



# Fiscal Challenges Facing Smaller, Industrial Cities



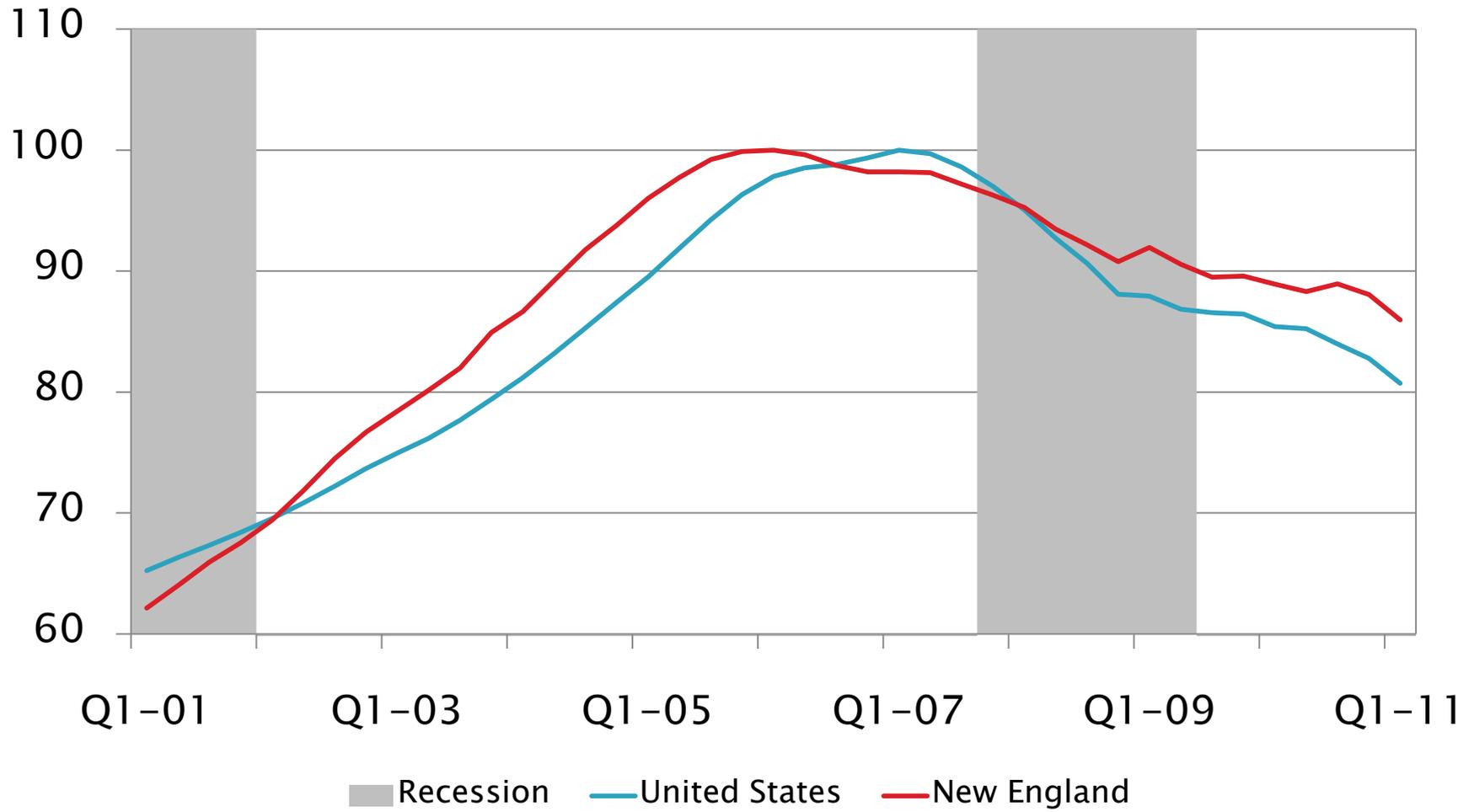
Bo Zhao, Senior Economist

Federal Reserve Bank of Boston

Conference on Collaboration and Leadership in Smaller Industrial Cities, July 13, 2011

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# Housing prices in New England declined since the pre-recession peak.



► Note: FHFA Purchase Only, Indexed to Pre-Recession Peak

# Response of Property Taxes to Housing Crisis

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- ▶ Local governments *gradually* update assessments to reflect lower market values.
- ▶ Property tax revenues lag behind changes in housing prices—3 years on average.
- ▶ Property tax revenues might decline in some places in the near future.



# State Aid Cuts

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- ▶ States tend to deeply and quickly cut local aid during a fiscal crisis
  - ▶ MA cut unrestricted general government aid 32% between FY 08 and FY 11
  - ▶ RI cut state aid over 20% between FY 09 and FY 11
  - ▶ CT proposed 2.4% across-the-board cuts for FY 12
- ▶ Across-the-board aid cuts often put more burden on smaller industrial cities that rely more heavily than others on state aid.



# Pressures on Local Spending

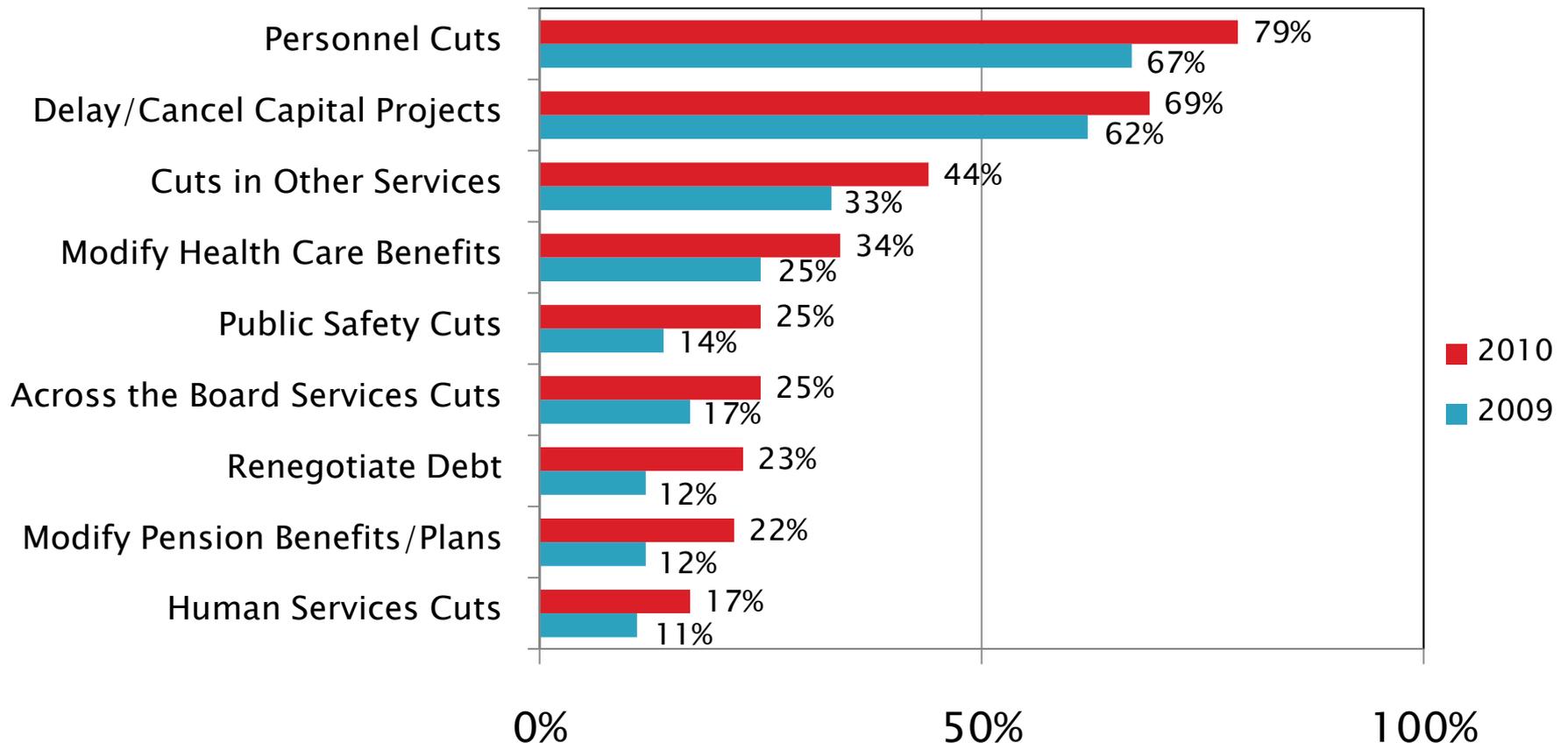
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- ▶ Economic recessions often result in increased demand for local public services.
  - ▶ Public hospitals or clinics
  - ▶ Police protection
  - ▶ Job training provided by public libraries
- ▶ Unfunded public pension and health care liabilities pose long-term risks to local governments.



# Coping with the Fiscal Crisis

## Percent of Cities that Cut Spending by Category

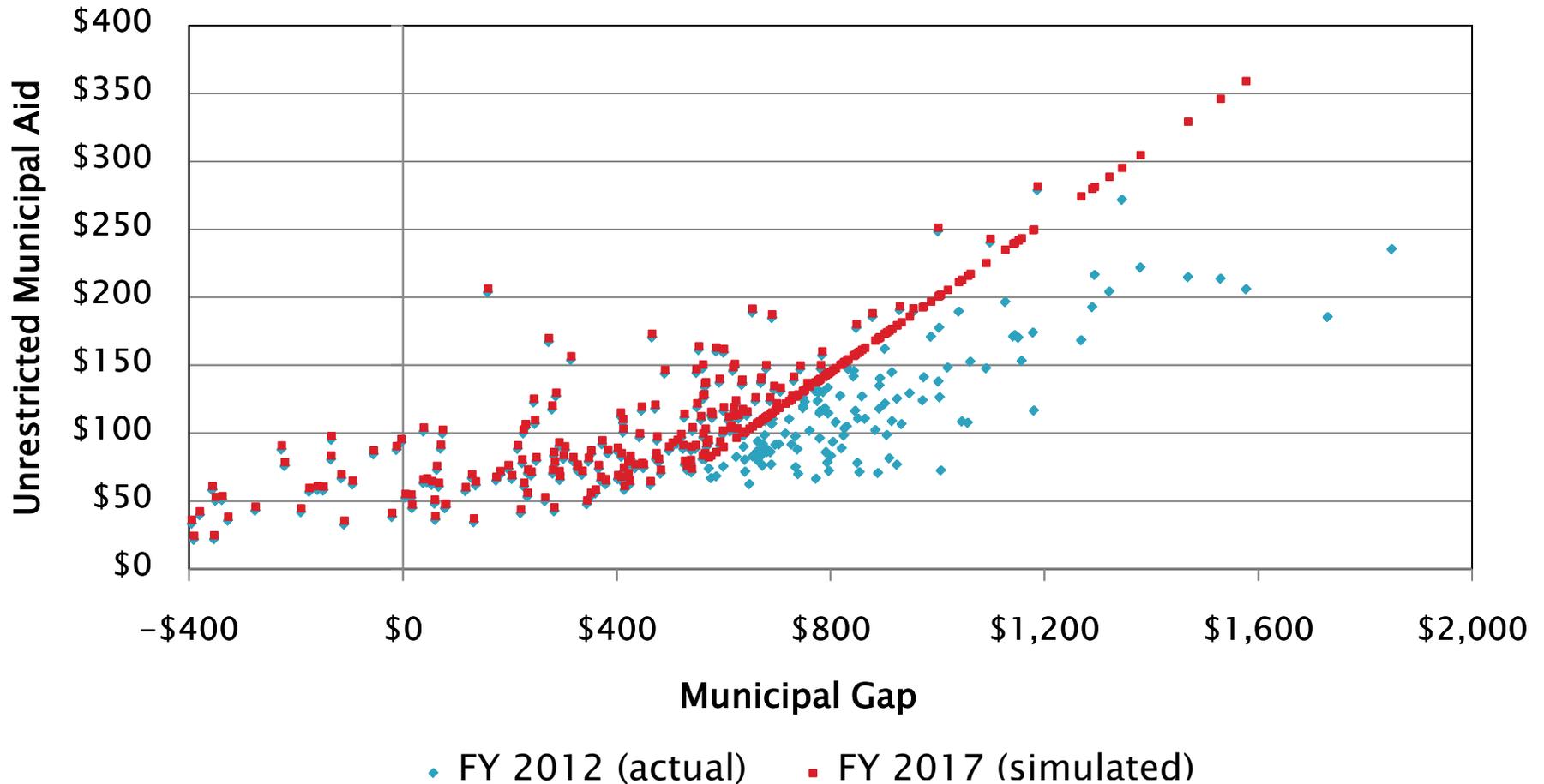


Source: National League of Cities Annual Survey 2010

# Boston Fed's Work on State Aid Reform

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## Aid Simulations in MA Using a Gap-Based Framework (per capita)



# Potential Strategies for Addressing Local Fiscal Challenges

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- ▶ Reform state aid distribution formulas
- ▶ Encourage more regionalization
- ▶ Enhance local performance management

