CITIES ARE ESSENTIAL

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WHAT COVID-19 MEANS FOR CITY FINANCES

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ABOUT THE NATIONAL LEAGUE OF CITIES

The National League of Cities (NLC) is the voice of America's cities, towns and villages, representing more than 200 million people. NLC works to strengthen local leadership, influence federal policy and drive innovative solutions.

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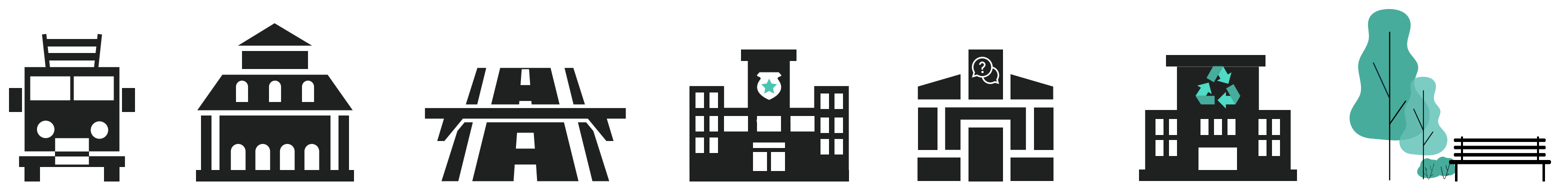
CITIES ARE ESSENTIAL



City governments across the nation provide essential services that keep our economy and neighborhoods strong. From sanitation services, water utilities and public health to affordable housing, summer youth programming and public safety, these are the services that make our communities work. As the coronavirus spiraled into a global public health and economic crisis, local leaders and municipal workers were and continue to be on the frontlines of minimizing the spread and preparing to reopen, while minimizing the financial burden of mass unemployment and industry shutdowns on residents and businesses.

Atlanta, Georgia implemented a hazard pay policy for city employees, eliminated bus fares, temporarily halted evictions, issued a stay-at-home order, and generated a $7 million fund to assist those impacted by the virus.[1] The city of Lakewood, OH launched program, which provides up to a $3,000 grant for rent payment reimbursements to small businesses adversely affected by the pandemic a rent payment reimbursement.[2] The city of Cambridge is paying restaurants to provide meals while helping them stay afloat to the homeless.[3]

Despite these efforts, the sudden, deep and all-encompassing crisis and ensuing economic decline has left city budgets with gaping revenue losses and unexpected expenses.

Lansing, Michigan expects to lose

$6-10 million in income tax revenues

$3-4 million in state revenue sharing payments. As a result, the city will need to...

cut $1-5 million in expenses.[4]

Longmont, Colorado faces a shortfall of

$15.3 million and will have to tap into reserves to manage costs associated with the pandemic.[5]

Corpus Christi, Texas estimates a loss between

$14-21 million.[6]

Evanston, Illinois expects to lose

$10.6 million primarily from lost sales tax revenue and parking ticket revenue.[7]

Detroit, Michigan projects that it will lose

$194 million in Fiscal Year 2021.[8]

Lakeland, Florida plans to eliminate

$10.2 million from its budget.[9]

KEY FINDINGS:

These examples are not isolated cases. This report profiles city budgets and details how the pandemic-induced economic downturn is affecting cities nationwide.

- Cities, towns and villages can expect to face a **$360 billion budget shortfall** from 2020 through 2022;
- City budget shortfalls are prevalent regardless of city size, but vary significantly by state. Those in Pennsylvania are set to experience the worst revenue losses, while those in Connecticut the least;
- Two-thirds of city revenues nationwide are vulnerable to immediate losses due to local economic decline;
- These losses are leading to significant cuts not only in critical public safety services, but also parks and recreation. Reduction in programming offered by parks and recreation has the potential to negatively impact economic reopening, as many families rely on local summer camps and programs for affordable childcare and youth enrichment during the summer months;
- Over one-third of the three million city employees in the nation may be subject to furloughs, layoffs and pay cuts.

CITIES WILL FEEL THE SEVERE FISCAL IMPACT FROM THIS PANDEMIC

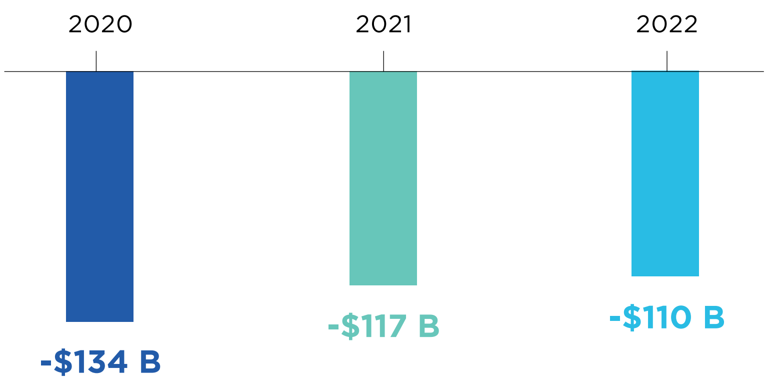
CITIES, TOWNS AND VILLAGES BRACE FOR A **$360 BILLION BUDGET SHORTFALL** FOR 2020 THROUGH 2022.

Despite significant uncertainty about how long the coronavirus and the economic impacts of the public health crisis will last, one thing that is clear is that the U.S. has entered a period of significant economic decline. From skyrocketing unemployment, jobless claims and business closures to plummeting consumer spending and income, families and businesses, particularly Americans of color, are burdened with mounting financial insecurity. As city leaders grapple with helping their communities face these new economic realities, they are also working to soften the blow to their own budgets.

To better understand the depths and contours of the fiscal impacts on cities, towns and villages nationwide, we analyzed finance data from the U.S. Census Bureau and unemployment projections from the Congressional Budget Office. We find that a one percentage point increase in unemployment results in a 3.02 percent budget shortfall for cities, towns and villages.

Collectively, this amounts to over $360 billion in lost revenues between 2020 and 2022, with shortfalls nearing $135 billion in this year alone.

Total Revenue Loss for Cities, Towns and Villages ($ billions)



SOURCE: NLC analysis of U.S. Census Bureau data (2017 total own source revenues for municipal and township goverments). Adjusted for inflation, and based on unemployement projections provided by the Congressional Budget Office.

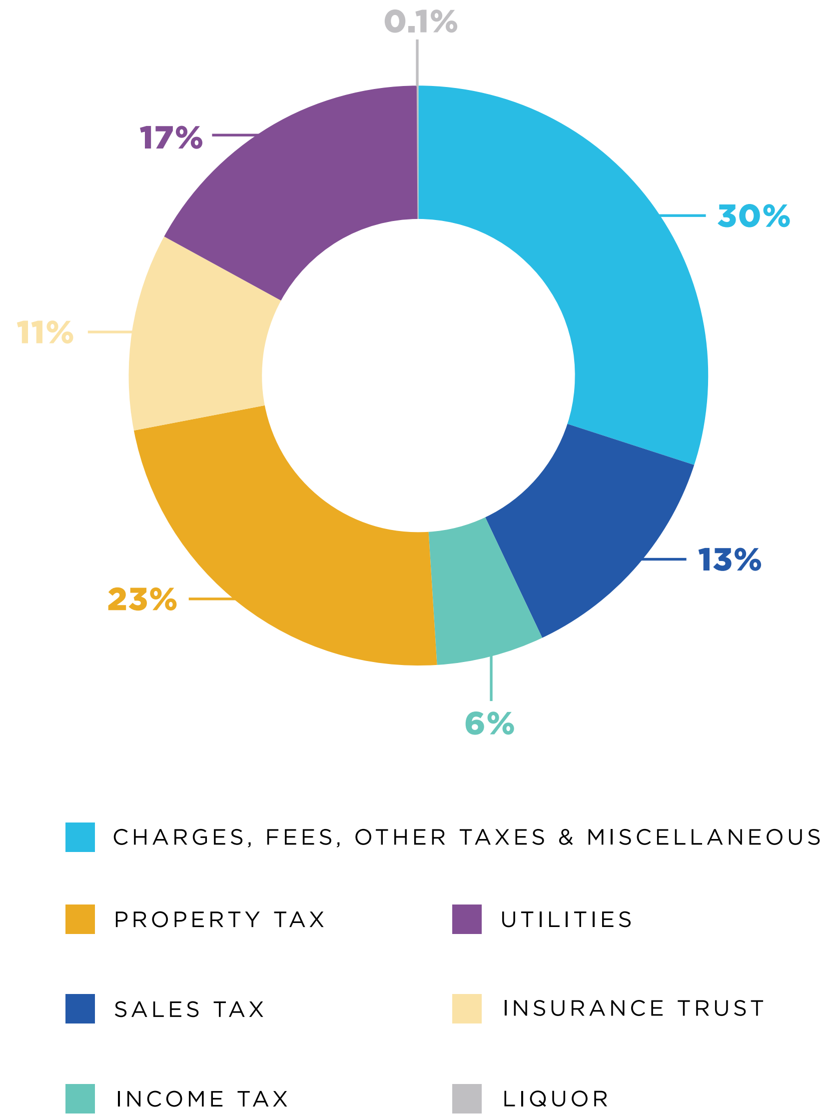
CITIES RELY ON REVENUE GENERATED BY LOCAL ECONOMIC ACTIVITY

REVENUES FROM "OWN-SOURCES" ACCOUNT FOR NEARLY 80% OF TOTAL CITY REVENUES.

Cities collect roughly $650 billion in total revenue ranging from intergovernmental aid, taxes, fees for the services cities provide, and other sources of municipal income such as from water utilities.

While approximately 20 percent of total city revenues come from aid from other local, state and federal governments, the vast majority of city revenues are derived from economic activity within their communities. These "own-source" streams include taxes (sales, property and income), charges and fees for services, and other governmental revenues on fees from utilities, insurance trusts and liquor. Property tax revenues and charges, fees and miscellaneous revenue are the most significant contributors to city budgets.

Revenue from Own Sources



SOURCE: NLC analysis of U.S. Census Bureau data

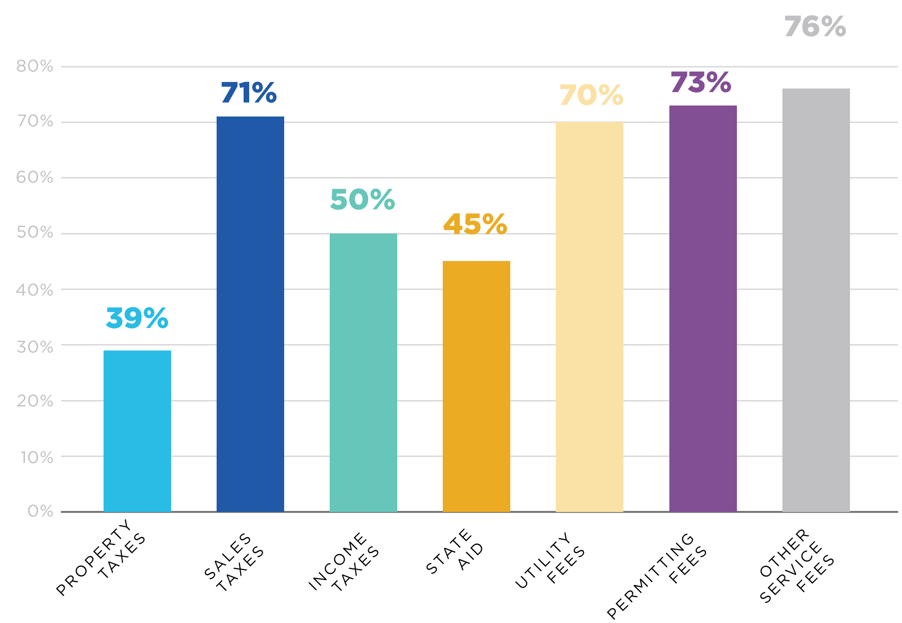
MULTIPLE REVENUE STREAMS EXPERIENCE IMMEDIATE LOSSES DUE TO ECONOMIC DECLINE

TWO-THIRDS OF MUNICIPAL REVENUE IS IMMEDIATELY VULNERABLE.

Many of the major streams of city revenue have already experienced significant and irreplaceable losses during the first few months of the coronavirus pandemic. In a recent NLC-USCM survey of nearly 2,500 city leaders, nearly all report significant revenue losses during 2020 from most own sources, with at least half of cities reporting that revenues from sales taxes, income taxes and permitting, utility and other service fees have seen immediate and significant losses.[10] These "vulnerable" sources of revenue comprise 66 percent of own-source revenues.

Cities that generate the majority of their revenue from sales taxes, income taxes and fees and charges have been hit hard as their budgets experience the immediate impacts of massive declines in jobs and consumer spending.

Percentage of Cities Reporting Significant, Immediate Losses from Revenue Source



SOURCE: NLC-USCM COVID-19 Local Fiscal Impact Survey April 2020.

For example, the city of Dayton, Ohio, which is highly dependent on the income tax announced in March that it is furloughing a quarter of its municipal workforce due to budget shortfalls.[11]

The city of Richardson, Texas' $18 million shortfall this year is attributed primarily to a decline in fees and permits resulting from a lull in construction, low hotel occupancy rates, inability of residents to pay water and sewer fees, reductions in commercial solid waste service requests, and the closing of a municipal recreation center.[12]

Property tax revenues tend to be less responsive to economic conditions generally. However, rising unemployment is dampening real-estate demand and accelerating foreclosures and missed tax payments, leading even property tax-dependent cities to feel the fiscal gravity of the downturn.[13]

Dayton, OH

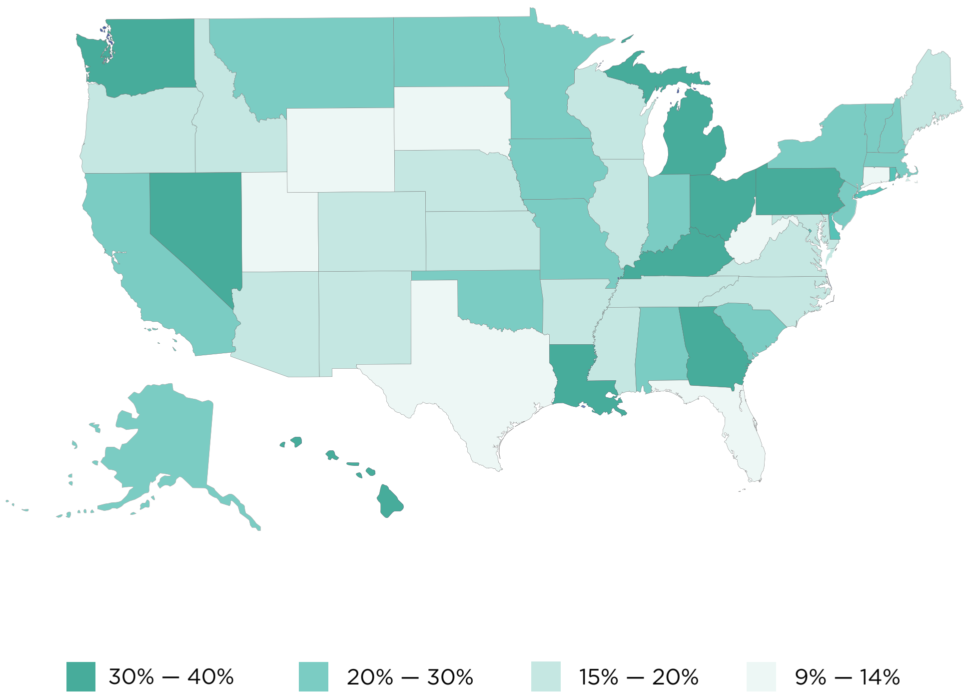
CITY BUDGET SHORTFALLS VARY SIGNIFICANTLY BY STATE

FISCAL IMPACT PROJECTIONS DEPENDENT ON REVENUE STRUCTURE AND OVERALL ECONOMIC CONDITIONS.

Budget shortfalls are the result not only of the revenue sources that cities rely on but also the underlying economic conditions driving the ebb and flow of these various revenues. Although the pandemic has forced the shutdown of the entire economy, unemployment and other economic impacts have not been evenly distributed. For example, the Bureau of Labor Statistics' jobs report revealed that nearly half the leisure and hospitality jobs were lost in April 2020. Local economies with a large share of these jobs, as well as jobs in other vulnerable industries like transportation, services, and travel, will feel the sting of unemployment more so than communities with smaller shares of these jobs.

When considering both revenue structure and unemployment, Pennsylvania cities can expect the most significant shortfall this year, representing 40 percent of revenues. Pennsylvania is projected to end the year with very high unemployment (nearly 12 percent higher than pre-pandemic baseline) and its cities rely heavily on income taxes. Connecticut cities are projected to experience the least significant shortfall, at 9.3 percent of total own-source revenues, with lower unemployment projections and a fiscal structure more reliant on less vulnerable sources, like property tax.

Revenue Loss for Cities, Towns and Villages as a Share of Total Own-Source Revenues by State, 2020



SOURCE: NLC analysis of U.S. Census Bureau data
(2017 total own-source revenues for municipal and township governments), adjusted for inflation, with unemployment projections provided by the Congressional Budget Office and unemployment claims by the Department of Labor.

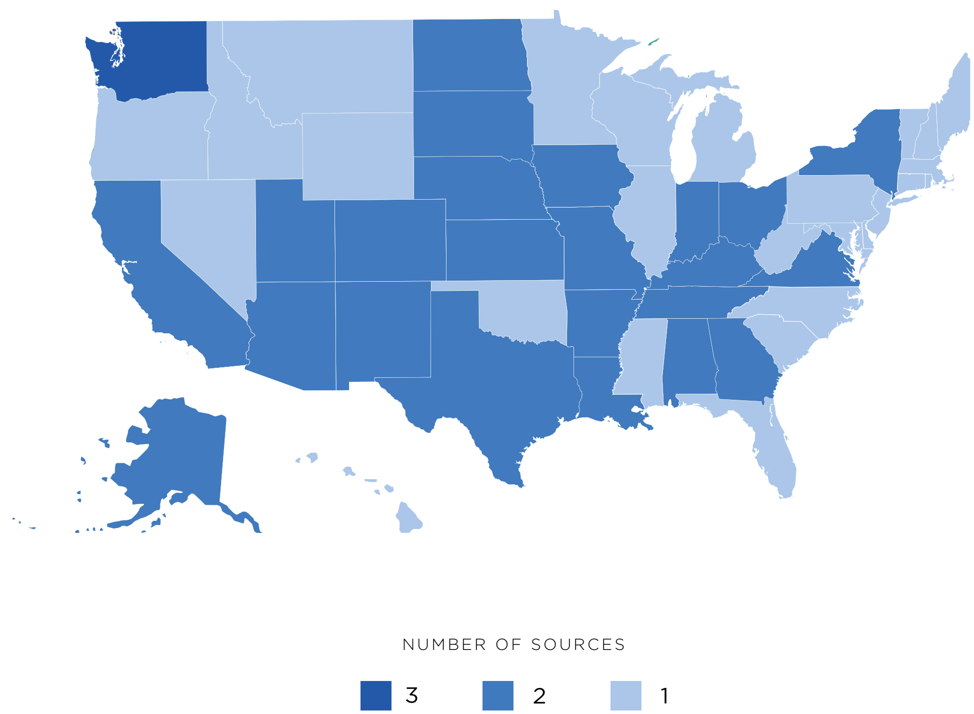
CITIES LIMITED IN REVENUE-RAISING OPTIONS

ONLY 21 STATES PERMIT CITIES ACCESS TO ONE MAJOR GENERAL REVENUE TAX SOURCE.

While nearly all states allow cities to collect property taxes, only half permit them to also collect sales tax. Even fewer permit cities at least some access to the income tax (Alabama, Delaware, District of Columbia, Indiana, Kansas, Kentucky, Maryland, Michigan, Missouri, New York, Ohio, Oregon and Pennsylvania). Overall, Washington state offers its cities the most diversified revenue options, while cities in 21 states only have access to one general revenue tax source.

Fewer revenue options limit the tools cities need to respond as economic conditions and the needs of their residents change. Less flexibility to collect a mix of sales, income and property taxes will be especially challenging in the months ahead, as state revenues and aid to cities begin to take a hit as states manage their own budget pressures. New York State already expects to cut aid to localities by approximately $8 billion.[14] While other states are determining how much specific aid to cities will be cut, Georgia and Ohio have already determined they will be cutting their overall state budgets by $3.5 billion and $775 million, respectively.[15]

Number of Tax Sources Available to Municipalities



SOURCE: NLC Cities and State Fiscal Structures Report 2015; Individual state departments of revenue 2020.

Given state- and voter-imposed restrictions on local taxing authority, as well as political challenges, local governments are limited in levying new taxes or raising existing ones. Increases in sales, income or other types of tax rates are even less common, and in the current economic climate, would prove fruitless. As a result, cities can either cut services or increase the fees charged for services, which places greater financial burden on businesses and residents, particularly those who can least afford it. In response to the current pandemic, municipalities have gone to great lengths to spare communities by permitting the deferral of additional costs. Cities such as Rochester, New York, have deferred property tax and utility payments;[16] while River Forest Village has suspended fines and fees.[17]

Rochester, NY

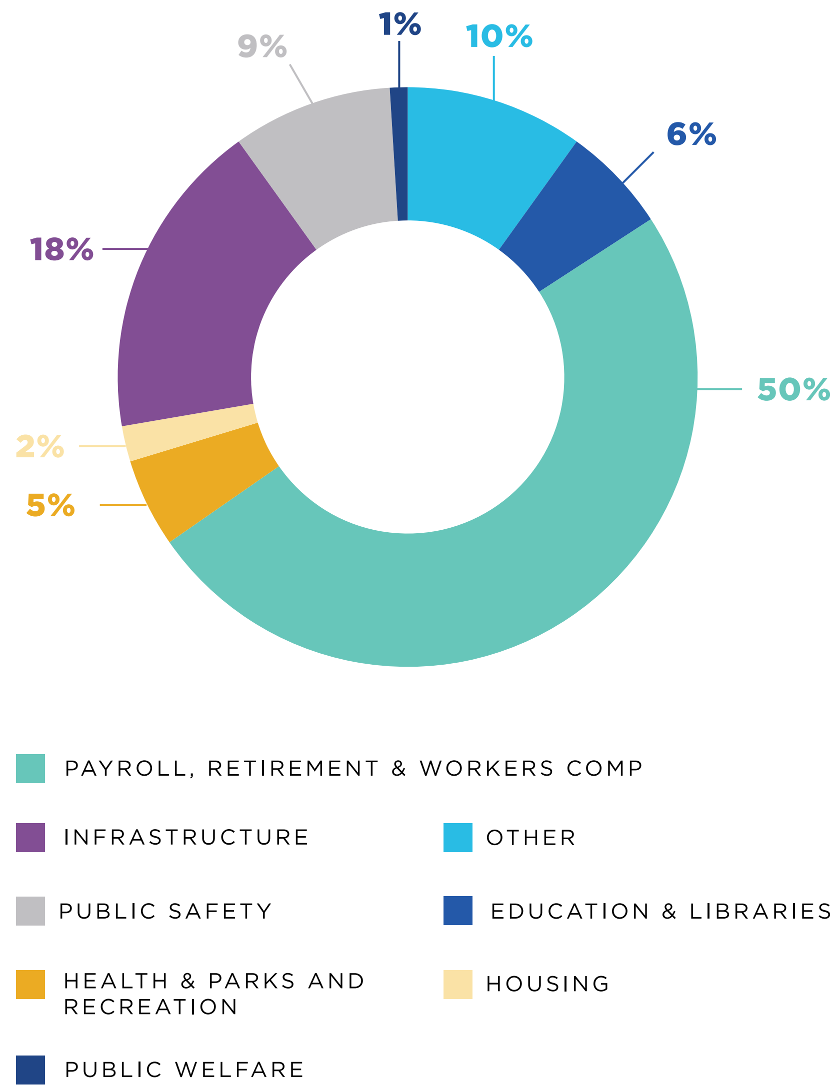
UNBUDGETED EXPENDITURES ON THE RISE

Overall, city expenditures and investments in their communities are a significant driver of economic resilience and activity. In particular, cities support a large public workforce, with payroll, retirement, and workers compensation accounting for nearly half of their budgets. Payroll for essential public safety positions, including police and fire, make up over half of payroll for city government employees.[18]

With the onset of the public health crisis, cities have taken on unprecedented increases in unbudgeted COVID-19-relatedexpenditures. The most significant expenses have resulted from critical purchases of personal protective equipment (PPE) and hospital beds and overtime pay for frontline workers.[19] State and local governments may face nearly $4 billion in unanticipated expenses over the next six months.[20]

To respond to these costs, the City of Little Rock tapped into its emergency relief fund to purchase PPE and benefit the city's World Central Kitchen food relief efforts.[21] In New York City, drastic COVID-19-related spending increases have resulted in $1.3 billion cuts over the next two fiscal years to non-COVID-19 programming and services, like early education programs, fair pricing for transit, and youth employment.[22] That's nearly $60 million a month not going toward essential city services on the precipice of a severe economic downturn when residents will rely on these services most.

Direct City Expenditures



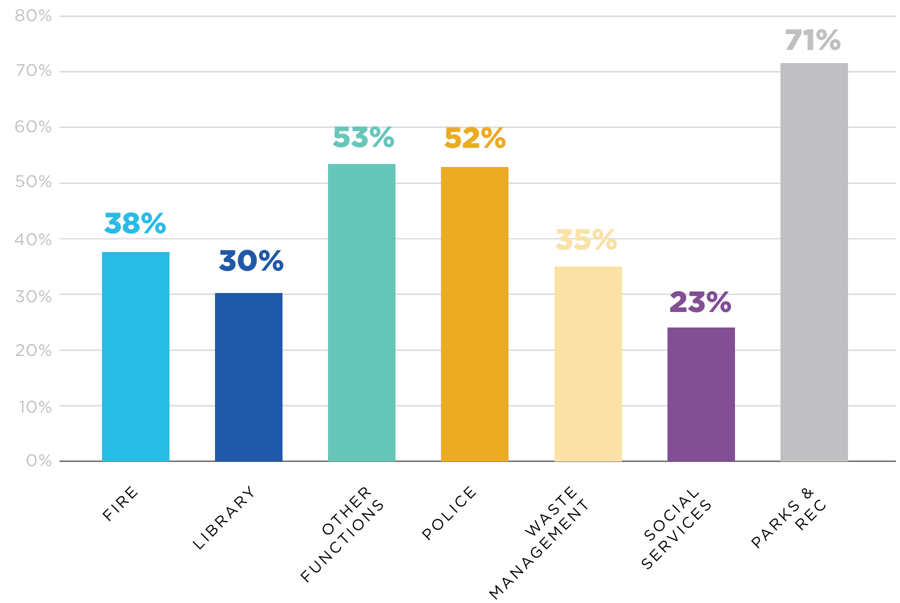
NOTE: This excludes long-term and short term debt payments, as well as cash and securities.
SOURCE: NLC analysis of U.S. Census Bureau Annual Survey of State and Local Government Finance 2017

ESSENTIAL SERVICES, WORKERS ON THE LINE

As necessary increases in spending continue and revenues decline, cities are being forced to turn to their options of last resort, which are to severely cut services at a time when communities need them most, to layoff and furlough employees, who comprise a large share of America's middle class, and to pull back on capital projects, further impacting local employment, business contracts and overall investment in the economy.

Based on a recent survey, the city government functions that cities anticipate being significantly affected by the revenue shortfall from the impacts of the pandemic include parks and recreation, other functions such as public works, and public safety.[23] Cuts to parks and recreation services (71%) in particular will negatively impact economic reopening, as many families rely on local summer camps and programs for affordable childcare and youth enrichment during the summer months that likely will not be available. Cities also anticipate their police (52%) and fire/EMS (38%) services to be significantly impacted.

Which city government functions do you anticipate being significantly affected by the revenue shortfall?



SOURCE: NLC-USCM COVID-19 Local Fiscal Impact Survey April 2020

MUNICIPAL EMPLOYEES HIT HARD

City employees are being hit hard, as the economic shutdown has caused massive layoffs, furloughs and pay cuts that affect the lives of hundreds of thousands of city employees and their families. These cuts are affecting services of all kinds and cities of all sizes. Yukon, Oklahoma has furloughed 18 employees, while Cincinnati, Ohio has furloughed 1,500. Many cuts have been to seasonal and temporary employees in parks and recreation departments. But in cities like Dayton, Ohio and Portsmouth, New Hampshire, critical services such as public works are facing strains on human resources.[24] Based on an NLC analysis of best case (10 percent impact) and worst case (33 percent impact) scenarios regarding municipal furloughs, pay cuts and lay offs, nearly one million employees stand to be affected by the fiscal challenges facing cities.[25]

POPULATION SIZE OF MUNICIPALITY	TOTAL MUNICIPAL EMPLOYEES*	# OF EMPLOYEES VULNERABLE TO REVENUE SHORTFALLS**	10% IMPACT	33% IMPACT
<50,000	996,897	867,300 (87%)	86,730	286,209
50-199,999	664,202	650,918 (98%)	65,092	214,803
200-499,999	312,789	312,789 (100%)	31,279	103,220
500,000+	974,689	974,689 (100%)	97,469	321,647
TOTAL	2,948,577	2,805,696 (95%)	280,570	925,879

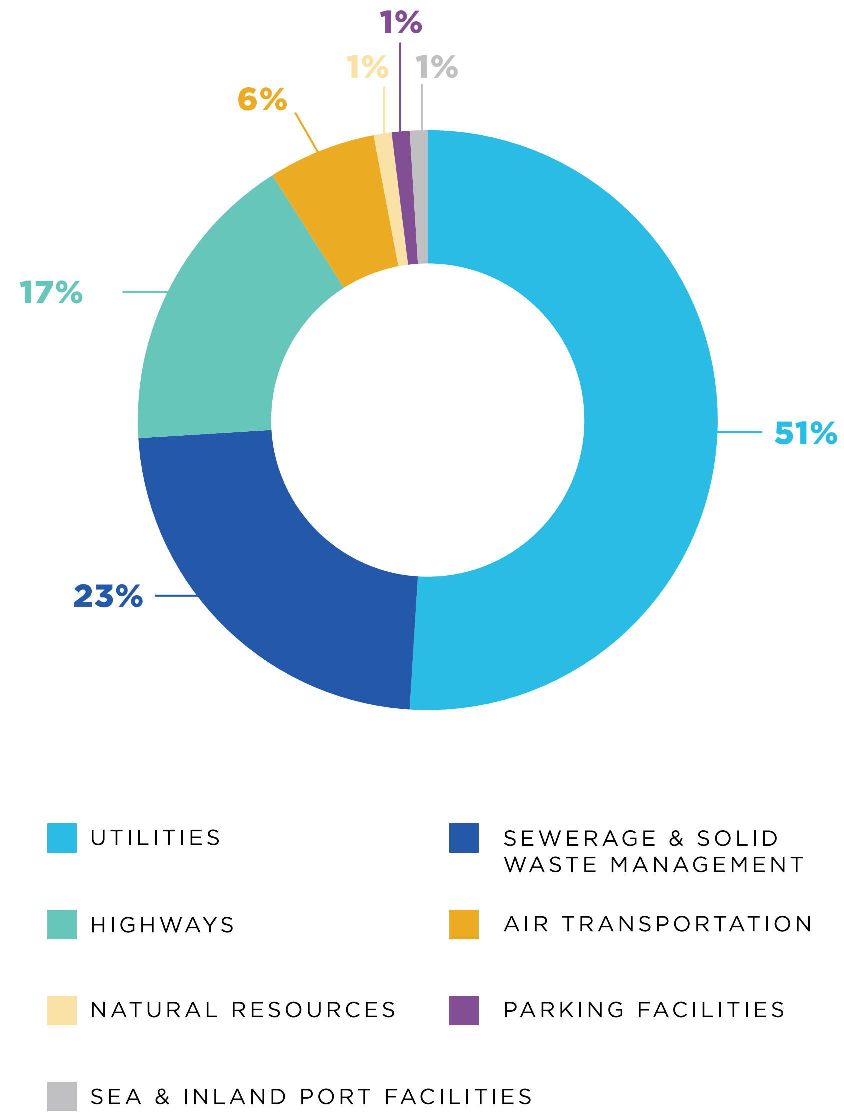
SOURCE: *NLC analysis of U.S. Census Bureau Annual Survey of Public Employment & Payroll 2017; **NLC-USCM COVID-19 Local Fiscal Impact Survey April 2020

ESSENTIAL INFRASTRUCTURE SPENDING SLASHED

Cities spend a good portion of their budget on infrastructure, at 18 percent, and more than half of cities consider infrastructure expenditures among the top three burdens on city budgets.[26] Half of all infrastructure expenditures go toward electric, gas, transit and water utilities, followed by sewerage and solid waste management at 23 percent.

But these expenditures are being dramatically altered. Detroit, Michigan cut its demolition funding by 80 percent, totaling $40 million.[27] Fargo, North Dakota slashed its improvement budget by $7 million, even though the city engineer indicated many of these projects are “shovel ready”.[28] Lansing, Michigan postponed its construction projects.[29] Round Rock, Texas postponed its capital improvement projects.[30] And St. Cloud, Minnesota postponed its deferred maintenance.[31] In total, nearly 20 percent of cities indicate public works functions could be significantly affected by revenue shortfalls.[32]

Municipal Direct Expenditures on Infrastructure



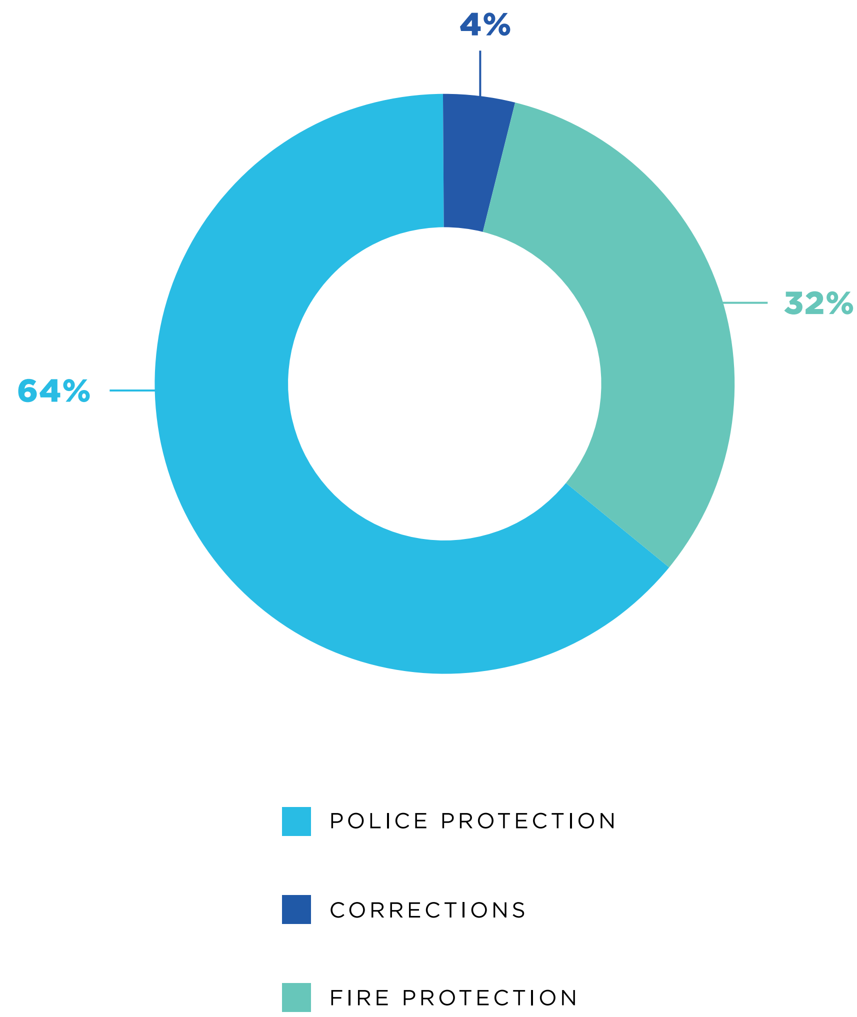
SOURCE: NLC analysis of U.S. Census Bureau data.

PUBLIC SAFETY ON THE LINE

The majority of city expenditures for public safety go toward police protection, at 64 percent, followed by fire protection. In total, public safety employees make up over 30 percent of the full-time municipal workforce. The largest share of the municipal workforce consists of police officers at approximately 19 percent, or over half a million full and part-time employees.

But our public safety officers are hurting right now. Corpus Christi, Texas expects to lose funding for their police department,[33] and Detroit, Michigan cut $1 million in funding for its police cadet program.[34] Palo Alto, California's city council recently voted to cut the public safety department's budget by 9.1 percent, which will eliminate over 25 police positions.[35] Mansfield, Ohio is considering cutting overtime for city firefighters, which could severely impact the operations of fire stations.[36] While San Rafael, California plans to reduce spending in other departments, the city will delay the purchase of new equipment and vehicles for the police and fire departments.[37]

Municipal Direct Expenditures on Public Safety



SOURCE: NLC analysis of U.S. Census Bureau data.

EMERGENCY HOUSING ASSISTANCE AT THE FORE

City expenditures for housing typically go toward affordable housing developments, transitional shelters, housing and mortgage finance agencies, and assistance for repair and renovation of existing homes. But in the face of the pandemic, cities are spending on emergency housing and rental assistance for homeless individuals, as well as on individuals and families that have lost their jobs. And while the Coronavirus Aid, Relief and Economic Security Act (CARES) Act provides $5 billion for housing stabilization efforts including rent payment to prevent eviction and $4 billion for homeless assistance grants, cities are stretching that quite far.

Cities like Newark, New Jersey set up relief funds to help low-income residents pay rent or utilities.[38] In New Orleans, Louisiana, law enforcement officials moved homeless individuals living in camps to hotel rooms.[39] Similarly, Seattle, Washington developed an emergency fund to secure hotel rooms for the homeless. Washington, D.C. adopted emergency measures that will allow the city to temporarily house homeless families for up to 60 days.[40] New York City provided homeless individuals with hundreds of isolation beds.[41] Chicago, Illinois recently paid downtown hotels and the YMCA to provide short-term housing for front-line workers and exposed individuals, and donated $900,000 to A Safe Haven to support the provision of isolation and emergency shelter for homeless individuals.[42]

Going forward, individuals experiencing homelessness will expect cities to be able to find shelters to house them and to create pathways that lead to permanent supportive housing.

APPENDIX-- NUMBER OF TAX SOURCES AVAILABLE TO MUNICIPALITIES

STATE	NOTES	PROPERTY	SALES	INCOME	NUMBER OF SOURCES
ALABAMA	Property, sales, income (Used by 4 cities)	YES	YES	NO	2
ALASKA	Property, sales	YES	YES	NO	2
ARIZONA	Property (with voter approval), sales	YES	YES	NO	2
ARKANSAS	Property, sales, income (not used by any municipality)	YES	YES	NO	2
CALIFORNIA	Property, sales	YES	YES	NO	2
COLORADO	Property, sales	YES	YES	NO	2
CONNECTICUT	Property	YES	NO	NO	1
DELAWARE	Property, income (Wilmington only)	YES	NO	NO	1
DISTRICT OF COLUMBIA	Property, sales, income	YES	YES	YES	3
FLORIDA	Property	YES	NO	NO	1
GEORGIA	Property, Sales	YES	YES	NO	2
HAWAII	Property (Honolulu is only municipality in Hawaii)	YES	NO	NO	1

STATE	NOTES	PROPERTY	SALES	INCOME	NUMBER OF SOURCES
IDAHO	Property (sales for resort cities <10,000 pop., 15 cities use)	YES	NO	NO	1
ILLINOIS	Property, sales	YES	YES	NO	2
INDIANA	Property, income	YES	NO	YES	2
IOWA	Property, sales	YES	YES	NO	2
KANSAS	Property, sales	YES	YES	NO	2
KENTUCKY	Income, property	YES	NO	NO	2
LOUISIANA	Property, sales	YES	YES	NO	2
MAINE	Property	YES	NO	NO	1
MARYLAND	Property, income (Baltimore city-county only)	YES	NO	NO	1
MASSACHUSETTS	Property	YES	NO	NO	1
MICHIGAN	Property, income (4 cities)	YES	NO	NO	1
MINNESOTA	Property, sales (some cities, 21 cities approved by State Leg.)	YES	NO	NO	1
MISSISSIPPI	Property	YES	NO	NO	1
MISSOURI	Property, sales, income (Kansas City & St. Louis only)	YES	YES	NO	2
MONTANA	Property (sales for resort cities <5,500 pop., 4 cities use)	YES	NO	NO	1

STATE	NOTES	PROPERTY	SALES	INCOME	NUMBER OF SOURCES
NEBRASKA	Property, sales	YES	YES	NO	2
NEVADA	Property	YES	NO	NO	1
NEW HAMPSHIRE	Property	YES	NO	NO	1
NEW JERSEY	Property (sales for Atlantic City, Wildwoods only)	YES	NO	NO	1
NEW MEXICO	Property, sales	YES	YES	NO	2
NEW YORK	Property, sales, income (New York City & Yonkers only)	YES	YES	NO	2
NORTH CAROLINA	Property	YES	NO	NO	1
NORTH DAKOTA	Property, sales	YES	YES	NO	2
OHIO	Income, property	YES	NO	YES	2
OKLAHOMA	Sales (property only for debt service)	NO	YES	NO	1
OREGON	Property	YES	NO	NO	1
PENNSYLVANIA	Property, income, sales (Philadelphia only)	YES	NO	YES	2
RHODE ISLAND	Property	YES	NO	NO	1
SOUTH CAROLINA	Property	YES	NO	NO	1
SOUTH DAKOTA	Property, sales	YES	NO	NO	1

STATE	NOTES	PROPERTY	SALES	INCOME	NUMBER OF SOURCES
TENNESEE	Property, sales	YES	YES	NO	2
TEXAS	Property, sales	YES	YES	NO	2
UTAH	Property, sales	YES	YES	NO	2
VERMONT	Property (some sales)	YES	NO	NO	1
VIRGINA	Property, sales	YES	YES	NO	2
WASHINGTON	Property, sales, B&O (business income) tax	YES	YES	YES	3
WEST VIRGINIA	Property	YES	NO	NO	1
WISCONSIN	Property	YES	NO	NO	1
WYOMING	Property	YES	NO	NO	1

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