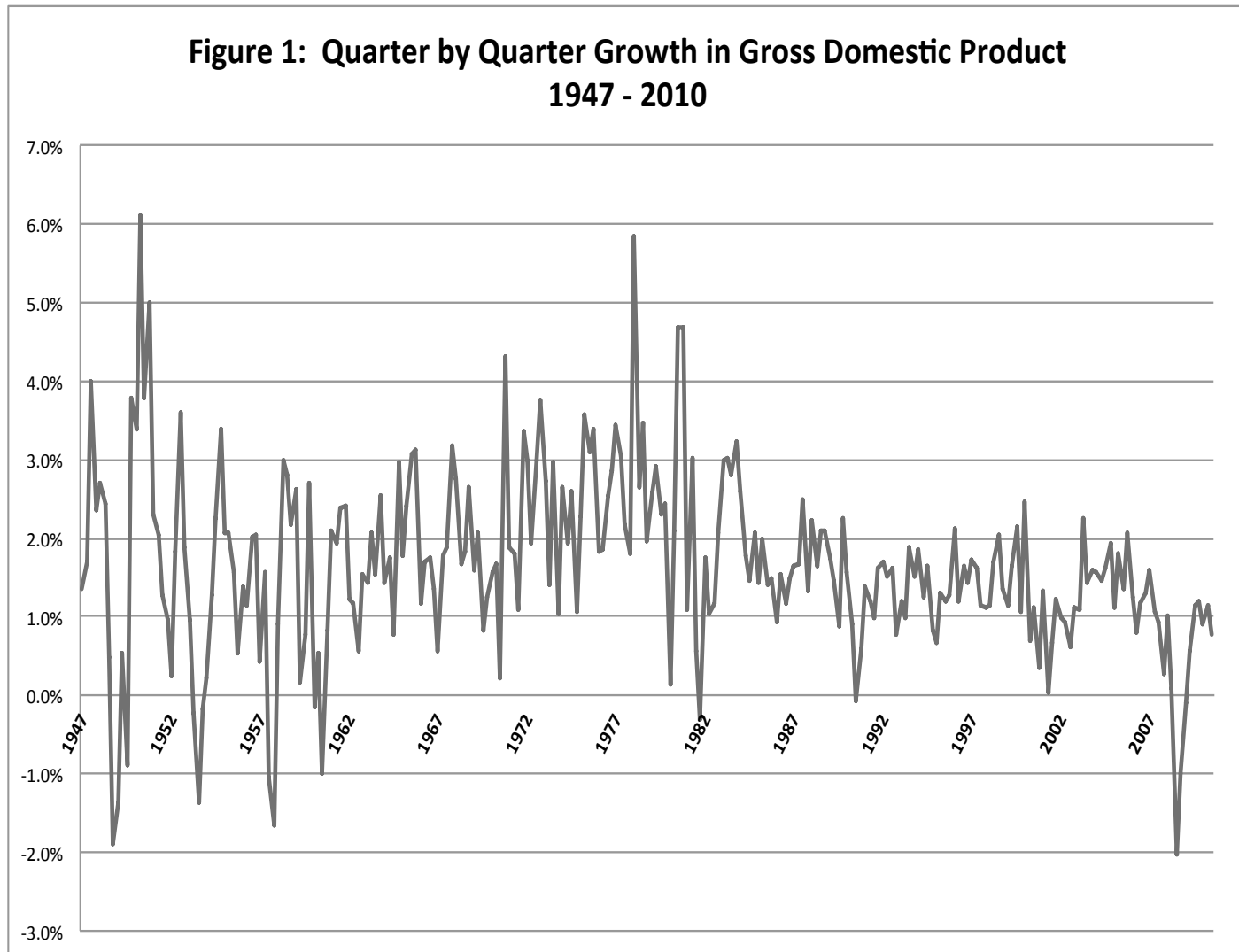


FISCAL INSTITUTIONS AND
FISCAL HEALTH: A
COMPARATIVE STUDY
ACROSS SIX BIG CITIES IN THE
U.S.

LARRY MILLER, ASSISTANT PROFESSOR
RUTGERS UNIVERSITY

The Great Recession



Why Do Cities Matter?

- Six case study cities account for \$3 trillion, or 1 in every 5 dollars of productivity in the U.S.
- Nearly 90 percent of city CFO's report that they will be less able to meet fiscal needs in 2010 compared with 2009 (Nat'l league of cities)
- Revenue pressure – especially from declining property tax receipts and cuts in state aid
- Fiscal pressures related to poor economic health, health care and retirement costs

Case Study Format

- Lack of nationally representative, standardized budgeting data
- Information costs of comparative budgeting studies over time are very high
- 14 scholars working in 8 universities, all based in the city they studied allow us to leverage institutional knowledge and personal relationships

Case Study Cities

- Atlanta
- Chicago
- Dallas
- New York
- Phoenix
- Seattle

Case Study Cities: 2 Consecutive Quarters of Economic Contraction

- **Atlanta**
- **Chicago**
- **Dallas**
- **New York**
- **Phoenix**
- **Seattle**

Case Study Cities: Recession > 12 Months

- **Atlanta**
- Chicago
- Dallas
- **New York** (second biggest increase in housing prices)
- **Phoenix** (biggest increase in housing prices)
- Seattle

Budget Balance

- Recurring revenues and recurring expenses about equal and at even growth rates (Forsythe)
- Case study cities in balance before the Great Recession
 - New York City
 - Seattle
 - Phoenix
 - Dallas
- Case study cities out of balance before the Great Recession
 - Chicago
 - Atlanta

Budget Balance: Cities with BBR's

- Recurring revenues and recurring expenses about even and at even growth rates (Forsythe)
- Case study cities in balance before the Great Recession
 - **New York City**
 - Seattle
 - **Phoenix**
 - **Dallas**
- Case study cities out of balance before the Great Recession
 - Chicago
 - **Atlanta**

Rainy Day Funds

- Budget stabilization or "rainy day" funds allow governments at any level to set aside excess revenue for use in times of unexpected revenue shortfall or budget deficit (Reuben).
 - ▣ New York City (pre-paid interest on debt)
 - ▣ Seattle
 - ▣ Phoenix
 - ▣ Dallas (only city with a floor or minimum amount – 5%)
- Case study cities without budget stabilization funds
 - ▣ Chicago
 - ▣ Atlanta

Reserve Funds

- Cities that consumed some of their fund balances, rainy day accounts or other savings
 - Dallas
 - NYC – tapped into retiree health care benefits, too
 - Seattle nearly drained their small rainy day fund
 - Phoenix
- On the contrary, Chicago consumed an 8% fund balance during the boom times preceding the Great Recession
- Atlanta used up their reserves in 2002

Financial Reporting

- There's NYC and then there's everyone else
 - ▣ Four year forecast budgets
 - ▣ Budgets updated quarterly
 - ▣ Programs to Eliminate the Gap (PEG's) well documented and communicated
 - ▣ A notable exception to the high level of transparency is the absence of a formal rainy day fund
- No other city in our sample provides a forecasted budget

Fiscal Condition After the Great Recession

- Fiscally healthy case study cities
 - NYC
 - Seattle
 - Dallas
- Case study cities with fiscal health concerns
 - Phoenix
- Fiscally unhealthy case study cities
 - Chicago
 - Atlanta

Key Findings

- Robust financial management institutions predict healthy fiscal condition with the notable exception of Seattle's robust economy
- While Dallas does not have the institutional demands of NYC, they augment their BBR and Rainy Day requirements with a strong commitment to PPB
- Strong fiscal performance today in NYC has origins in the way the state responded to NYC's near bankruptcy in the mid-1970's