

# City Fiscal Conditions: Nearing the Breaking Point

Both the local and national economies impact city fiscal conditions, creating budget pressures for cities on the revenue and expenditure side of the equation.

## Revenues are uncertain

- The national and statewide economic downturn and declining housing market impact city and state revenues, particularly sales tax and real estate excise tax.
- Many revenues that cities depend on are capped due to tax-limiting voter initiatives.

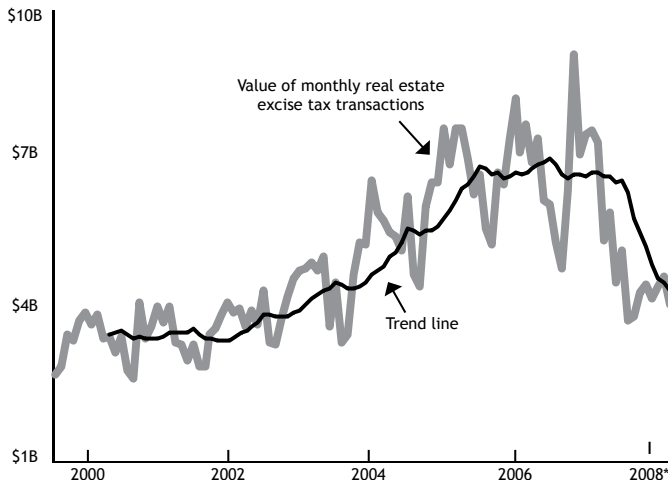
## Expenditures are growing

Cities must provide essential services regardless of economic conditions.

- Public safety—rising costs of personnel and equipment far outpace increases in inflation.
- Infrastructure—materials critical to building our most basic infrastructure systems have skyrocketed in recent years.

As a personnel-based service industry, rising health insurance and other personnel-related costs are squeezing city budgets.

The value and number of statewide real estate excise tax transactions have fallen sharply, impacting city revenues as well as important funds like the City-County Assistance Account and the Public Works Trust Fund



Source: Department of Revenue  
\*Through August 2008

## City experiences and local economies are diverse

Washington's cities are diverse. Whether small rural towns or large urban cities, business activity and the capacity to generate revenue vary widely:

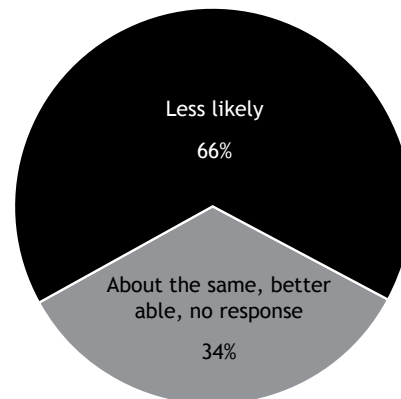
- Some cities (particularly smaller and rural communities) have struggled since the beginning of the decade after the repeal of the MVET and passage of I-747.
- Other cities were temporarily able to meet service needs with new construction revenues and a booming economy...but those days are over.

## Fiscal conditions are worsening

AWC's 2009 *State of the Cities* report found that cities throughout the state face deteriorating fiscal conditions:

- 63% of city officials indicate their city will be less likely to meet fiscal needs in 2009 than they were in 2008.
- 66% report their city will be less likely to meet fiscal needs in the next four years (2009-12).
- Many cities point to 2010 as the year they forecast significant budget gaps.

Most cities will be less likely to meet fiscal needs in the next four years (2009-12), than they were in 2008



continued

## How are cities responding to this budget shortfall?

Based on survey results about 2009 adopted budgets, cuts and reduced spending on essential city services are inevitable.

### Cities are reducing infrastructure spending

- 50% of city officials report that their city is reducing infrastructure spending from 2008.

### Cities are reducing their scope of services and their workforce

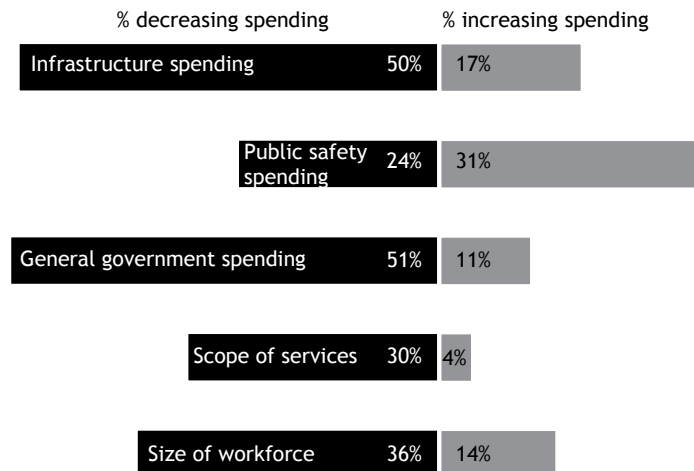
- 30% of city officials report they are reducing their city's scope of services.
- 36% report a decrease in the workforce for 2009. Many cities have frozen hiring (31%), have laid off employees (18%), and others fill vacant positions only if necessary.

### Cities will continue to seek

#### innovative ways to do more with less

In times of budget shortfalls, cities pull in, reexamine priorities and work with citizens and staff to "make it work." At some point, however, working with less resources, simply delivers less results.

### In 2009, many cities will decrease spending on important city services and other areas



Note: Graph does not capture the percentage of cities maintaining spending/services.

## Action needed

Cities are the state's long-term partners in creating and maintaining a strong Washington. Cities need continued state investment and new tools to emerge from this budget crisis. It is important to communicate information about your city's fiscal health to your legislators.

## Key city priorities and messages

- **Maintain and develop quality infrastructure for safety and development.** It is in the state's interest to help cities develop and maintain a strong infrastructure system that promotes economic development and provides the state and cities needed revenues. As public works become more complex, cities also need management flexibility.
- **Promote city fiscal health and flexibility.** Cities need broad discretion in using existing revenue sources to respond to local challenges. It's critical that cities and towns also have the authority to look for new revenue and develop innovative strategies to address local needs.
- **Provide for flexible general government operations.** It's essential that cities have the flexibility and local decision-making authority to make the right decisions for their citizens. Cities must be able to develop service delivery tools in a way that's cost-effective, efficient and flexible—and free from unwarranted restraint.



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