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Big Cities Mostly Prepared to Weather Next Recession, Report Says.

Chicago and Detroit are outliers, least able to withstand a recession, among the big cities examined by Moody's, which looked at how prepared cities are when a downturn comes.

If a recession descends on the U.S., a recent report that looked at the finances of major urban centers found that 23 of the country's largest 25 cities are fiscally prepared.

The analysis by Moody's Investors Services, a business and financial services company, concluded that 17 of those cities are "moderately prepared" for a recession, while six—Boston, Charlotte, Denver, San Antonio, San Francisco and Seattle—are in strong positions. But both Chicago and Detroit are in weaker states if there is a financial downturn, the analysis found.

Moody's does not anticipate a recession in the immediate future, the report notes, though risk of a downturn "remains elevated." The findings are in line with a recent survey by the National League of Cities, which highlighted that finance officials from big cities are concerned about a recession coming as soon as next year, while remaining generally optimistic about their governments' ability to deal with the decreased revenues that would likely follow.

The analysis examined four factors to determine preparedness, including fiscal volatility, reserve coverage, financial flexibility and pension risk. The results reflect a city's ability to handle a recession of similar magnitude to the economic downturn in 2008 and 2009, and show that 23 of the country's 25 largest cities by population can emerge from a similar crisis without a "material adverse credit impact." That's largely due to cities' smart investments in the past decade, said Nicole Serrano, a vice president and senior analyst for Moody's.

"A majority of local governments have used the broad economic expansion of the past decade to strengthen their finances," she said in a statement. "Additionally, they have been able to keep their debt and related fixed costs in check."

In terms of fiscal volatility, most of the largest 25 cities will not experience a "sudden, unexpected drop of revenue" of more than 5% in a future downturn based on past performance. Between 2007 and 2011, the report notes, the median largest one-year decline in revenue was 2.7%, with five cities seeing no decline at all. Most cities have also built "solid reserves" over the past 10 years, including Detroit, one of the two cities identified as least prepared to weather a major recession.

Because of that, Detroit is listed as a positive "outlier" for its funding reserves, which total more than 60% of its revenue. But the report flagged other factors that affect its credit profile, including "continued challenges related to pensions, fixed costs, revenue volatility and capital needs."

"However, Detroit has taken steps to prepare for a potential downturn: establishing an irrevocable trust to smooth spikes in pension contributions, developing a capital improvement plan that identifies a variety of sources to finance capital investments, and continuing to increase its already strong reserves," the report says. "If these trends continue, Detroit's overall preparedness for a future recession will be more in line with major city peers."

Seattle, meanwhile, remains well prepared thanks to a revenue resurgence in 2011 that helped the city's fund balance rebound, the report notes.

"Despite modest revenue softening in 2008 and 2009, the city increased spending, creating a structural operating imbalance lasting three years," it says. "The city returned to surplus operations in 2011 after a rebound in revenues that year, and fund balance stabilized."

Route Fifty

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DECEMBER 29, 2019 11:29 AM ET

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