

Bond Case Briefs

Municipal Finance Law Since 1971

The Recession Is About To Slam Cities.

The coronavirus recession will erode city budgets in many insidious ways. It will slash the casino revenues that Detroit relies on. It will squeeze the state aid that is a lifeblood to Rochester and Buffalo in upstate New York. It will cut the sales tax revenue in New Orleans and Baton Rouge, Louisiana, where a healthy government depends on people buying things.

The crisis has arrived faster than the damage from the Great Recession ever did. And it will cut deep in the fiscal year ahead, with many communities likely to lose 10% or more of the revenue they would have seen without the pandemic, according to a new analysis. That's enough for residents to experience short-staffed libraries, strained parks departments and fewer road projects. The hardest-hit cities like Rochester and Buffalo could face 20% losses.

"The Great Recession was a story of long, drawn-out fiscal pain — this is sharper," said Howard Chernick, a professor emeritus of economics at Hunter College and the Graduate Center at the City University of New York, who worked on the new analysis estimating revenue shortfalls for 150 major cities across the nation.

These numbers give a sense of the possible economic pain for cities if Congress and the White House fail to agree on a new relief package that includes aid to state and local governments. It also rebuts some of the prevailing, largely Republican arguments that have stalled those negotiations: that federal help will bail out only blue cities and those that have mismanaged their finances.

Many cities facing steep losses are in states represented by Republican senators, like Florida or Louisiana. And the analysis found little relationship between whether a place was fiscally healthy before the pandemic and the most dire projections of revenue shortfalls.

What matters more in this pandemic moment is how a city generates money: Those highly dependent on tourism, on direct state aid or on volatile sales taxes will hurt the most. Cities like Boston, which rely heavily on property taxes that offer the most stable revenue, are in the strongest position — for now.

The estimates, to be published in the National Tax Journal by Chernick, David Copeland at Georgia State University and Andrew Reschovsky at the University of Wisconsin, are based on the mix of local revenue sources, the importance of state aid and the composition of jobs and wages in each city. The researchers predict average revenue shortfalls in the 2021 fiscal year of about 5.5% in a less severe scenario, or 9% in a more severe one.

These projections cover not just municipal budgets but also every local government entity that spends money on services to residents in a given city, including counties and sewer or school districts (those budgets are adjusted for the share of residents who live within city borders). As the pandemic has worsened in many parts of the country this summer, the researchers now believe their severe forecasts are more likely.

Cities heavily dependent on sales taxes felt the implosion of the economy more immediately than

cities that count on income or property taxes. Revenue from income taxes will lag behind unemployment; property taxes are set a year or two in advance. Consumer spending, particularly by the biggest spenders, dropped sharply early in the pandemic. And it is expected to fall now for millions of workers whose added \$600 federal unemployment benefits expired at the end of July.

Broad shifts in how Americans eat during the pandemic have affected tax receipts as well: Restaurant meals are taxed, but in most states the groceries people cook at home are not.

In Colorado Springs, which relies heavily on sales taxes, those revenues plummeted in late March and April. But they crept back in May and, to everyone's surprise, the city saw slightly more in sales tax revenues in June than it did in June of last year. Mayor John Suthers attributes that to the resilience of the local military and defense sectors — and to all the online shopping residents have been doing.

Thanks to a 2018 court ruling, states can now collect sales taxes on purchases through Amazon or other online retailers, regardless of whether those retailers have a physical presence locally. That's a silver lining.

"Without the Supreme Court's intervention, in the last three years this would have been a whole different ballgame for us," Suthers said.

Orlando, Florida, is projected to suffer about as much as Colorado Springs in these estimates. But with the county responsible for many services, the Orlando municipal government will be spared the worst of the pain. Orlando City Hall's revenues rely heavily on property taxes, which were already set to grow next year. And, like Colorado Springs, the Orlando area has long benefited from population growth and a construction boom — the other side of broad demographic shifts toward the Sun Belt that have left Northeastern cities like Rochester more vulnerable.

"Maybe Orlando isn't in the same dire situation as other places," said Chris McCullion, the city's chief financial officer. But he, too, is calling for direct federal aid, as is Suthers, a Republican mayor. "This is really, really important for the long-term health of cities and states," McCullion said.

At risk is not just services for local residents in any given city, but the possibility that disparities will widen between cities that can weather this crisis and those that can't, if they are largely left on their own.

"One legacy of the Great Recession was exposing and increasing inequities between communities," said Amanda Kass, associate director of the Government Finance Research Center at the University of Illinois at Chicago. Now those disparities could grow even wider.

The New York Times

August 17, 2020 3:33 pm