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Report: U.S. City Finances Facing Slow Growth and Increasing Costs.

American cities' finances remained stable this year after notable revenue improvements in 2013, but cities still can't claim a full recovery from the recession, a new report said Tuesday.

Cities did make some key gains in fiscal year 2014, the City Fiscal Conditions Survey by the National League of Cities found. Mainly, they have started to make up for areas where there were spending cutbacks during the downturn and they are increasing their reserve funds. And the overall positive figures are widespread – 80 percent of city finance officers reported improved fiscal conditions this year, the highest such number in the 29-year history of the survey.

Still, the economic future for local governments should by no means be called a boon. After reporting much-improved revenue totals in 2013, this year's numbers are expected to mark slower growth as cities close out the books on their 2014 fiscal year that ended on June 30. Last year, general fund revenues increased by an average of 2.8 percent – the first positive growth since 2006. But this year's revenues are expected to dip slightly in comparison.

The slowdown is a characteristic of the incredibly slow pace of the economy following this recession, when compared to past ones, said Christiana McFarland, a research director at the NLC. "So much of this [improvement]," she said, "is tempered by the relative context of the economic recovery."

The stagnated growth is due to slower sales and income tax revenues this year. But there are still reasons to be optimistic. For one, 2014 will mark the first time in four years that local governments will see an increase in property tax collections. Stabilized budgets have allowed cities to start investing in infrastructure again. This year also marked the first time in six years that more cities are increasing rather than decreasing their workforces.

In another positive step, cities have been adding to their financial cushion to help them weather the next downturn. The ending balances of general funds (cash cities typically use for emergencies) are projected to average 22.4 percent of general fund expenses in 2014. It would be the highest such savings total since cities had more than one-quarter of expenses in reserve in 2007.

It's essential that cities not only continue to add to their reserves but look at how they should institutionalize the practice, said Moody's Senior Economist Dan White at the NLC press conference in Washington, D.C. "It's something that's got to be done now while we're cautiously optimistic, because if we wait a few years down the line, we're going to be caught flatfooted," he said. "One of the reasons we're so sluggish coming out now is the states and local governments didn't have enough in reserve."

To that end, the financial pressure on city budgets will increase. Local governments expect higher demands on spending in future years, primarily driven by the increasing cost of services, retiree pensions and healthcare for employees and retirees. Cities can raise fees (nearly half did this year) or property taxes to combat rising costs. But many expect much of their revenue growth will be eaten up by these looming liabilities.

External factors also play a role and leaders Tuesday promoted NLC’s national agenda. Officials called on Congress to pass the Marketplace Fairness Act, which would allow states to tax Internet sales by companies that do not have a physical retail location in that state and to raise the federal minimum wage because the fast growth of low-wage jobs affects local economies and tax receipts.

Still, said Houston Controller Ronald Green, the post-recession economy is teaching city leaders how to walk the line between providing services in the best way possible while trying to prepare for the next crisis.

“That’s the biggest balancing act,” he said. “How do you remain cautious and how do you remain optimistic?”

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