



Cities tackle the new normal head on

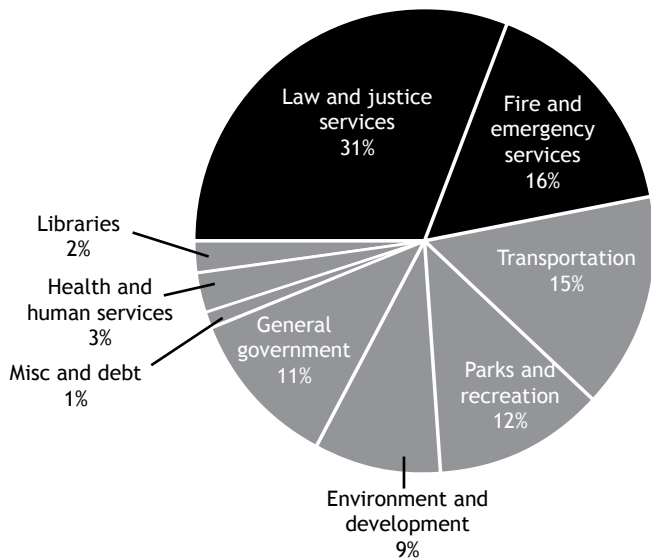
Although the Great Recession ended two years ago, it's widely acknowledged that the tough years are far from over. This was clear when city officials completed AWC's fiscal conditions survey in September 2011. Operating revenues are down and reserve funds have been tapped. Even Moody's is calling 2011 the "toughest year for local governments since the economic downturn began." Cities are fully experiencing the new normal.

Most cities struggling because of the Great Recession

Since the Great Recession began, a growing percentage of cities indicate they are worse off today than four years ago. In fall 2008, 47% of cities indicated they were less able to meet financial needs than in the recent past. That figure jumped to 77% in 2011.

Cities' responses to the recession vary according to local needs, with cuts made at different times and in different ways. After adopting budgets for fiscal year 2011, cities report making cuts to infrastructure, parks, public safety, and general government. The workforce is smaller and leaner. As city officials look to fiscal year 2012, many will continue to decrease spending in important areas like infrastructure and public safety.

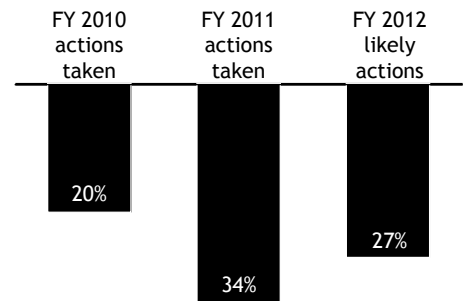
Cities provide many important community services; nearly half of the city operating budget is directed to public safety



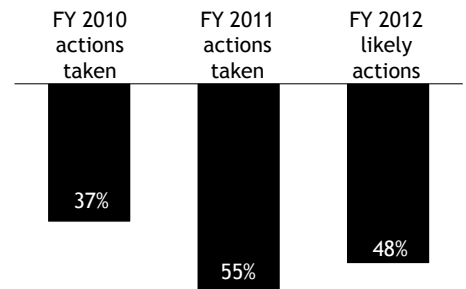
Source: State Auditor's Office Local Government Financial Reporting System; general fund, special revenues, 2010

Year after year, cities report making continued cuts to infrastructure, public safety and other vital city programs

Cities decreasing public safety spending



Cities decreasing infrastructure spending

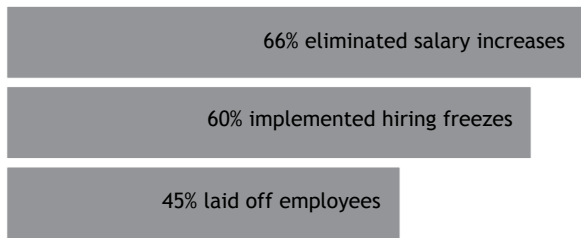


Declining revenue and decreased spending means fewer employees and fewer services. Most of the services cities provide - police and fire, street maintenance, planning, parks and recreation - depend upon the people who perform them.

Collectively, cities have fewer people working at city hall. Between 2009 and 2011, the number of full-time employees decreased 5.7%. Some cities trimmed budgets by outsourcing services. Other cities decreased personnel by not filling vacant positions and/or laying off employees.

Cities also report imposing furloughs, reducing spending on employee benefits, increasing employee contributions for health care, imposing travel restrictions, reducing employee training, and offering voluntary leave without pay.

Since 2009 cities have made the following personnel cuts

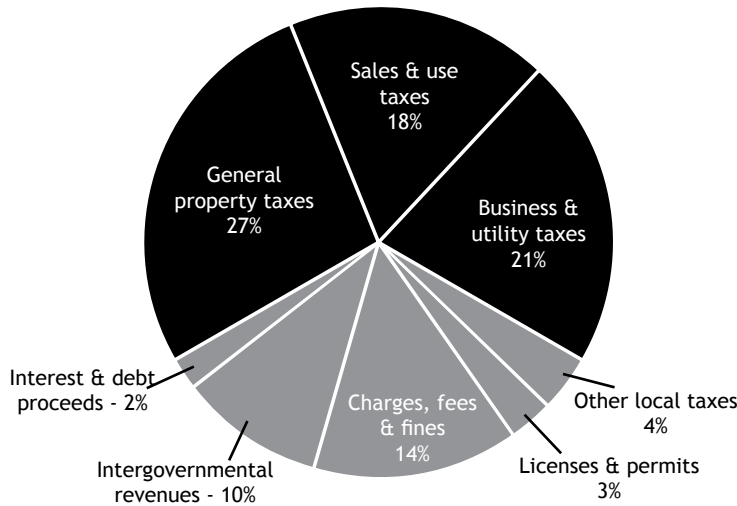


Cities primarily reliant on three revenue sources

When looking at the revenue of all 281 cities, three sources make up two-thirds of cities' operating budgets: property taxes, sales and use taxes, and business and utility taxes. Property tax has low volatility, but is limited to annual increases of only 1%. Sales tax and other excise taxes are more volatile, so while they may leverage more revenue during boom times, they fall more sharply in tough times.

Cities also provide utility services, like water, sewer, and stormwater systems that operate as an enterprise fund. Revenues from customer fees are accounted for outside of the operating budget.

Cities rely on property taxes, sales tax and business and utility taxes for the majority of operating revenue



Source: State Auditor's Office Local Government Financial Reporting System; general fund, special revenues, 2010
Does not equal 100% due to rounding.

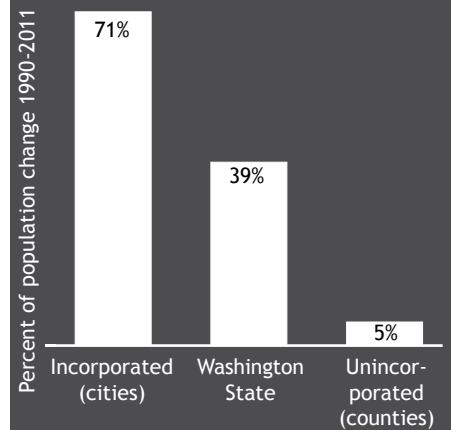
What is a city?

Washington's 281 cities and towns provide mandated and essential services that are vital to health, safety and economic activity.

- Cities employ 63% of the state's local law enforcement and fire personnel.
- Over 25% of the state's traffic flows on city-constructed and maintained streets.
- Cities support enterprise activities like water, sewer and stormwater systems, which provide dependable utility services for millions of urban residents and businesses, and protect our environment and water quality.
- Parks, libraries, senior centers and recreation activities keep communities healthy and attract prospective businesses and residents.
- Permitting and licensing ensure safe buildings and livable communities.

Cities also are home to a growing population. 64% of the state's population lives in cities, and this number keeps growing.

Since the adoption of the Growth Management Act, city population has grown far more than unincorporated areas or the state as a whole



City property tax shows modest per capita increases over time. However, sales and use tax business and utility taxes and most other local revenues fell with the beginning of the recession. City excise taxes, such as gambling tax and real estate excise tax, are at lower per-capita levels today, the lowest since the turn of the century.

Not all cities the same

From small to large and urban to rural, each city has its own sense of community and unique characteristics. There is significant variation among Washington’s 281 cities, and the adequacy of funding for local services depends on the community’s business activity and other economic conditions.

Individually, each city’s local economy and tax structure determines which revenues the city relies upon and the nature of the volatility. For example, urban cities with a large commercial center may depend heavily upon sales tax or business tax revenues. Small rural towns tend to be property-tax dependent.

Reliance on each of these revenue sources comes with its own challenges. And due to differences in revenue make-up, the impacts of this fiscal crunch vary from city to city.

The Great Recession’s impacts on cities

When 77% of city officials responding to an AWC survey indicate that their city is less able to meet financial needs today than four years ago, it’s clear the Great Recession has impacted most cities regardless of revenue structure. With increasing unemployment rates, home foreclosures, and home vacancies, planning and utility departments are adversely impacted.

Cities also note a “trickle-down” effect when the federal state and county governments, cut services or impose mandates.

Eighty-six percent of cities note that changes at the state level - like cuts to social services - negatively impact the local criminal justice system and the ability of police to keep residents safe from crime. Nearly one in four cities report that these types of cuts have a very negative impact on the system.

Metropolitan areas are hardest hit

Generally, cities in metropolitan areas experienced a greater loss in revenue than those in rural areas. Larger, more urban cities with a larger sales and business tax base saw revenue grow more rapidly after the turn of the century. The economic boom and revenues associated with a strong housing sector and business climate allowed many of these communities to continue to provide basic city services in spite of tax-lowering measures imposed in the early part of 2000.

These cities responded to lower revenues by imposing employee layoffs, freezing hiring, and diminishing employee benefits. While the population served has increased, staffing levels decreased from a few years ago and so have service levels.

Most city per-capita operating budget revenues are down		
General property taxes	↑	
Sales & use taxes		↓
Business & utility taxes		↓
Other local taxes (REET, gambling, etc.)		↓
Licenses & permits		↓
Interest & investment earnings		↓
Fines & forfeits	↑	
Intergovernmental revenues		↓

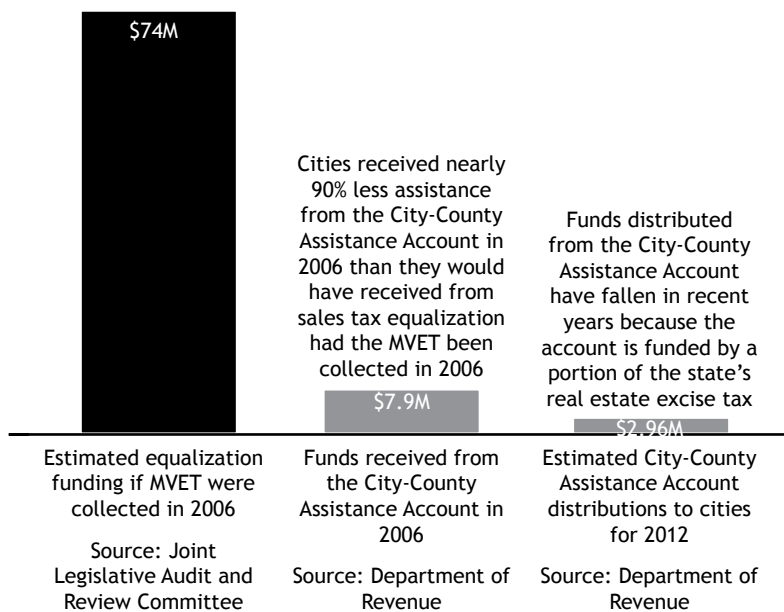
Source: State Auditor’s Local Government Financial Reporting System; general fund, special revenue 2010

Some cities never experienced the economic boom

Other cities didn't experience the boom years, and consequently they didn't experience a decline in revenues to the same degree. These mostly small and rural communities are more property-tax dependent, and were some of the proportionately larger recipients of sales tax equalization funds prior to its demise in 2000, when the Legislature repealed the Motor Vehicle Excise Tax (MVET) after voters approved Initiative 695. In the first years following this action, the Legislature provided some backfill of that lost MVET revenue, but this state funding has diminished over time.

The drop in state-shared revenue required that these cities methodically cut services and staff. With bare-bones staffing levels at city hall, these cities survived on minimal revenues ever since.

With the repeal of the MVET, low tax-base cities lost important assistance from sales tax equalization



Future outlook gloomy

It's clear that as impacts of the Great Recession linger and revenues remain stagnant, cities will feel the pinch. Over half of cities anticipate they will be less able to meet community needs in 2012 than in 2011. That number grows as cities look further into the future, with nearly three in five cities reporting they will be less able to meet needs in 2015 than in 2011.

Most cities expect to be less able to meet financial needs in 2015 than they are in 2011

