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THE CURRENT FISCAL CONDITION OF CITIES: A SURVEY OF 67 OF THE 75 LARGEST CITIES

A STUDY

PREPARED FOR THE USE OF THE

SUBCOMMITTEE ON ECONOMIC GROWTH AND STABILIZATION

AND THE

SUBCOMMITTEE ON FISCAL AND INTERGOVERNMENTAL POLICY

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

JULY 28, 1977

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LETTERS OF TRANSMITTAL

JULY 25, 1977.

To the Members of the Joint Economic Committee:

Transmitted herewith is a study entitled "The Current Fiscal Condition of Cities: A Survey of 67 of the 75 Largest Cities." This study has been prepared by the staff of the Joint Economic Committee.

The survey examines the impact of our national economy on local economies. Nothing in this study should be interpreted as representing the views or recommendations of the Joint Economic Committee or any of its members.

Sincerely,

RICHARD BOLLING,
Chairman, Joint Economic Committee.

JULY 22, 1977.

Hon. RICHARD BOLLING,
Chairman, Joint Economic Committee,
U.S. Congress, Washington, D.C.

DEAR MR. CHAIRMAN: We are pleased to transmit herewith a staff study prepared for the Subcommittee on Economic Growth and Stabilization and the Subcommittee on Fiscal and Intergovernmental Policy entitled "The Current Fiscal Condition of Cities: A Survey of 67 of the 75 Largest Cities." This study was done at our request by the Joint Economic Committee staff.

Although the sample differs from that of previous Joint Economic Committee surveys on local finances, this study is a continuation of our concern over the fiscal condition of our cities. It provides a great deal of information about the budget adjustments which cities are still finding it necessary to make, as well as an analysis based on unemployment levels and population changes. Hopefully, this study will be useful to Congress in formulating programs to assist city governments.

The views expressed in this study do not necessarily represent the views of members of either subcommittee.

Sincerely,

HUBERT H. HUMPHREY,
Cochairman, Subcommittee on Economic Growth and Stabilization.

WILLIAM S. MOORHEAD,
Cochairman, Subcommittee on Fiscal and Intergovernmental Policy.

JULY 19, 1977.

Hon. HUBERT H. HUMPHREY,
Cochairman, Subcommittee on Economic Growth and Stabilization, and

Hon. WILLIAM S. MOORHEAD,
Cochairman, Subcommittee on Fiscal and Intergovernmental Policy, Joint Economic Committee, U.S. Congress. Washington, D.C.

DEAR SENATOR HUMPHREY AND REPRESENTATIVE MOORHEAD: Transmitted herewith is a staff study entitled "The Current Fiscal Condition of Cities: A Survey of 67 of the 75 Largest Cities." The study provides a detailed analysis of the budget adjustments which cities are presently undertaking.

The study was prepared by Deborah Norelli of the committee staff. Research assistance was provided by James Hixon and Ginger Reich. The committee is appreciative of the cooperation of the National League of Cities.

Sincerely,

JOHN R. STARK,
Executive Director,
Joint Economic Committee.

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INTRODUCTION AND SUMMARY

This study analyzes the fiscal health of 67 of the 75 largest American cities as determined by the Bureau of the Census population estimates for 1975.

This study is based on a survey of these cities conducted by the Committee. Initially, a survey was mailed to each city. The responses, however, were obtained largely through an extensive network of telephone conversations. For this, the Committee is grateful to the many financial officers and their assistants who generously shared their time and experience with our staff.

The purpose of this report is to assess the impact of the current national economy on local economies. Additionally, the survey was designed to evaluate whether the Federal Government's efforts to stimulate an economic recovery were successful vis-a-vis local revenues and expenditures. Further, this survey was intended to determine the current needs of city governments and the extent of these needs, as perceived by them.

Although the sample used in this survey differs from that of previous Joint Economic Committee surveys, this report represents a continuation of the committee's concern over the fiscal condition of our cities.

The cities were categorized on the basis of high and low unemployment, and population increases and decreases. The relative unemployment level was determined in relation to the current national unemployment rate. Population increases and decreases were based on the change in the city's population between 1970 and 1975 as reported by the Bureau of the Census. There were 33 high unemployment cities. Of these, 25 cities had high unemployment and declining population, while eight had high unemployment and increasing populations. Thirty-four cities had low unemployment rates. These included 16 low unemployment/population decrease cities and 18 low unemployment cities with growing populations.

The varied budgeting and accounting practices and the disparities in the quality of the data have been taken into account and adjusted for wherever possible. Only information obtained through the survey has been used in this report.

The results of the survey are as follows:

Capital expenditures have been significantly reduced. The total capital budgets have decreased by 5 percent between fiscal years 1976 and 1977, and by as much as 13 percent in the combined high unemployment cities.

The capital needs in the surveyed cities are extensive. Fifty of the cities reported their capital needs to be an average of $448.4 million per city, or an aggregate of $22.4 billion.

The cities surveyed are no longer slashing their service expenditures or their public employment rolls, however, their combined service budgets have increased by only 5 percent. In real terms, when the 6 percent rate of inflation is considered, the total service budgets have actually been reduced by 1 percent.

The aggregate level of municipal employment has remained relatively constant between fiscal years 1976 and 1977. In fiscal year 1976, 554,894 individuals were employed by the city governments surveyed. In fiscal year 1977, this figure increased to 555,-818, an increase of only 0.2 percent. It should be noted, these figures include those individuals employed by municipalities through Federal programs and contracts.

On the revenue side, the combined unencumbered surpluses of 60 of the cities surveyed have declined by 23 percent between fiscal years 1976 and 1977. Of the five cities which had operating deficits in fiscal year 1976, two had accrued surpluses in fiscal year 1977. The other three reduced their combined deficits by 34 percent.

Tax rates are still being increased, but at a very slow pace, while tax decreases are minimal. Twenty-one cities raised their tax rates a total of $182.9 million or 2 percent of the combined budgets of these cities. Seven cities reduced their tax rates by a total of only $9.1 million; 0.3 percent of their combined budgets. In the remaining 39 cities, taxes were not changed in this period.

In conclusion, it appears that, in the aggregate, the large service and employment reductions of a few years ago have leveled off and tax rate increases have slowed considerably. Because the employment data includes individuals employed by municipalities, through Federal contracts and programs, it can be assumed that the reduction or elimination of these programs would result in a decrease in the employment rolls. Additionally, the combined unencumbered surplus is being eroded, capital expenditures have been tremendously reduced, and capital needs are great. Maintenance and upgrading of the public infrastructure and particularly reversing the current downward trend in capital expenditures, appears to be the single greatest problem facing our nation's cities. While the impact of the reduction in capital expenditures does not manifest itself immediately, over a five to ten year perod of time such reductions could result in a structural crisis for many of our nation's cities.

The high unemployment cities with decreasing populations exhibit the most acute symptoms of need. These cities have increased total service expenditures by 3 percent; in real terms this represents a 3 percent decrease in their aggregate service budgets. They have simultaneously reduced their aggregate capital budgets by 13 percent, and require 60 percent of the total amount projected for capital needs. They have, in addition, reduced their public employment by 0.5 percent. The tax rate increases in the high unemployment/population decrease cities accounted for 73 percent of the total revenue generated from tax rate increases. They have also experienced the largest aggregate reductions in their unencumbered surplus; a reduction of 32 percent from fiscal year 1976–1977 and also the largest total deficit—$682.2 million (including New York City).

Of all the cities surveyed, the 18 with low unemployment and increasing populations are clearly in the healthiest fiscal condition. For these cities, both services and capital expenditures have increased significantly. Service expenditures have grown by 11 percent, while capital expenditures have increased by 30 percent. Despite a reduction in their aggregate unencumbered surplus and a net increase in their combined tax rates, these have been at relatively small increments.

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EXPENDITURES

Services

The aggregate increase in the service budgets for the 67 cities surveyed amounted to $1,255.9 million. This represents a 5 percent increase between fiscal year 1976 and 1977. In real terms, however, when the 6 percent rate of inflation is considered, the aggregate service budgets decreased by 1 percent.

For the thirty-three cities with high unemployment, the combined service expenditures increased by 4 percent to $793.3 million. Of these cities, the eight which experienced population growth increased their service budgets by 12 percent from $783.1 million to $878.8 million. The 25 which lost population increased their service levels by only 3 percent, from $21.3 billion to $22.0 billion. In real terms, when inflation is accounted for, this is, in fact, a 3 percent decrease in the level of service expenditures.

The thirty-four low unemployment cities increased their combined service budgets by $462.6 million, a 12 percent increase from fiscal years 1976 to 1977. This was reflected almost equally in the population increase and population decrease cities. The 18 low unemployment cities which had population increases, increased their service expenditures by $213.1 million, an increase of 11 percent. The 16 low unemployment cities which experienced decreases in their populations, increased their service budgets by 12 percent; a combined increase of $249.5 million.

Of all the cities, only six reported reductions in their service expenditures. These reductions amounted to $263.8 million, or 2 percent of the combined service budgets for these cities. Of the six, three cities with low unemployment and increasing populations reduced their services by $24.5 million or 6 percent. Two cities with high unemployment and decreasing population reduced their budgets by $238.1 million, a 2 percent reduction. Only one city with low unemployment and population decrease reduced its service expenditures. This decrease of $1.2 million represents a 2 percent reduction between 1977 and 1976 service levels.

Public Employment

Between fiscal years 1976 and 1977, there was little variation in the number of municipal employees in the cities surveyed. The aggregate number of individuals employed in fiscal year 1977 was 555,818, an increase of 924 employees or 0.2 percent from the fiscal year 1976 level.

Only one category of cities reduced the number of their municipal employees. In high unemployment/population decrease cities, public employment was reduced by 0.5 percent from a fiscal year 1976 level of 320,072 to 318,246. The high unemployment cities which experienced population growth, increased their municipal employees to 35,726, a rise of 0.9 percent.

The largest increase in employment occurred in the low unemployment/population growth cities. These cities added a total of 1,876 employees, a 2 percent increase over the fiscal year 1976 level. The low unemployment cities with decreasing populations increased their public employment rolls by 0.4 percent to 114,322.

It should be noted that the public employment data includes those individuals employed by municipalities through Federal grants and contracts.

Capital Expenditures

For the 62 cities which reported data on their capital expenditures, between fiscal years 1976 and 1977 these expenditures decreased by $212.9 million or 5 percent.

Capital expenditures in the 31 high unemployment cities which reported data were reduced by 13 percent, from $2,938.6 million in fiscal year 1976 to $2,556.5 million in fiscal year 1977. The most stringent cutbacks occurred in eight of the high unemployment/population increase cities which had an aggregate decrease of 17 percent in their capital expenditures; from $274.8 million in fiscal year 1976 to $228.3 in fiscal year 1977. Twenty-three of the high unemployment/population decrease cities, likewise, sharply reduced their capital expenditures. The combined capital expenditures for these cities was $2,328.2 million in fiscal year 1977, a 13 percent reduction from the $2,663.8 million combined budget in fiscal year 1976.

The 31 low unemployment cities for which there was data reported their aggregate capital expenditures increasing at an even greater rate than the high unemployment cities are reducing their capital budgets. For the 31 low unemployment cities the capital budgets increased by 16 percent from $1,027.4 million in fiscal year 1976 to $1,196.6 million in fiscal year 1977. Fifteen of the cities which had a low unemployment rate and decreasing population reduced their capital expenditures from $419.6 million in fiscal year 1976 to $404.5 in fiscal year 1977; a 4 percent reduction. Sixteen of the low unemployment cities which had population increases, had a large aggregate increase in their capital budgets. Their combined budgets increased by 30 percent from $607.8 million in fiscal year 1976 to $792.1 in fiscal year 1977.

Capital Needs

In determining their capital needs, the cities were requested to include the maintenance, upgrading and new construction necessary to continue the utility or revitalization of their public infrastructure. This was to include such items as streets, roads, sewers, public transportation, and police stations, and to exclude housing. All cities were requested to itemize their needs. Thus, the estimates provided all correlate to specific unmet needs, as perceived by the cities.

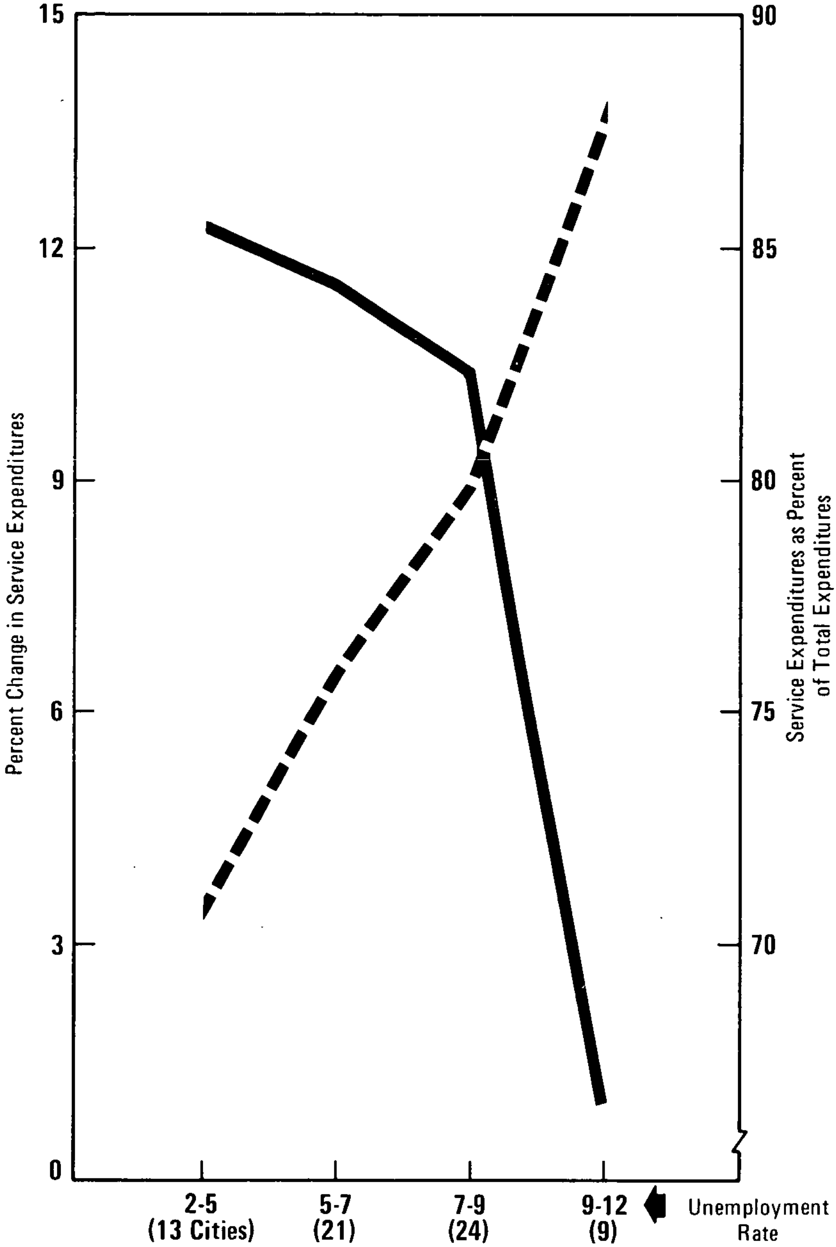
The aggregate need for the 50 cities which responded to this question is $22.4 billion. There was great variation between high unemployment and low unemployment cities. Twenty-six of the high unemployment cities projected a total need of $14.8 billion. Twenty-four of the low unemployment cities reported an aggregate need of only about half this amount—$7.6 billion. In both the high unemployment and low unemployment cities, those that are also losing population indicated the greatest relative needs, though the real needs reported by both are great. Nineteen high unemployment/population decrease cities reported total needs of $13.7 billion, while seven population increase cities require $1.2 billion. This averages to approximately $720 million per population decrease city and $170 million per city which has had a population increase.

Similarly, 12 of the low unemployment cities which have had population decreases reported capital needs of $5.6 billion or an average of $470 million per city. The 12 cities with low unemployment which have had population increases indicated a combined need of $2.0 billion; an average of $165 million per city.

CAPITAL AND SERVICE EXPENDITURES

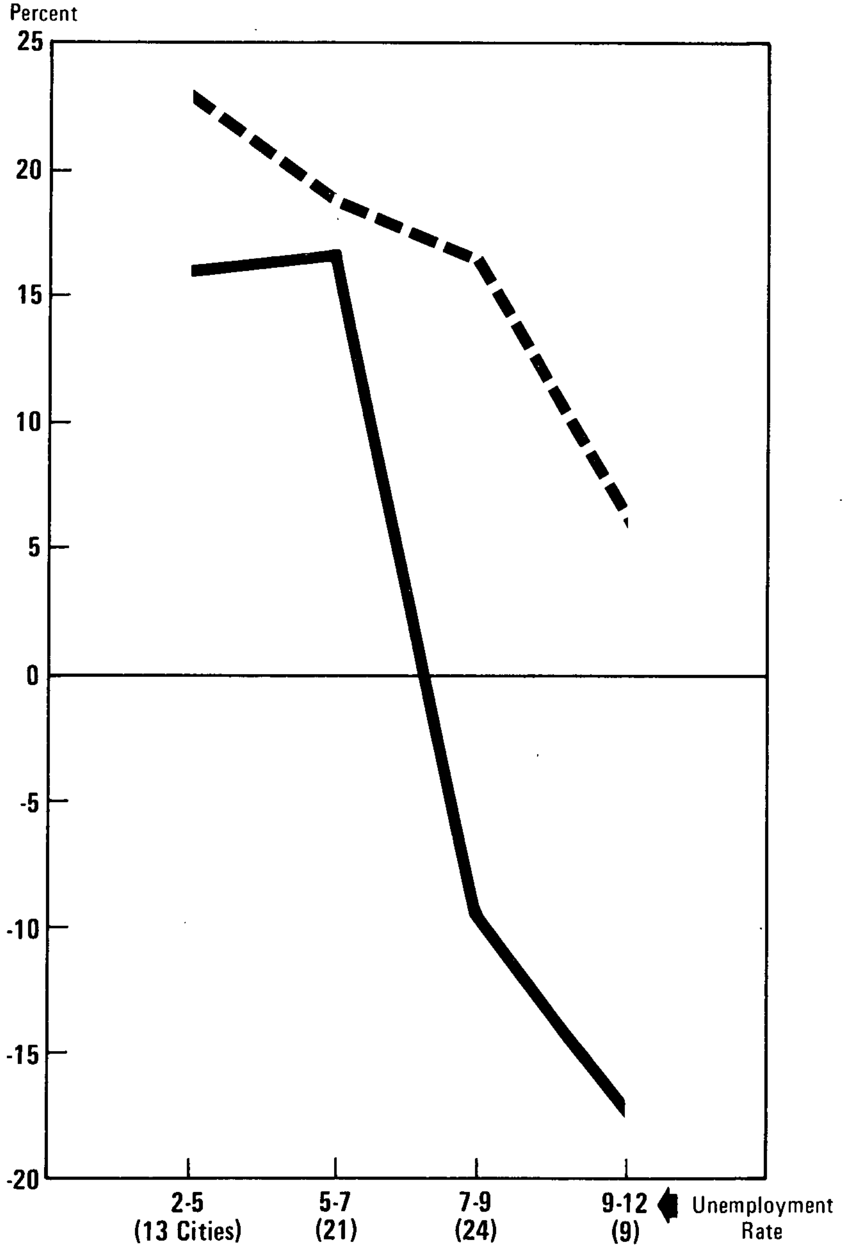
Percent unemployment	Capital expenditures		Percent change in capital expenditures	1977 capital expenditures as percent of total expenditures	Service expenditures		Change in service expenditures (percent)	1977 service expenditures as percent of total expenditures
	1977	1976			1977	1976		
2 to 5	425.9	367.0	16.1	23.2	1,301.1	1,158.4	12.3	71
5 to 7	770.7	660.4	16.7	18.97	3,092.8	2,772.9	11.54	76
7 to 9	1,403.6	1,547.0	−9.3	16.59	6,780.6	6,141.5	10.41	80
9 to 12	1,152.9	1,391.6	−17.2	6.36	16,112.62	15,959.0	.96	89

SERVICE EXPENDITURES



Note: The solid line represents percent change in service expenditures between fiscal years 1976-1977.
The dotted line represents service expenditures as a percent of total expenditures, fiscal year 1977.

CAPITAL EXPENDITURES



Note: The solid line represents percent change in capital expenditures between fiscal years 1976-1977.
The dotted line represents capital expenditures as a percent of total expenditures, fiscal year 1977.

REVENUES

Unencumbered Surplus

The total unencumbered surplus for the 60 cities for which data was compiled and which accrued a surplus in fiscal year 1977 was $658.1 million. This was a 21 percent reduction from the $832.9 million reported for fiscal year 1976. Thus, as the fiscal year progressed, these cities, in aggregate, drew down their unencumbered surplus by $174.8 million. Fourteen cities reported increases in their unencumbered surpluses, thirty-nine drew down their surpluses in the course of the year, three reduced their deficit, two turned their deficit into a surplus, and seven kept their surplus constant.

The most significant deterioration in the surplus occurred in those cities which have high unemployment and declined in population. Twenty of the 24 cities in this category which reported data, reduced their aggregate surplus by $161.6 million between fiscal years 1976 and 1977. These cities entered the fiscal year with a combined surplus of $502 million and ended it with $340.4 million, a reduction of 32 percent.

The 16 cities that have a low unemployment rate and declined in population reduced their surplus by 16 percent from $147.4 million to $123.9 million.

The cities that experienced population increases also experienced a reduction in their combined surpluses, but at a lower rate. Of the 25 growing cities, 24 accrued surpluses. Their combined surplus in fiscal year 1977 was $176.7 million, 4 percent below that of fiscal year 1976. The one growth city which experienced a deficit, reduced the amount of the deficit by 3 percent.

Four of the cities which have high unemployment and declined in population began the year with a combined deficit of $1,085.4 million. (This includes New York City.) By the end of the fiscal year, two of these cities had generated a surplus of $17.1 million, as contrasted with a joint deficit in the prior year of $46.4 million. The other two deficit cities managed to reduce their combined deficit by 34 percent from $1,039.7 million to $682.3 million.

Tax Rates

Tax rate increases and decreases occurred sporadically, with no discernable pattern—in cities with high as well as low unemployment, those with growing and those with shrinking populations. Twenty-eight cities reported a change in their tax rates in fiscal year 1977. Of these, 21 have increased their rates, generating a total of $182.9 million in increased revenue or 2.4 percent of their combined budgets. Seven cities have reduced their tax rates reducing revenues by a total of only

$9.1 million, or only 0.3 percent of the combined budget for these seven cities.

A total of 14 high unemployment cities increased their tax rates producing an additional $139 million, 2 percent of the total budget for these cities. The increase in low unemployment cities totaled $43.9 million. This represents 4 percent of the combined budgets for these seven cities.

Thirteen of the high unemployment/population decrease cities increased their tax rates, generating a total of $134 million, 2 percent of the combined budgets for these cities. The increases for these cities represent 73 percent of the combined revenue increase which resulted from tax rate increases. Only one high unemployment/population increase city raised its tax rate, generating an additional $5 million; 2 percent of the city's total expenditures.

Three low unemployment/population increase cities raised their tax rates. The rate increase resulted in $18 million in increased revenue, or 3 percent of the combined budgets of these cities.

Four low unemployment cities with decreasing populations raised their tax rates, increasing combined revenues by $25.9 million. This represents 5 percent of the total budgets of these cities.

Tax rate decreases for all categories of cities, high and low unemployment and population increase and decrease, were minimal. The largest combined decrease, $5.6 million, occurred amongst two high unemployment/population decrease cities. This decrease represented 0.2 percent of their combined budgets. Only one high unemployment/population increase city reduced its tax rate, reducing revenues by $2.0 million, or 1 percent of its fiscal year 1977 budget. Four low unemployment cities reduced their tax rate; two with population increases have reduced their tax rate by $0.7 million, and two population decrease cities have cut their taxes by a combined total of $0.8 million. The four low unemployment cities reduced their revenues by 0.2 percent of their combined budgets.

Tax Revenue

The total increase in tax revenue generated in fiscal year 1977 over fiscal year 1976 was $1,138.5 million (4 percent of total expenditures). These increases do not include the increases derived from changes in the tax rates, but are accounted for predominantly by property reassessment and from revenue increases resulting from sales, income, and utility taxes.

The largest revenue increase occurred in low unemployment cities. Twenty-nine of these 34 cities generated an increase of $768.3 million or 15 percent of their combined budgets. The bulk of this increase was generated in 16 low unemployment/population increase cities. These cities increased their revenues by $693.4 million—24 percent of their combined budgets.

Four low unemployment/population decrease cities increased their tax revenues by $74.9 million, or 4 percent of their combined budgets.

Twenty-six of the 33 high unemployment cities generated $370.2 million in increased tax revenue. This amounted to 4 percent of the combined budgets for these 26 cities. The increased tax revenues as a percent of combined budgets was equally small for population increase and population decrease cities which experienced high unemployment. Seven of the population increase cities generated increased revenues of $28.2 million, 3 percent of their combined budgets. Nineteen of the cities which experienced population decreases accrued $342 million in increased revenues, 4 percent of their combined budgets.

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