustained expansion of the housing market.[*] Conversely, sales tax revenues are not projected to rise, which may be attributed to a normalization of the economy following several years of robust growth as the economy re-opened post-COVID.

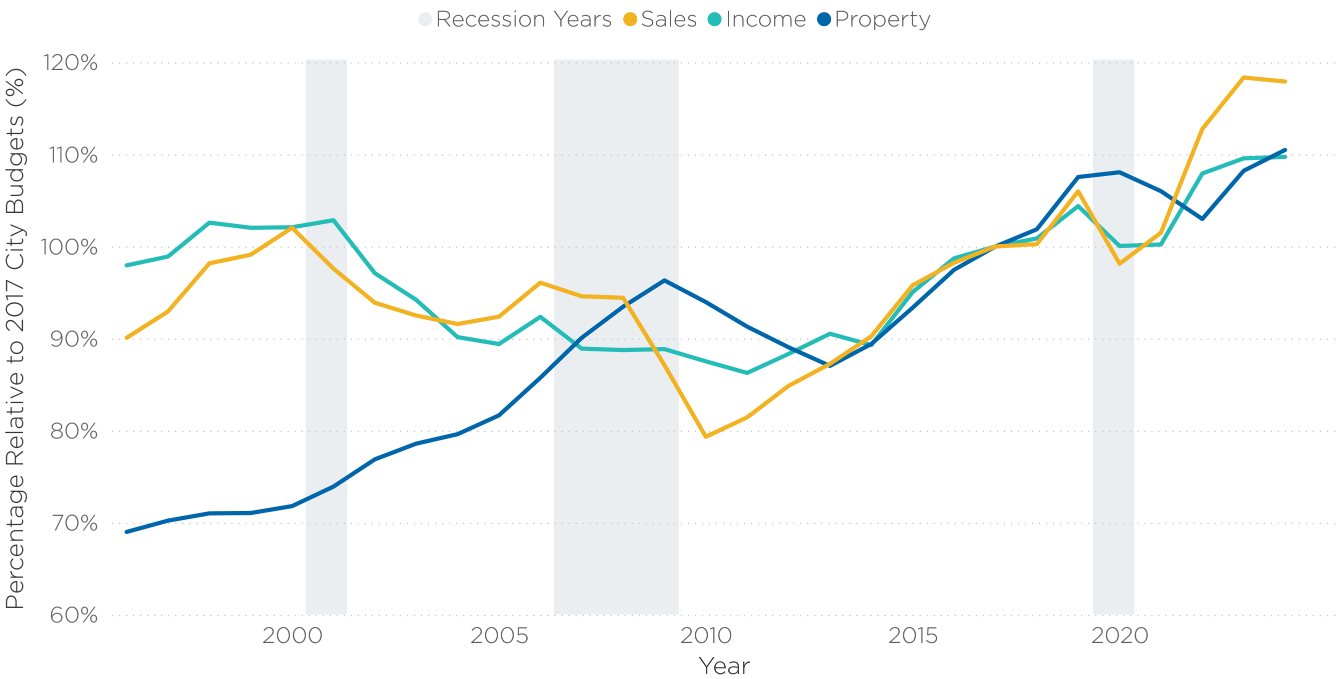
Additionally, our analysis suggests that as cities expected the economy to go through a period of relative slowdown toward the latter half of 2023 and first half of 2024, cities tempered their expectations in their 2024 budget estimations and projected rather conservative levels for all three major types of tax revenues.[10]

* The dataset presented in this report encompasses a comprehensive analysis of municipal property tax revenues without differentiating between commercial and residential sources. It is important to note that while this aggregate approach provides a broad overview of the fiscal landscape, it does not account for distinct trajectories of commercial and residential property values. Recent trends indicate a decline in commercial office values, which, considering their significant contribution to municipal budgets, could forecast potential fiscal challenges for cities. Read more at [Plunging office real estate values alarm Washington - POLITICO]

FIGURE 2

Strong Housing Market and Healthy Regional Economies Associated with Higher Municipal Tax Revenue Collections

PERCENTAGE (%) OF TAX REVENUES (1996-2024)



Source: NLC analysis of data from the City Fiscal Conditions Survey 2024, Annual Comprehensive Financial Reports, and Budget Financial Reports for the years 1996 to 2004 (n=213 for FY2024). *Recession years source*[20]

Figure Note: All calculations provided are relative to 2017 City Budgets. Statistics for 2024 are an estimate. Refer to Appendix A and B to learn about the methodology used for calculating the annual changes for each category.

MAJOR AREAS OF GENERAL FUND SPENDING

Incorporating the general fund expenditure breakdown in the City Fiscal Conditions 2024 report offers a clearer picture of how governments allocate their annual budgets. Notably, the data reveal public safety to be the predominant area of spending over the 2022 to 2024 period, absorbing over a quarter of the total general fund budgets.* This substantial investment underscores the priority given to maintaining safety and order within municipalities.

Public safety has historically been a significant portion of municipal budgets, with a marked increase in expenditures during the 1960s. The allocation for public safety was less than 10 percent in 1970, but it escalated to 30 percent by 1980.** The continuous growth in this area underscores the prioritization of law enforcement and related activities in urban financial planning.

In contrast, public health makes up approximately 5 percent of the budget, reflecting the ongoing commitment to safeguarding community health, albeit with a notably smaller fiscal share. Most of the total public health spending is done at the county level, and municipalities only operate a small portion of the total public health spending. Similarly, recreation and culture, alongside debt service, each account for around 3.5 percent of the total general fund expenditures. These figures highlight the balanced approach to enriching community life and managing financial obligations.

The allocation for public safety was less than 10 percent in 1970, but it escalated to 30 percent by 1980.

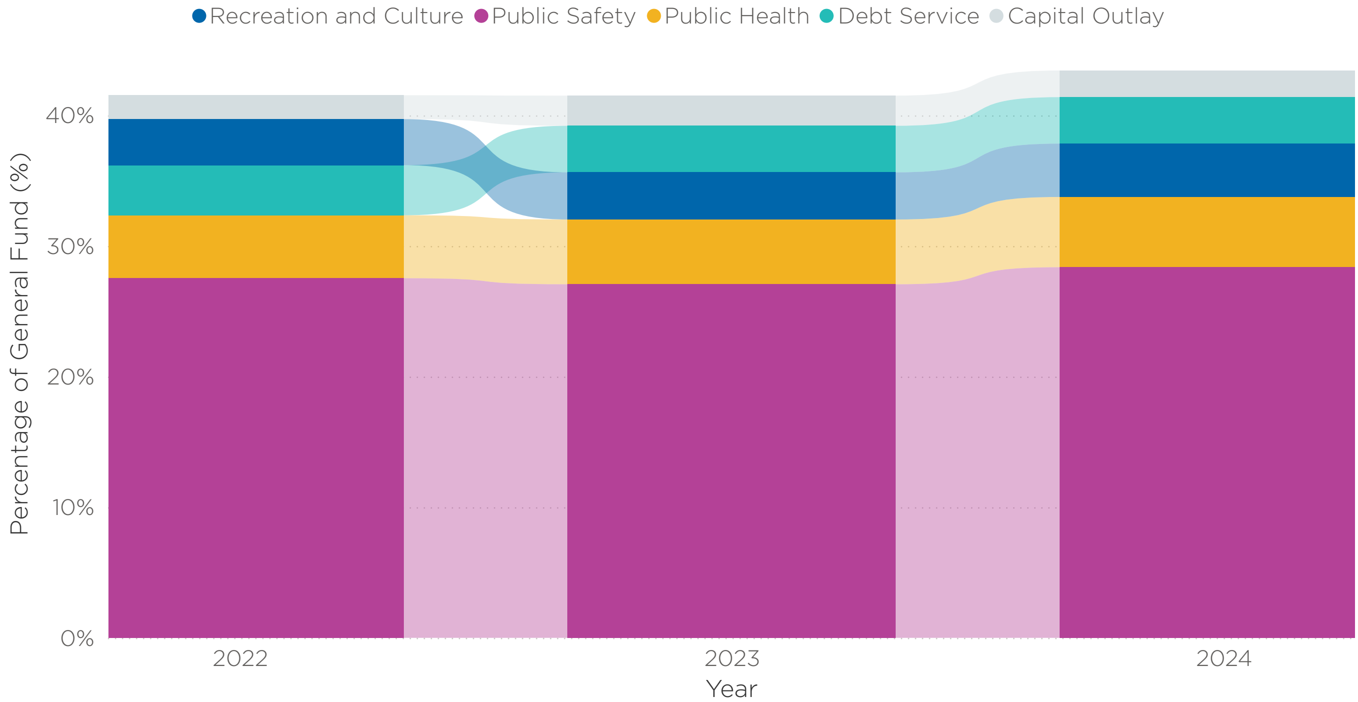
* It is worth noting that municipalities typically do not operate education and K-12 programs out of their general funds, which could be a very large sum when compared to other categories discussed here.

** For an in-depth analysis of municipal workforce and service provision, consult our upcoming Centennial brief on History of Service Provision and Workforce coming this fall.

FIGURE 3

Public Safety is the Largest Category of General Fund Spending

MAJOR CATEGORIES OF AVERAGE ANNUAL SPENDING AS A PERCENTAGE (%) OF GENERAL FUND, BY FISCAL YEAR (2022-2024)



Source: NLC analysis of data from the City Fiscal Conditions Survey 2024 (n=124 for FY 2022, n=126 for FY 2023, and n=128 for FY 2024).
Figure Note: The expenditure categories detailed here – public safety, public health, recreation and culture, capital outlay and debt service – collectively make up less than half of the general fund expenditures. These categories are common to most governments, but other significant expenses like education and transfers to other funds also form a large part of budgets, though they vary more across governments and thus are not included in this graph. Vertical bars highlight the change from year to year.

Moreover, on average, municipalities designate about 2 percent of their total general fund budget to capital outlay. It is important to note that this figure solely encompasses maintenance costs funded by the general fund, excluding the broader spectrum of total municipal capital expenditure.

The consistency of these spending patterns across fiscal years 2022, 2023 and 2024 suggests a stable financial strategy among governments. Such steadiness in allocation trends provides a reliable framework for future fiscal planning and policymaking.

PERSPECTIVES ON ABILITY TO MEET FISCAL NEEDS

Following a strong 2023 fiscal year that saw average city taxes increase significantly over FY2022, more than 64 percent of surveyed finance officers report being better able to meet their financial needs in FY2024 than in FY2023 (refer to Appendix A for a discussion on the survey collection and analysis).

The data indicate a notable shift in fiscal confidence among city finance officers within a one-year span. Last year, only half of the surveyed officers felt better equipped to balance their budgets for FY2024. This contrast underscores the impact of intervening economic factors and policy responses, such as the allocation of ARPA funds, which have provided substantial support to municipal finances. **Certainly, the prompt and strategic federal response through ARPA funds, which offered direct financial assistance for cities' core functions, along with the robust recovery of the economy, played a significant role in shaping the optimistic fiscal outlook evident among city finance officers.**

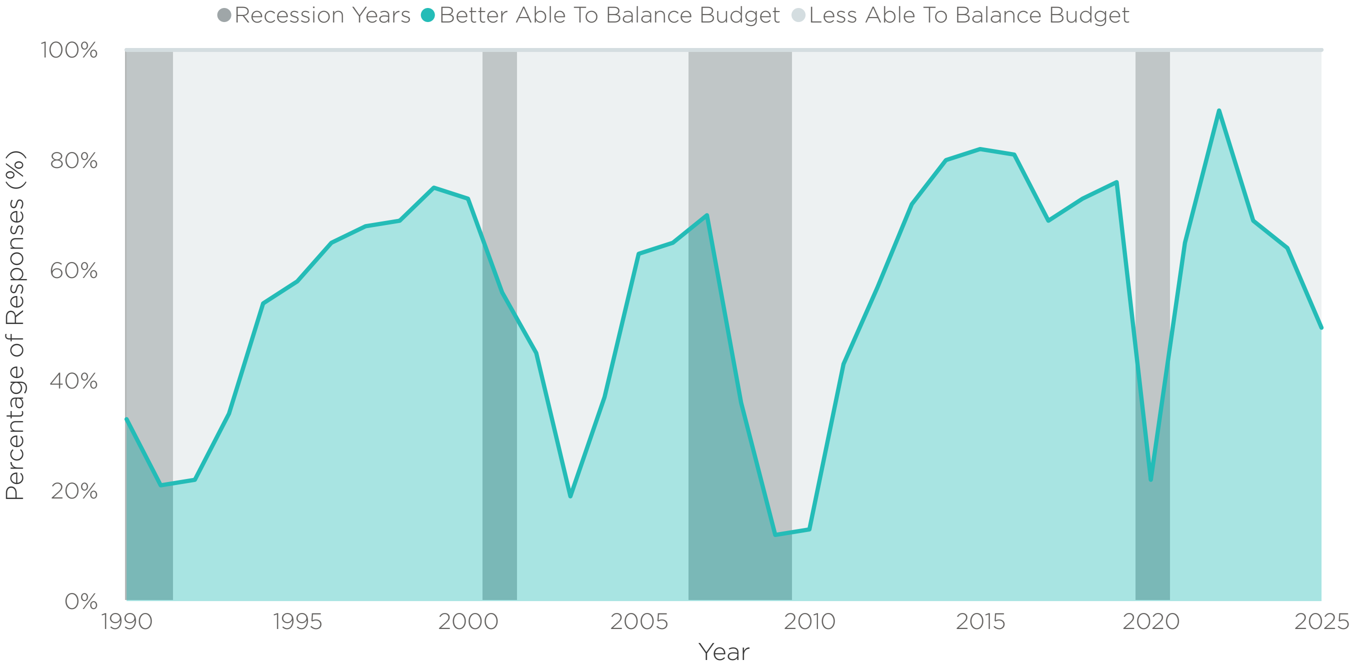
The level of optimism drops for FY2025, with only 50 percent of surveyed city finance officers feeling they will be better able to meet their needs than in the previous year. With the near depletion of ARPA funds, governments acknowledge the pressing need to tighten their budgets. Concurrently, municipal governments are setting more conservative tax revenue expectations for their 2024 operating budgets, in stark contrast to the robust tax collections of FY2023, as illustrated by Figure 2.

More than 64 percent of surveyed finance officers report being better able to meet their financial needs in FY2024 than in FY2023

FIGURE 4

The Majority of Cities Remain Confident About Their Budgets

PERCENTAGE (%) OF CITIES INDICATING BETTER OR LESS ABLE TO BALANCE FUTURE YEAR'S BUDGET COMPARED TO LAST YEAR



Source: NLC analysis of data from the City Fiscal Conditions Survey for the years 1990 to 2004 (n=375 for CFC 2024 survey). *Recession years source*[20]
Figure Note: Respondents were asked to estimate their confidence for the current and upcoming fiscal years in each survey. Percentages are calculated as the proportion of all total responses to the question. The sample size depends on the number of cities that responded to the City Fiscal Conditions survey for each of the analyzed years.

Our survey finds that the value of city taxes, health of the local economy and the amount of intergovernmental (state and federal) aid to cities are among the most positive factors affecting city budgets.

Surveyed fiscal officers report that prices and inflation, infrastructure, employee wages and salaries, and public safety needs are among factors with the most negative impacts on city budgets. The increasing costs associated with infrastructure maintenance and expansion, coupled with the need to provide competitive wages to attract and retain skilled employees, are straining city budgets.[11] Public safety demands, which include funding for law enforcement, emergency services, and disaster preparedness, continue to put pressure on financial resources (evident in Figure 3), making it imperative for city officials to prioritize and make difficult budgetary decisions in times of need.[12]

These factors, along with the fiscal concern related to the phasing out of ARPA, have created a complex financial landscape for municipalities. The gradual reduction of the ARPA funds has necessitated a more conservative fiscal approach, as cities anticipate a decrease in federal support.[13] This has led to an increased focus on long-term financial solvency, planning and the exploration of alternative revenue streams.

The gradual reduction of the ARPA funds has necessitated a more conservative fiscal approach, as cities anticipate a decrease in federal support.

FIGURE 5

Value of City Taxes and Healthy Local Economies Have the Strongest Positive Association with City Budgets

PERCENTAGE (%) OF CITIES INDICATING A POSITIVE OR NEGATIVE INFLUENCE ON BUDGETS FOR FY2024 BY LISTED MICRO AND MACROECONOMIC FACTOR

Source: NLC analysis of data from the City Fiscal Conditions Survey 2024 (n=321).
Figure Note: Percentages are calculated as the proportion of all total responses to the question; respondents were able to select multiple options, so the total is greater than the total number of respondents.

After ARPA:

LOOKING BEYOND 2024

ARPA, and other federal investments, have been a cornerstone of economic recovery and infrastructure development in the wake of unprecedented challenges brought on by the COVID-19 pandemic. While ARPA strengthened the resilience of local governments, the impending expiration of funds adds complexity to the landscape for budgetary planning, as reflected in the diverse responses from our survey participants.

Our survey responses reveal a varied landscape of preparation and concern regarding the phaseout of ARPA funds. A notable 39 percent of respondents express no concern regarding potential budget shortfalls, suggesting confidence in their existing financial structures or a belief that the impact of ARPA's ending will be negligible. On the other hand, 17 percent of the sample express significant concerns, reflecting an awareness that major fiscal adjustments might be required without ARPA funds.

Infrastructure and public safety emerge as the key sectors where respondents anticipate the need for considerable budgetary realignment post-ARPA, with 56 percent and 29 percent, respectively, highlighting these two areas (not shown here). This prioritization underscores the critical nature of these services and the potential vulnerability they face in the post-ARPA financial landscape.[14]

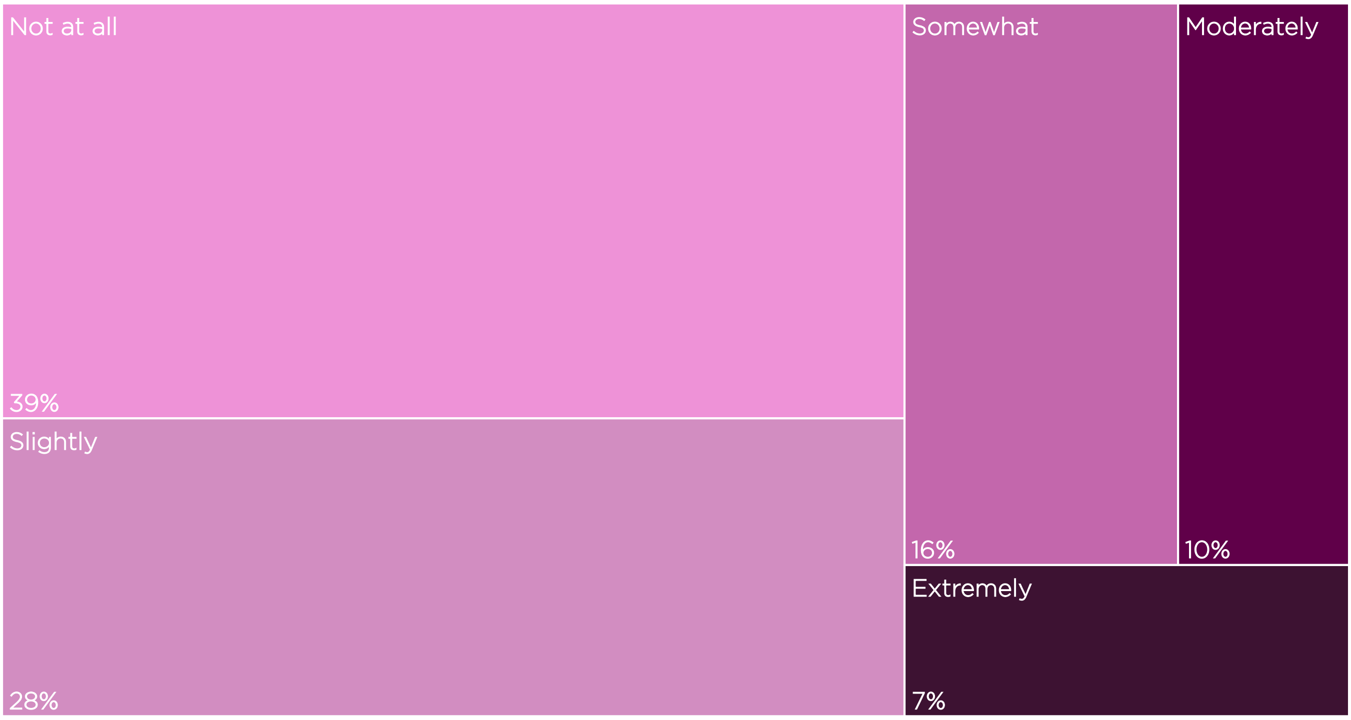
The data also reveal a proactive stance among a large portion of the surveyed governments, which report either currently developing a plan (42 percent) or having a fully developed plan (23 percent) to navigate the forthcoming post-ARPA fiscal challenges. However, a significant 35 percent indicate they do not yet have plans in place.[15]

Strategies to counteract the financial void left by ARPA's end are very varied. From among the group of respondents that either have a fully developed plan or are currently developing plans, 30 percent are seeking alternative funding sources, showcasing an adaptive approach to resource acquisition. Expense reduction, a strategy embraced by 26 percent, reflects a more conservative fiscal approach, while 21 percent plan to dip into reserves, indicating a reliance on using saved resources as a buffer against financial

FIGURE 6

Nearly 7 Out of 10 Sample Municipalities Express Minimal Concern Regarding Potential Budget Shortfalls Post-ARPA

PERCENTAGE (%) OF CITIES INDICATING LEVEL OF CONCERN REGARDING POTENTIAL POST-ARPA BUDGET SHORTFALLS



Source: City Fiscal Conditions Survey (2024 n=174).

FIGURE 7

Seeking Alternative Funds and Reducing Expenditures Among the Popular Strategies to Mitigate the Potential Negative Fiscal Impacts of Post-ARPA Era

PREVALENCE OF STRATEGIES IN PLACE TO MITIGATE NEGATIVE FINANCIAL IMPACTS RESULTING FROM THE END OF ARPA FUNDING

Source: NLC analysis of data from the City Fiscal Conditions Survey 2024 (n=172).
Figure Note: Circle size reflects percentage of responses. Percentages are calculated as the proportion of all total responses to the question (n=172); respondents were able to select multiple options, so the total is greater than the total number of respondents.

instability. The consideration to increase taxes, although not predominant, is still present among 9 percent of respondents, hinting at the complex balancing act between maintaining services and managing public expectations.

The varied responses illustrate a sector at a pivotal juncture and underscore the vital importance of robust planning and adaptive strategies to maintain the delivery of essential services.* ARPA has been an invaluable ally for local governments in recovery from an international disaster and has proved to provide a foundation for long-term stability and growth. However, as we transition beyond ARPA's immediate impact, it is crucial for stakeholders at all levels to engage in collaborative and innovative thinking to meet the fiscal challenges that lie ahead. The continued support from other existing federal/state programs will be instrumental in empowering municipal governments to thrive in the era to come.

* The Government Finance Officers Association (GFOA) offers a wealth of resources that embody best practices in financial planning and policymaking. GFOA's guidelines cover a comprehensive range of topics, including budget policies, planning, revenue analysis, and monitoring, all designed to promote fiscal health and effective government management. For a detailed exploration of these practices, GFOA's official website is an indispensable resource.

APPENDICES

Appendix A: Methodology

The NLC City Fiscal Conditions survey is a national survey of finance officers in US cities conducted annually in June and July. Surveys are emailed to 2,668 NLC member city finance officers from cities with various population sizes and regions (shown in Table A below). Officers are asked to give their assessments of their cities' fiscal conditions and given approximately eight weeks to respond. The survey also requests budget and finance data from all but 213 of the nation's large cities; data for 213 cities (39% of the entire sample) come from Annual Comprehensive Financial Reports (ACFRs) and budget documents collected directly from online city budget documents.[16] Data for the other 332 cities (61% of the total sample) come only from the survey. Details about geographic region and population size composition of the sample are shown in Table A below. For 2024, we collected survey data from a total of 375 cities.*

Table A: Sample by geographic region and population

	<10,000 (%)	10,000-49,999 (%)	50,000-99,999 (%)	100,000-299,999 (%)	300,000+ (%)	**Total**
Northeast (%)	3.7	0.9	2.2	2.0	1.7	10.5
Midwest (%)	18.5	5.9	3.1	2.6	1.5	31.6
South (%)	11.7	6.2	5.3	5.9	3.9	33.0
West (%)	6.0	2.4	6.1	6.4	4.0	25.0
Total	40.0	15.4	16.7	16.9	11.0	100.0

Source: NLC analysis of data from the City Fiscal Conditions Survey 202 and Budgetary available documents (n=545). Regions are based on NLC service regions (https://www.nlc.org/membership/). Populations are based on US Census 2020 data.
Figure Note: Totals may not add up to 100 percent, due to rounding of the numbers.

* The study encompasses budgetary data from 213 cities and survey data from 375 cities. The combined sample size is 545, which includes an overlap of 43 cities present in both datasets. This overlap has been accounted for in the total sample count to maintain the integrity of the study's statistical analysis.

Analytic Approach

To calculate the change for each year (for Figures 1 and 2) the following formula was used:

$$\frac{(X_{it} - X_{i(t-1)})}{X_{it}}$$

where ί ∈ :{property, sales and income taxes, Revenues and Expenditures}

and ί ∈ : {2022, 2023, 2024}

Much of the statistical data presented here must also be understood within the context of cross-state variations in tax authority, functional responsibilities and accounting systems. The number and scope of governmental functions influence both revenues and expenditures. For example, many Northeastern cities are responsible for funding not only general government functions but also public education. Additionally, some cities are required by their states to assume more social welfare responsibilities or traditional county functions.[17] Cities also vary according to their revenue-generating authority. Certain states – notably Kentucky, Michigan, Ohio and Pennsylvania – allow their cities to tax earnings and wages. Meanwhile, several cities – such as those in Colorado, Louisiana, New Mexico and Oklahoma – depend heavily on sales tax revenues. Moreover, state laws vary in how they require cities to account for funds.

When we report on fiscal data such as general fund revenues and expenditures, we are referring to all responding cities' aggregated fiscal data. Therefore, the data are influenced by relatively larger cities that have more substantial budgets and that deliver services to a preponderance of the nation's residents.[18] When we report on non-fiscal data – such as finance officers' assessments of their cities' ability to meet fiscal needs, or factors they perceive as affecting their budgets – we refer to the percentage of officers responding in a particular way. Each city's response to these questions is weighed equally, regardless of population size, as our analysis is at the city level, not the population level.

Appendix B: The Lag between Economic and City Fiscal Conditions

In economic terms, “lag” refers to the amount of time between economic conditions changing and those conditions having an impact on city revenue collections. In general, cities experience the impacts of changing economic conditions quite early. However, because most fiscal reporting occurs on an annual basis, those impacts are generally not evident until some point after they begin.

How Long Is the Lag?

The lag can last anywhere from 18 months to several years and is largely related to the timing of property tax collections. Because property tax bills are calculated based on property assessments from a previous year, dips in real estate prices rarely occur simultaneously with economic downturns. Sales and income tax collections also exhibit lags due to various collection and administrative issues, but such lags typically do not last for more than a few months.

For example, Figure 1 shows year-to-year changes in city general fund revenues and expenditures. It includes markers for the official U.S. recessions from 1990, 2001, 2007 and 2020 with low points, or “troughs,” occurring in March 1991, November 2001 and June 2009, and April 2020. When we overlay data from NLC’s annual surveys,[19] we find that the low points for city revenues and expenditures lag about two years behind the onset of recessions. For instance, the low point for the 1990 recession occurred in 1993, approximately two and a half years after the trough (the recession took place between July 1990 and March 1991). Additionally, during the 2001 recession, the low point for city revenues occurred in 2003, approximately 18 months after the trough (that recession lasted from March to November 2001). Recession years are noted in figures throughout with grey bars.

It should be noted, however, that because the annual NLC City Fiscal Conditions survey is conducted at slightly different times each year, there is some degree of error in the length of these lags. For instance, had the survey been conducted in November 1992 rather than in April 1993, we might have seen the effects of changing economic conditions earlier. Nevertheless, the evidence suggests that it takes 18-24 months for the effects of changing economic conditions to become evident in city budgets.

Appendix C: Data Tables

FIGURE 1:
General funds show significant increases as the immediate threat of the pandemic receded.

PERCENTAGE (%) CHANGE IN EXPENDITURES AND REVENUES YEAR TO YEAR (1986-2024). [20]

Year	Revenues	Expenditures
1986	6.8	6.4
1987	0.8	0.4
1988	3.5	1.9
1989	1.0	0.0
1990	-0.2	2.1
1991	0.7	2.0
1992	0.8	0.3
1993	1.3	-0.1
1994	0.5	0.1
1995	1.7	2.0
1996	2.8	3.8
1997	1.6	1.5
1998	2.1	1.3
1999	0.0	1.0
2000	1.5	1.3
2001	1.2	3.7
2002	-0.7	2.4
2003	0.0	-0.5
2004	-2.5	-2.0
2005	1.3	-0.3
2006	2.2	2.2
2007	-1.1	1.8
2008	0.9	2.5
2009	-3.7	-0.4
2010	-4.3	-4.9
2011	-1.2	-2.9
2012	-2.9	-2.3
2013	1.0	0.4
2014	1.6	1.9
2015	4.4	4.2
2016	2.8	2.3
2017	1.3	2.2
2018	0.7	2.0
2019	5.1	1.6
2020	-2.5	-0.1
2021	-1.4	-0.2
2022	1.9	-0.5
2023	4.9	6.7
2024 (Estimate)	-1.6	1.3

Source: NLC analysis of data from the City Fiscal Conditions survey and annual financial reports.

Figure 2: Strong housing market and healthy regional economies led to significantly higher municipal tax revenue collections.

PERCENTAGE (%) CHANGE IN TAX REVENUES FROM YEAR TO YEAR (1996-2024).

Year	Sales	Income	Property
1996	3.4	-0.3	1.1
1997	3.2	1.0	1.8
1998	5.6	3.7	1.1
1999	1.0	-0.5	0.0
2000	3.0	0.0	1.1
2001	-4.4	0.8	3.0
2002	-3.8	-5.6	4.0
2003	-1.5	-3.0	2.2
2004	-1.0	-4.3	1.3
2005	0.9	-0.8	2.6
2006	4.0	3.3	5.0
2007	-1.5	-3.8	5.1
2008	-0.2	-0.2	3.8
2009	-7.8	0.1	3.1
2010	-8.9	-1.5	-2.4
2011	2.7	-1.4	-2.8
2012	4.2	2.4	-2.5
2013	2.8	2.5	-2.3
2014	3.4	-1.4	2.7
2015	6.1	6.5	4.4
2016	2.6	3.9	4.4
2017	1.8	1.3	2.6
2018	0.3	0.9	1.9
2019	5.7	3.5	5.6
2020	-7.4	-4.2	0.5
2021	3.4	0.2	-1.9
2022	11.1	7.7	-2.9
2023	5.0	1.5	5.1
2024 (Estimate)	-0.4	0.1	2.1

Source: NLC analysis of data from the City Fiscal Conditions survey and annual financial reports
Figure Notes: All dollar figures are adjusted for inflation with 2017 as base year. Refer to Appendix A to learn about the methodology used for calculating the annual changes for each category (n=213 for 2024).

Appendix C: Data Tables (continued)

Figure 3: Public safety by far the largest category of general fund spending over the 2022-2024 period.

MAJOR CATEGORIES OF SPENDING AS A PERCENTAGE (%) OF GENERAL FUND, BY FISCAL YEAR.

	Percentage of General Fund (%)				
	Public Safety	Public Health	Recreation and Culture	Capital Outlay	Debt Service
2022	27.5	4.8	3.5	1.8	3.8
2023	27.1	5.0	3.6	2.3	3.6
2024	28.4	5.4	4.1	2.0	3.6

Source: NLC analysis of data from the City Fiscal Conditions survey 2024 (n=124 for FY2022, n=126 for FY2023, and n=128 for FY2024)
Figure Notes: The expenditure categories detailed here – public safety, public health, recreation and culture, capital outlay and debt service – collectively make up less than half of the general fund expenditures. These categories are common to most governments, but other significant expenses like education and transfers to other funds also form a large part of budgets, though they vary more across governments.

Figure 4: Cities are confident about their 2024 budgets.

PERCENTAGE (%) OF CITIES INDICATING BEING BETTER OR LESS ABLE TO BALANCE FUTURE YEAR'S BUDGET COMPARED TO LAST YEAR.

	Percentage of Responses (%)	
	Better Able	Less Able
1990	33	67
1991	21	79
1992	22	78
1993	34	66
1994	54	46
1995	58	42
1996	65	35
1997	68	32
1998	69	31
1999	75	25
2000	73	27
2001	56	44
2002	45	55
2003	19	81
2004	37	63
2005	63	37
2006	65	35
2007	70	30
2008	36	64
2009	12	88
2010	13	87
2011	43	57
2012	57	43
2013	72	28
2014	80	20
2015	82	18
2016	81	19
2017	69	31
2018	73	27
2019	76	24
2020	22	78
2021	65	35
2022	89	11
2023	69	31
2024	64	36
2025	50	50

Source: City Fiscal Conditions Survey (1990-2025)
Figure Notes: Percentages are calculated as the proportion of all total responses to the question. The sample size depends on the number of cities that responded to the City Fiscal Conditions survey for each of the analyzed years (n=375 for CFC 2024 survey).

Appendix C: Data Tables (continued)

Figure 5: Value of city taxes and healthy local economies have the most positive impact, while infrastructure needs and wages and salaries have the most negative impact on city budgets.

PERCENTAGE (%) OF CITIES INDICATING A POSITIVE OR NEGATIVE EFFECT ON BUDGETS FOR FY2024.

	Percentage of Responses (%)	
	Positive Impact	**Negative Impact**
Value of city tax base	68.2	8.3
Health of local economy	48.9	5.1
Amount of state aid to city	35.5	7.4
Population (number of people in the city)	27.7	5.1
Amount of federal aid to city	26.8	2.4
Infrastructure needs	5.6	51.8
Employee wages and salaries	5.3	40.2
Public safety needs	4.7	28.6
Prices, inflation, costs	3.7	61.0
Oil prices	3.4	5.4
Human/social service needs	3.1	6.6
Cost of employee/ retiree health benefits	3.1	20.8
Cost of employee/ retiree pensions	2.5	14.0
Federal mandates/ requirements	0.6	9.8
State mandates/ requirements	0.3	16.1

Source: City Fiscal Conditions Survey 2024
Figure Notes: Groupings may not add to 100 percent because not all categories were selected as either a positive, or a negative, factor by all responding governments. Some categories such as Value of city tax base or Health of Local Economy were more frequently selected than other categories such as Oil prices. Percentages are calculated as the proportion of all total responses to the question (n=321); respondents were able to select multiple options, so the total of the count column is greater than the total number of respondents.

Figure 6: Nearly 7 out of 10 sample municipalities express minimal concern regarding potential budget shortfalls post-ARPA.

PERCENTAGE (%) OF CITIES INDICATING DIFFERENT LEVELS OF CONCERN REGARDING POTENTIAL POST-ARPA BUDGET SHORTFALLS.

	Percentage of Responses (%)
Not at all concerned	39
Slightly concerned	28
Somewhat concerned	16
Moderately concerned	10
Extremely concerned	7

Source: City Fiscal Conditions Survey (2024)
Figure Notes: Respondents were able to select only one option (n=174).

Figure 7: Seeking alternative funds and reducing expenditures among the popular strategies to mitigate the potential negative fiscal impacts of post-ARPA era.

PERCENTAGE (%) OF CITIES INDICATING WHAT STRATEGIES ARE IN PLACE TO MITIGATE FINANCIAL IMPACTS RESULTING FROM THE END OF ARPA FUNDING

	Percentage of Responses (%)
Increasing taxes	17
Reducing expenditures	49
Utilizing reserves	39
Seeking alternative funding sources	55
No strategies currently in place	28

Source: City Fiscal Conditions Survey (2024)
Figure Notes: Percentages are calculated as the proportion of all total responses to the question (n=172); respondents were able to select multiple options.

ENDNOTES

1 National Bureau of Economic Research. (2023). The COVID-19 Pandemic and Challenges Facing State and Local Governments. Retrieved from [https://www.nber.org/reporter/2023number2/covid-19-pandemic-and-challenges-facing-state-and-local-governments

2 Based on a thorough review of Management Discussion & Analysis (MD&A) section of 213 Annual Comprehensive Financial Reports (ACFR) and budget documents for FY2022, FY2023 and FY2024.

3 City of Dearborn. (2023). Management Discussion & Analysis section. In Annual Comprehensive Financial Report. Dearborn, MI.

4 City of Chandler. (2023). Management Discussion & Analysis section. In Annual Comprehensive Financial Report. Chandler, AZ.

5 City of Melbourne. (2023). Management Discussion & Analysis section. In Annual Comprehensive Financial Report. Melbourne, FL.

6 Based on the analysis of city budgets and Annual Comprehensive Financial Reports (ACFRs) for Fiscal Years 2021-2024

7 U.S. Department of Labor, Bureau of Labor Statistics. (2024). Monthly Jobs Report. Retrieved from [https://www.commerce.gov/news/blog/2023/02/news-unemployment-its-lowest-level-54-years

8 Refer to Appendix B for a detailed discussion on lag between economic and city fiscal conditions

9 Advisory Commission on Intergovernmental ations. (n.d). Property Tax Assessment Practices: A Survey of State and Local Governments. Washington, DC: ACIR.

10 In 2024 budget estimates.

11 Johnson, M., & Lee, S. (2024). Infrastructure and employee compensation: Challenges for urban economies. Urban Economic Review, 76(4), 45-60.

12 Davis, B. (2024). Funding public safety in the modern city. Public Administration Quarterly, 140(1), 112-134.

13 Smith, A. (2023). The impact of ARPA funds on city budgets. Journal of Municipal Finance, 58(2), 15-29.

14 When asked about areas of expenditure needing most adjustments post-ARPA, infrastructure with 78 percent and public safety with 41 percent were the categories most frequently cited. Other areas were mentioned in 19 percent of the responses.

15 When asked about plans to tackle potential post-ARPA challenges, 42 percent and 23 percent of the respondents, respectively, noted they either are currently developing or have fully developed such plans. A remaining 35 percent acknowledged that they have yet to start developing such plans.

16 Fiscal data for the larger 213 cities in the sample are collected manually (and double checked) to ensure the accuracy of the data. This is mainly because the estimated average in the analysis reflects weighted averages, and therefore any inaccuracies in the data entered for these larger 213 cities could significantly impact the estimated figures.

17 Analysis based on the examination of 213 ACFRs and city budget documents over a time frame of 29 years (1996-2024).

18 This is largely because the unit of analysis in City Fiscal Conditions analysis is "city budgets" and not "per capita dollars."

19 Including both the data collected through annual survey of governments as well as the data collected from publicly available data from ACFRs and budget documents.

20 Kerr, E. (2022). What We Can Learn From Past U.S. Recessions. US News & World Report; U.S. News & World Report. https://money.usnews.com/money/personal-finance/family-finance/articles/how-long-do-recessions-last-what-we-can-learn-from-past-recessions.

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