




Fiscal Challenges Facing Smaller, Industrial Cities



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

The views expressed in this presentation are those of the presenter and do not necessarily reflect those of the Federal Reserve Bank of Boston or the Federal Reserve System.

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

- ▶ 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

- ▶ 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.



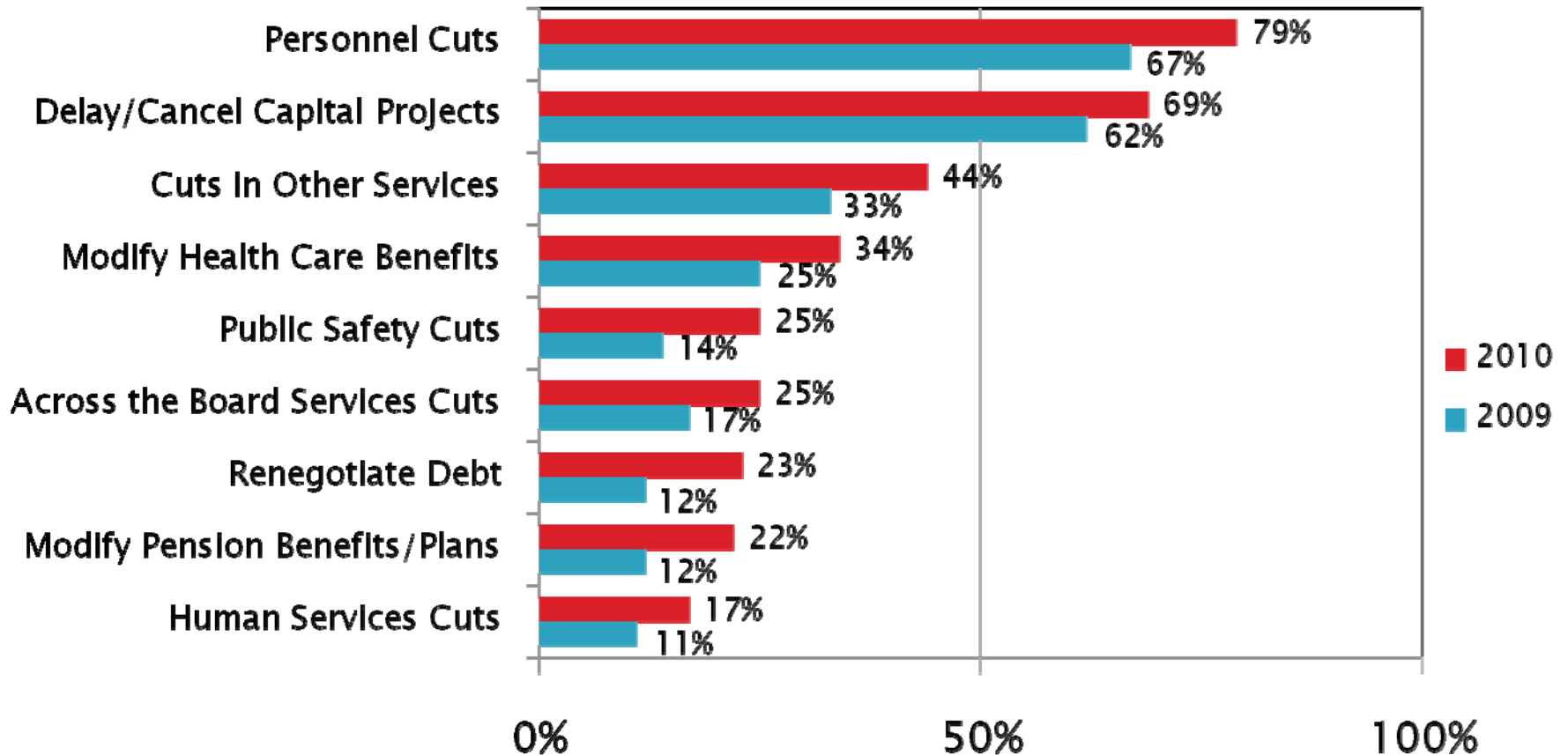
Pressures on Local Spending

- ▶ 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

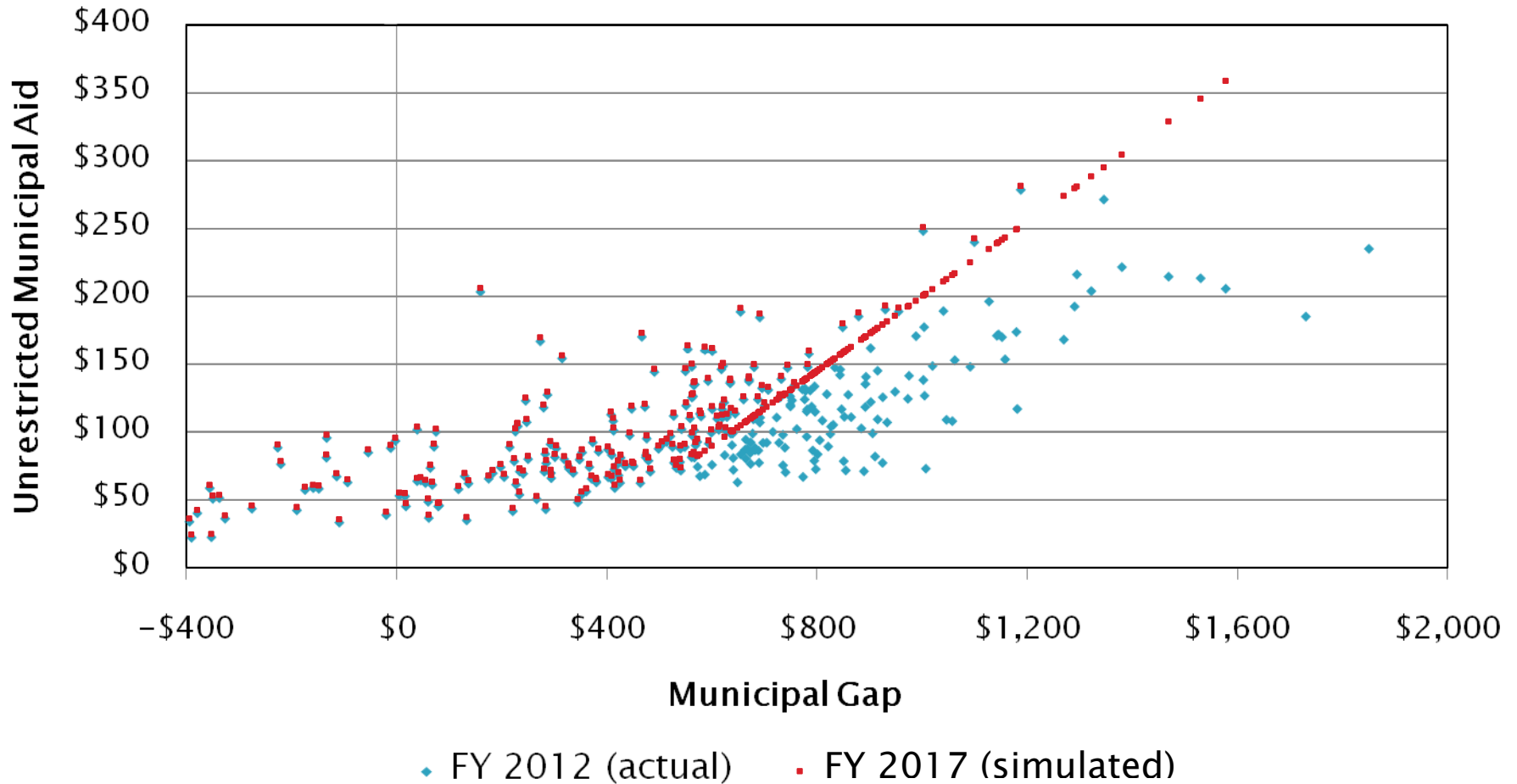
Percent of Cities that Cut Spending by Category



Source: National League of Cities Annual Survey 2010

Boston Fed's Work on State Aid Reform

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



Potential Strategies for Addressing Local Fiscal Challenges

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





Additional Materials

HPI: NE States and US

