As Economy Booms, U.S. Cities Report Slowing Revenue Growth.

- **Property, sales tax revenue projected to stagnate in 2018**
- **Results echo cautionary signals from previous downturns**

U.S. cities are seeing the growth of their tax collections slow, suggesting local governments' gains from the more than nine-year economic expansion are diminishing even as they face pressure to spend more on wages, pensions and infrastructure, according to an annual survey by the National League of Cities.

City general-fund revenues are projected to stagnate in 2018 after increasing 1.25 percent in 2017, as property, sales and income tax collections slow, the group found. The share of cities reporting that they're more able to meet their financial obligations than they were a year ago rose slightly to 73 percent, after slipping to 69 percent last year, the lowest since 2012, when many were still contending with some of the fiscal aftermath of the housing crash and recession.

"Although fiscal health is not yet declining, these conditions echo several cautionary signals from previous economic downturns," according to the report, which is based on results from 341 cities.

The findings are surprising, given the strength of the U.S. economy and the housing market that provides a big share of cities' tax collections. Consumer confidence is near an 18-year high and the nation's gross domestic product expanded at its fastest clip in four years during the second quarter. On Wednesday, the Census Bureau reported median household income rose 1.8 percent in 2017, when adjusted for inflation.

The biggest drags on municipal finances stem from rising wages and the need to rehabilitate aging infrastructure: Ninety-four percent of officials reported that wages rose and 86 percent reported the cost of infrastructure increased. Spending growth continues to outpace revenue growth, according to the survey.

Thirty-five percent of respondents said Congress's narrowing of cities ability to refinance tax-exempt bonds has already had a negative impact and 61 percent expect it will harm cities' future fiscal health.

Growth in property-tax collections, typically the biggest source of municipal revenue, is anticipated to slow to less than 1 percent in 2018 from 2.6 percent the prior year. The survey projected stagnant sales-tax growth, though that may change because of the U.S. Supreme Court decision that expands states' ability to tax online retailers.

Common Action

The previous inability to collect state and local sales tax on Internet retailers that didn't have a fiscal presence in a state cost state and local governments an estimated $26 billion in foregone tax revenue in 2015, according to the National Conference of State Legislatures and the International

Council of Shopping Centers.

Loath to raise property taxes or restrained by law from doing so, the most common action taken to boost city revenue is to increase fees. About two in five finance officials said their city raised fee levels, while one in five reported increasing the number of fees that are applied to services.

“In some places, adding new fees may not be a politically feasible policy option, while in others the city may have already levied fees on all applicable services,” the report said.

The National League of Cities survey points up regional and demographic differences, affecting the fiscal health of municipalities. Finance officers in southern cities are more likely to report being able to meet fiscal needs as do larger cities, which have been experiencing faster economic growth and expanding tax bases.

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