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City Fiscal Conditions 2016

But cities are still dealing with slow revenue growth and rising costs, according to a new report.

City revenues have struggled to get back to pre-recession levels. But things may finally be looking up.

On Thursday, officials announced that they expect city incomes to fully recover by next year — a decade after the start of the Great Recession.

It's by far the longest revenue recovery period in more than a generation as the bounce back period after the previous two recessions was done in half the amount of time. Currently, officials estimate that city revenues (accounting for inflation) have reached 96 percent of what they were in 2006, the year before the recession started.

The new prediction comes amid growing overall stability in city fiscal conditions as outlined in Thursday's report by the National League of Cities (NLC). With the financial crisis now far in the rearview mirror, city finance officers say they're highly optimistic about their fiscal stability — 81 percent feel they're better able to meet their needs than they were last year.

It's one of the most optimistic responses in the 30-year history of the NLC's annual fiscal survey of more than 19,000 cities, towns and villages.

"This is exciting news because this is the first time we are able to report sustained growth in city fiscal conditions," said Christiana McFarland, a co-author of the report, at a press conference.

As a whole, she said, cities seemed to have embraced more conservative budgeting practices. At the same time, stronger-than-expected economic growth has been seen in many places in recent years.

Last year, for example, the cities on average had budgeted for revenues to increase by one-third of a percent. The actual increase ended up being 3.7 percent. The average budgeted revenue increase for the current year is a half-percent.

Meanwhile, spending and the pressures that fixed costs are placing on city budgets are a big concern. A number of governments have delayed increasing spending on things like infrastructure and pension payments — line items that tend to grow exponentially the longer they're put off.

"Those things are now coming home to roost," said Michael Pagano, a dean at the University of Illinois at Chicago and the NLC report co-author.

Pagano added that cities with more taxing flexibility — such as those that rely on property, income and sales tax — are best positioned to adjust their revenue to match their spending needs.

But most cities don't have all three of those levers from which to pull. In addition, many cities have restrictive tax limits.

Houston, for example, has maxed out on a state-imposed cap on its local sales tax rate and has also reached its self-imposed general fund revenue limit. Because of that, it has lowered its property tax rate for the past two years, even as it faces increased needs from a growing population and mounting pressure to fix its underfunded pension system. Mayor Sylvester Turner wants to ask voters to lift the city's revenue cap but faces resistance from members of city council who want the city to identify and eliminate areas of wasteful spending first.

The political difficulty of raising taxes is the main reason cities are turning to fees as a means of raising revenue. Over the past 20 years, fees have grown to account for 40 percent of city revenue, surpassing property taxes. The NLC survey reported that two out of every five cities raised fees in the past year — twice the number that reported raising property tax rates.

Fees, however, are by no means a cure-all.

For one, increasing fees doesn't raise as much revenue as hiking taxes. In addition, McFarland noted fees have "equity concerns" for cities because lower-income residents end up paying a greater share of their incomes toward the charges than others.

Looking ahead, as wage growth nationally continues to be slow — particularly for the lower and middle classes — the report warned that income inequality "will weigh heavily on future city income tax revenues and sales tax receipts."

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