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A Troubling Trend for Cities: Slowing Revenue But Rising Spending Growth.

The annual National League of Cities report signals potentially more challenging times ahead for many localities.

Despite a relatively strong economy, most U.S. cities aren't enjoying robust revenue growth.

On Thursday, the National League of Cities (NLC) released its annual survey of finance officers across the country, finding city revenues grew by an inflation-adjusted average of only 1.25 percent in fiscal year 2017 and are expected to further slow over the current fiscal year. At the same time, spending pressures aren't subsiding, climbing at a steeper 2.16 percent last fiscal year.

Historically, fluctuations in cities' revenues have generally mirrored changes in expenditures. But the latest data from the City Fiscal Conditions report suggests spending growth is exceeding revenue growth. Annual revenue growth peaked in 2015 after declining in the aftermath of the Great Recession and has since started to decelerate, as has spending growth, but to a lesser extent.

Taken together, the findings signal potentially more challenging times ahead for many localities.

"City leaders and finance officers are being conservative and are being cautious," says NLC's Christiana McFarland, who co-authored the report. "They're being a lot smarter about how they're planning and the likelihood for uncertainty."

A number of factors are effectively holding back cities' revenues from keeping up with expenditures.

Property taxes, a major source of revenue for many local governments, are still climbing as property values increase. But they've taken a downward turn recently as the housing market has cooled down, with surveyed cities reporting growth of less than 1 percent for the current fiscal year.

Income tax revenues have similarly slowed significantly — ticking up by 1.3 percent nationally last year — as many segments of the workforce haven't experienced wage increases. Only select cities in states like Kentucky, New York and Ohio rely on income taxes, though, while most others don't assess any such taxes.

"When we look under the hood of what is happening in the broader economy, there is still expansion, but there is slower growth. That's being reflected in city finances," McFarland says.

The largest major recent drop in revenue growth has come in sales tax collections. The report's year-over-year increase of 1.8 percent was the lowest recorded in the survey since 2011. The good news for city budgets is that they're expected to eventually receive a boost after the Supreme Court ruled earlier this year that governments could collect sales taxes from businesses without a physical presence in a state. The decision's exact fiscal impact on individual localities has yet to be determined, though.

Further putting pressure on local budgets, jurisdictions in many areas have incurred cuts in state aid. Nationally, localities' own-source revenues have grown much faster than intergovernmental funding over the longer term.

Cities have typically responded, McFarland says, by shifting their revenue sources. One of the more common responses in recent years has been to levy higher fees, such as those paid for trash or parks and recreation. The NLC survey found that 41 percent of cities increased existing fee prices last fiscal year, but fewer are initiating new types of fees.

Still, forecasted revenue growth remains slightly positive. The report also notes that finance officers typically take a conservative approach in forecasting revenue growth, so actual final numbers will likely be above those reported in the survey. But NLC doesn't expect budgeted fiscal 2018 revenues to exceed those recorded last fiscal year.

On the spending side, major line items most commonly requiring more city spending last year included employee wages (88 percent), infrastructure (71 percent) and public safety (78 percent).

Individually, many cities are faring better or worse than the aggregate survey results suggest. About 63 percent of cities with populations under 50,000 reported they were "better able" to meet their financial needs than the prior year. Larger cities reported more positive findings, with 84 percent of the biggest cities over 300,000 residents saying their ability to meet financial needs had improved.

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