

President Obama's 2011 Budget Shortchanges Cities: Neglect of Urban Fiscal Collapse Could Halt Economic Recovery

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Summary and Overview of Main Findings

This is the first policy report to show that President Obama's 2011 budget neglects the urban fiscal collapse and fails to invest sufficiently in cities. It reveals that the budget will not offset lost growth potential, higher unemployment, increased taxes and fees, and service cuts at the local level—all negative economic indications that cities will hinder national recovery from the recession in the months to come. It highlights how the administration's signature programs for cities will receive only \$2.8 billion in 2011, an amount that pales in comparison to the \$19-\$29 billion in deficits that cities will face next year and the \$25 billion the President has budgeted for state fiscal assistance. And it explains why such underinvestment means that the innovative programs the administration has proposed will fall short at a time when economic and fiscal conditions in cities continue to deteriorate.

The Urban Fiscal Collapse Endangers Economic Recovery from the Recession

Cities are the engines of our economy, responsible for 90 percent of the country's GDP.¹ But a fiscal collapse has blunted job creation in metro areas, which account for 86 percent of the country's employment, and sapped cities of their economic potential and power to ensure that the rest of the country recovers from the recession.² At the same time, plummeting tax revenue due to a recessionary economy has strained municipal budgets because city governments cannot run deficits.³ This has led to service cuts that have nothing to do with stimulating the economy, or even with sound economics. Instead, such cuts degrade the quality of the schools, public safety agencies, social services, and infrastructure that can create the conditions for a shared recovery.

The federal government, unlike city governments, can increase its deficit in times of economic distress in order to create jobs, ease the impact of downturns on distressed households, and stimulate economic growth. It has a strong historical track record of doing this effectively.

However, when city governments reduce services, cut public employment, and increase taxes and fees they offset Washington's stimulative, job-creating measures. The result is federal stimulus spending that has less "bang for the buck" and that does not promote quick recovery.⁴

¹ "Metropolitan Growth Slowed in 2008: Accelerated Statistics of GDP by Metropolitan Area," Bureau of Economic Analysis. September 24, 2009.

² "U.S. Metro Economies Pace of Economic Recovery: GMP and Jobs," United States Conference of Mayors. January 2010.

³ Based on its survey of city finance officers, the National League of Cities cites declines in sales and income tax collections as chief causes of city budget shortfalls. Exacerbating an already serious problem, property tax revenues, which were flat in 2009, will decline in 2010, 2011, and 2012 as housing values, down 9.5 percent since 2007, are reassessed for tax purposes. Christopher W. Hoene. "City Budget Shortfalls and Responses: Projections for 2010-2012," National League of Cities. December 2009.

⁴ The Center for Economic and Policy Research estimates that state and local government spending cuts and tax increases "offset much of the \$571 billion stimulus in [the American Recovery and Reinvestment Act] for 2009 and

- Nationally, city budget deficits will total between \$12 billion and \$19 billion dollars in 2011. When cuts in state aid to cities are factored in, the shortfall could total between \$19 billion and \$29 billion. The three-year shortfall could reach \$83 billion.⁵
 - Houston’s deficit is between \$138 million and \$151 million (approximately 7 percent of its budget)⁶ and Los Angeles’s is \$212 million (3 percent of its budget),⁷ while Chicago just recently passed a budget reconciling a deficit of \$520 million (8.5 percent of that budget).⁸ New York City expects a \$4.9 billion deficit (7.7 percent of its budget)⁹ in 2011.
- For well over a year, cities have responded to decreasing revenues by cutting social services, cutting city staff (and the hours and pay of those not cut), and increasing taxes and fees.
 - 67 percent of cities have instituted hiring freezes or layoffs, 62 percent have delayed or canceled capital projects, 11 percent have cut social services, and 25 percent have increased property tax rates.¹⁰
 - New York City plans to shrink its workforce by 4,286 jobs, including more than 1,000 police officers and 400 firefighters. Cuts to state aid could result in layoffs for 8,500 teachers who are already subject to wage cuts.¹¹ Los Angeles Mayor Antonio Villaraigosa has ordered the elimination of 1,000 city jobs.¹² Chicago

2010, leaving an average of \$126 billion a year of government stimulus...” Dean Baker and Rivka Deutsch. “The State and Local Drag on the Stimulus,” Center for Economic and Policy Research. May 2009. Further, Mark Zandi, chief economist for Moody’s Economy.com, testified to the Joint Economic Committee in October that “Unless municipalities receive more help from the federal government, they will be under intense pressure to cut jobs and programs and to raise taxes and fees. This will be a serious drag on the economy at just the wrong time.” Written Testimony of Mark Zandi Before the Joint Economic Committee, “The Impact of the Recovery Act on Economic Growth,” October 29, 2009. See also Ethan Pollack, “Dire Straits: State and Local Budget Relief Needed to Prevent Job Losses and Ensure a Robust Recovery,” Economic Policy Institute. November 19, 2009. And Paul Krugman, “Fifty Little Hoovers,” *The New York Times*. December 28, 2008.

⁵ Christopher W. Hoene. “City Budget Shortfalls and Responses: Projections for 2010-2012,” National League of Cities. December 2009.

⁶ “General Fund Comparative Projections: Controller’s Office and Finance for the Period Ended December 31, 2009,” City of Houston.

⁷ “Mayor Villaraigosa Takes Unprecedented Action To Address Budget Shortfall,” City of Los Angeles Mayor’s Office. February 4, 2010. “Fiscal Year 2009-2010 Budget Summary As Presented By Mayor Antonio R. Villaraigosa,” City of Los Angeles Mayor’s Office.

⁸ “City Council Approves Mayor Daley’s 2010 Balanced City Budget,” City of Chicago Mayor’s Office. December 2, 2009. “City of Chicago 2010 Budget: Overview and Revenue Estimates,” City of Chicago Mayor’s Office.

⁹ “Mayor Bloomberg Presents FY2011 Preliminary Budget,” City of New York Mayor’s Office. January 28, 2010. “Financial Plan Summary: Fiscal Years 2010-2014,” City of New York Mayor’s Office. January 28, 2010.

¹⁰ Christopher W. Hoene and Michael A. Pagano. “City Fiscal Conditions in 2009,” National League of Cities. September 2009.

¹¹ “Financial Plan Summary: Fiscal Years 2010-2014,” City of New York Mayor’s Office. January 28, 2010.

¹² “Mayor Villaraigosa Takes Unprecedented Action To Address Budget Shortfall,” City of Los Angeles Mayor’s Office. February 4, 2010.

will force city workers to take 24 unpaid and furlough days in 2010, eliminated 220 vacant positions, and drew significantly from reserve funds, a strategy Houston will likely use to reconcile its budget, as well.¹³ Phoenix will soon impose a 2 percent sales tax on food, a highly regressive tax on lower-income families already struggling to make ends meet.¹⁴ San Francisco will be forced to slash *in half* its \$1.2 billion discretionary budget, which includes funding for public safety, health and human services, and public works.¹⁵

- Over the last year (December 2008 to December 2009), the number of unemployed in the five biggest metro areas increased by approximately 700,000. This represents almost 20 percent of the total national increase in unemployment during this period. Job losses were also widespread: Phoenix lost more than 42,000 jobs; Atlanta more than 61,000; and Miami more than 100,000.¹⁶
- In December of 2009, Detroit's unemployment rate was 14.9 percent; Riverside, California's was 14 percent; and Jacksonville, Florida's was 11.3 percent. These rates were significantly higher than the national rate in December (9.7 percent, not seasonally adjusted).¹⁷

Unfortunately, President Obama's budget focuses on freezing non-military discretionary spending¹⁸ instead of concentrating investment in cities to counter the ill effects of deepening urban unemployment and brutal cuts to city services. The urban fiscal collapse not only puts at risk the wellbeing of the most vulnerable, but harms the entire economy as service cuts and high unemployment stifle growth in the areas responsible for the country's economic prosperity.

Absent a budget that confronts the urban fiscal collapse and growing urban unemployment, cities are caught in the tightening vice of increased need for services and drastically diminished capacity to provide them. This means cuts to city workforces and services that have eased inequality and poverty and improved the quality of life in recent years. It means that cities will in the near term exemplify the new normal of elevated unemployment rates instead of renewed economic capacity. And it means that the economic resurgence of the country will be delayed.

Underinvestment in Cities Will Limit Success of New Urban Programs in 2011 Budget

¹³ "City Council Approves Mayor Daley's 2010 Balanced City Budget," City of Chicago Mayor's Office. December 2, 2009. Bradley Olson, "Houston Faces Tighter Budget Than Expected," *The Houston Chronicle*. January 9, 2010.

¹⁴ Mike Sunnucks, "Phoenix extends sales tax to food items," *Phoenix Business Journal*. February 3, 2010.

¹⁵ Heather Knight, "\$20.7 million S.F. deficit as investments drop," *San Francisco Chronicle*. February 2, 2010.

¹⁶ Bureau of Labor Statistics.

¹⁷ Bureau of Labor Statistics.

¹⁸ The freeze refers to a cap on the total level of spending rather than an across-the-board cut, meaning that the administration will be able to increase spending in some areas as long as it decreases spending in others. See John S. Irons, "A First Look At The Budget Freeze," *Economic Policy Institute*. January 29, 2010.

The 2011 budget includes programs that would positively impact cities in a different economic climate. However, these programs are likely to falter because the 2011 budget does not directly deal with the gaping deficits, service cuts, and other conditions created by the Great Recession.

- The President’s 2011 budget includes several programs targeted at cities and neighborhoods that total \$2.8 billion, including:
 - \$687 million for the interagency Sustainable Communities Initiative that encourages planning to link housing and transportation investments;
 - \$266 million for Build America Bonds that subsidize borrowing for state and local governments;
 - approximately \$1.7 billion for programs in the Department of Housing and Urban Development and the Department of Justice designed to revitalize distressed communities and provide affordable housing; and
 - approximately \$200 million to support regional innovation “clusters.”¹⁹
- Other innovative proposals that could impact cities include a \$4 billion National Infrastructure Innovation and Finance Fund, \$1.35 billion in Race to the Top funds, and \$60 million for the Social Innovation Fund. These programs bring the administration’s investments in cities to \$8 billion. But the investments will be dwarfed and undermined by the size of the deficits that city governments expect to run in 2011. The budget also includes approximately \$2.1 billion in increases for rental assistance and additional funds for other public safety, homelessness, and environmental programs that impact cities.
- The budget extends a portion of the state fiscal assistance included in the American Recovery and Reinvestment Act for six months at a cost of \$25.5 billion. These funds might reduce the need for cuts in state aid to cities, but are more likely to be used to fill states’ own budget gaps.²⁰

The President contends that the policies and programs included in his budget lay a foundation for growth and prosperity. Yet, even as he proposes \$100 billion in new spending to create jobs and continue several of the stimulus package’s vital safety-net measures, capping spending, not

¹⁹ Sarah Rahman and Mark Muro. “Budget 2011: Industry Clusters as a Paradigm for Job Growth,” *The New Republic The Avenue Blog*. February 2, 2010.

²⁰ Although this proposed fiscal assistance is dedicated to Medicaid spending, the GAO has pointed out in the past that such funds free up money that states can use to plug their own budget gaps. Indeed, far from funneling aid down to city governments, the National League of Cities estimates that states will *cut* aid by somewhere between 10 percent and 15 percent in each of the next three years for a total reduction of as much as \$30 billion. Christopher W. Hoene. “City Budget Shortfalls and Responses: Projections for 2010-2012,” National League of Cities. December 2009. “Recovery Act: Status of States’ and Localities’ Use of Funds and Efforts to Ensure Accountability,” Government Accountability Office. December 2009.

economic recovery, is the primary goal of the 2011 budget. Ultimately, the budget's neglect of the urban fiscal collapse and its failure to invest in the nation's urban areas threatens to weaken the recovery the President seeks and leave the country worse off.

To be fair, the budget does demonstrate a concern for how federal policy impacts the health and vibrancy of neighborhoods and communities. Continued and increased spending for programs like the Sustainable Communities Initiative, Choice and Promise Neighborhoods, and the Community Development Block Grant program affirms a positive and important shift in how presidential budgets treat the interaction between transportation, housing, and service delivery. A significant \$690 million investment in the Sustainable Communities Initiative, in particular, is an important step toward expanding access to affordable transportation and housing. The initiative represents the first time that executive agencies have collaborated to support the principle that affordable living in all neighborhoods and communities requires both public transportation options and reasonably priced housing. As a result, it will now be easier for low-income households to find affordable housing with accessibility to good jobs. Along with a commitment to high-speed rail, additional rental assistance and help for the homeless, and an infrastructure bank, these programs support sustainable, equitable development overall.

Such a shift might have been sufficient in an era of robust job growth with a humming economy and expanding city revenues. In the current climate, though, it suggests an administration that is certainly aware of the importance of cities, but is unwilling to commit the necessary resources to meet the basic economic needs of cities and their local governments. It now risks undermining the very programs it has proposed in the budget because it has not confronted—much less counteracted—the darkening fiscal and economic situation of urban America. It cannot strengthen all communities and neighborhoods without first restarting job creation in the nation's cities and minimizing the harm and damage of the urban fiscal collapse over the next year. Only substantial direct assistance to city governments, coupled with an ambitious and targeted jobs program, can ensure that cities, the economic engines of the country, do not soon run out of fuel.