DOCUMENT RESUME

05130 - [B0545060]

Impact of Antirecession Assistance on 21 City Governments. GGD-77-70; B-146285. February 22, 1978. 26 pp. + 3 appendices (26 pp.).

Report by Elmer B. Staats, Comptroller General.

Issue Area: Intergovernmental Policies and Fiscal Relations: Financial Assistance Programs (406).
Contact: General Government Div.
Budget Function: Revenue Sharing and General Purpose Fiscal Assistance: Other General Purpose Fiscal Assistance (852).
Organization Concerned: Department of the Treasury.
Congressional Relevance: Congress; House Committee on Government Operations; Senate Committee on Finance.
Authority: Public Works Employment Act of 1976, title II (P.L. 94-369). P.L. 95-30.

Title II of the Public Works Employment Act of 1976 established a program to provide State and local governments with antirecession assistance payments in order to help stabilize the economy. Emergency financial assistance was to be provided to governments substantially affected by recessions in order to reduce actions by the governments which could counteract Federal efforts to stimulate the economy.
Findings/Conclusions: Almost all of the 21 cities visited took one or more counterproductive actions, such as employee layoffs, tax increases, or reductions in services. It was difficult to determine the effects of antirecession payments on city budgets because of the interchangeable nature of moneys, shifting priorities, changing revenue amounts from various sources, and the relatively small contribution the payments made to cities' resources. However, some effects noted were: in six cities, antirecession funds helped balance the budget; in two cities, the funds were used to maintain or augment surpluses; in eight cities, they were used to increase authorized expenditures; in four cities, the funds were included in the fiscal year 1977 budget; and one city had no plans for the funds at the time of the review. The funds reportedly had a favorable impact on many cities' employment. The 21 cities appropriated nearly all of their first payments within 6 months, as required by the act. Problems caused by inflation and certain chronic factors seemed to have greater effects on the cities' revenues than the recession. Because of the difficulties in using "excess unemployment" as a measure of a recession's impact, the Secretary of the Treasury was directed to investigate other data for allocating payments. (HTW)

5460

REPORT TO THE CONGRESS

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

Impact Of Antirecession Assistance On 21 City Governments

This report discusses in detail the impact antirecession assistance had on selected city governments and provides information on the effects of the 1974-75 recession on their operations.

FEBRUARY 22, 1978

GGD-77-70

B-146285

To the President of the Senate and the
Speaker of the House of Representatives

The Federal antirecession assistance program was established to help stabilize the national economy during recessionary periods by helping State and local governments maintain levels of services. A summary report on this subject was issued on July 20, 1977. This report discusses in detail the impact assistance payments had on city budgets and provides information on the effects of the 1974-75 recession on their operations.

This report was prepared pursuant to section 215(a), title II, Public Law 94-369, requiring the Comptroller General to investigate the impact antirecession assistance payments had on State and local government operations. Two other reports dealing with the impact on county and State governments are also being issued today.

We are sending copies of all three reports to the Secretary of the Treasury.

Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

IMPACT OF ANTIRECESSION ASSISTANCE ON 21 CITY GOVERNMENTS

D I G E S T

Section 215(a) of the Public Works Employment Act of 1976 (Public Law 94-369) required GAO to investigate the impact antirecession assistance payments had on State and local government operations. On July 20, 1977, GAO issued a summary report on this subject. This report discusses the impact that payments had on 21 city governments as of April 30, 1977. Two other GAO reports issued concurrently describe how the assistance affected 15 State and 16 county governments. GAO is presently assessing the impact that antirecession assistance had on these 52 governments as of October 31, 1977.

The antirecession assistance program was designed to target emergency aid to State and local governments substantially affected by the recession--i.e., experiencing revenue shortfalls or increased demands for services. Its objective is to reduce the occurrence of State and local budgetary actions which counteract Federal efforts to stimulate economic recovery. Counterproductive steps include employee layoffs, tax increases, and reductions in services.

Almost every city visited took one or more counterproductive actions. Although the recession was a factor in some cases, the principal reasons for most actions, according to officials, were chronic problems and inflation. Since antirecession funds provide additional revenue, they will affect the cities' operations favorably. Most of the assistance was used to maintain or increase expenditures.

EFFECT OF PAYMENTS ON CITY BUDGETS

GAO could not measure whether or when the funds provided to the 21 cities might achieve

GGD-77-70

Tear Sheet. Upon removal, the report cover date should be noted hereon.

the program's objective of deterring counterproductive steps. The interchangeable nature of moneys, shifting priorities and needs, changing revenue amounts from various sources, and the relatively small contribution antirecession payments made to the cities' resources impaired analysis of the program's actual effect on city budgets.

Although these factors precluded any conclusive assessment, GAO found the following effects:

--Six cities' revenue collections were falling short of meeting expenditures. Antirecession funds helped balance the budget and possibly avoided counterproductive steps.

--Two cities were collecting sufficient revenues to meet budgeted expenses, and expenditure levels were not increased. In effect, antirecession funds were used to maintain or augment surpluses. Consequently, little or no impact will occur until subsequent fiscal periods.

--Eight cities were collecting enough revenues to meet budgeted expenditures, and antirecession funds were used to increase authorized expenditure levels. It is difficult to gage exactly what would have occurred without the funds, because the cities may have funded the expenditures by using surpluses or by taking counterproductive actions or they may not have made these expenditures.

--Four cities included antirecession funds in their fiscal 1977 budgets. Thus, the funds became an indistinguishable part of the total budgets. In these cities, as in those mentioned above, gaging what would have occurred without the funds is difficult since a multitude of options are available to the cities.

--One city had no plans for the funds at the time of our review. Officials believed, however, that payments would have little impact on taxes, employment, or levels of services.

Antirecession funds reportedly had a favorable impact on many cities' employment. New hires and rehires were reported and some layoffs prevented. Some funds were also used to substitute for positions normally funded by other revenues.

These are reported uses as shown in financial records or as described to GAO. Because of the interchangeable nature of city resources, however, these reported uses may have little or no relation to their actual impact.

STATUS OF ANTIRECESSION FUNDS

The act requires that the funds be spent within 6 months of receipt. Department of the Treasury regulations interpret this requirement to mean that the funds must be appropriated. The 21 cities appropriated nearly all their first payments within 6 months and had disbursed over 89 percent. (See p. 17.)

FINANCIAL ADJUSTMENTS MADE BY CITIES NOT PRIMARILY RECESSION-RELATED

The recession adversely affected the revenues of many cities and the demand for services. The effects, however, were perceived to be less than problems caused by inflation and chronic factors. (See ch. 2.)

Eleven cities visited emphasized that chronic problems, particularly unfavorable demographic changes, were severely undermining their fiscal health and ability to provide adequate levels of services. The recession compounded existing and continuing problems in many of these cities and had less impact on others.

The remaining 10 cities made far fewer adjustments that ran counter to efforts to stimulate the economy. Four cities reported some recessionary impact, while the other six reported minimal impact. These 10 cities most often cited inflation--a major problem common to all cities visited--as the main factor underlying budgetary adjustments.

Although some relationship existed between unemployment and financial difficulties, some factors limit the reliability of using "excess unemployment," as defined in current legislation, as a measure of the recession's impact.

--No distinction is made between chronic difficulties and cyclical impacts of the recession.

--Some cities with high unemployment were minimally impacted by the recession, while some cities with lower unemployment reported some recessionary impacts.

--Unemployed rates, or changes in such rates, may be a good indicator of the recession's impact on the private sector; however, a government's financial condition is influenced by these other determinants: sensitivity of tax structure, program responsibilities, intergovernmental aid, accumulated surpluses, law, governmental policy and practice, managerial ability, and citizen concern.

This problem was recognized by the Congress, which enacted Public Law 95-30, extending the program until September 30, 1978. The Secretary of the Treasury was directed to investigate other data for allocating payments that may be better measures of the economic conditions. Results are due the Congress by March 1, 1978. GAO concluded in its summary report on antirecession assistance that a better distribution formula would make the program more effective. GAO discussed certain alternative "triggering" and distribution statistics in its November 29, 1977, report to the Congress entitled "Antirecession Assistance--An Evaluation," PAD-78-20.

GAO discussed this report with representatives from the Office of Revenue Sharing and considered their comments in its final preparation.

Contents

ABBREVIATIONS

CETA	Comprehensive Employment and Training Act
GAO	General Accounting Office

CHAPTER 1

INTRODUCTION

Title II of the Public Works Employment Act of 1976, Public Law 94-369, established a program to provide State and local governments with antirecession assistance payments. Title II was to provide a means for strengthening the Federal Government's ability to stabilize the national economy by promoting greater coordination, during times of economic downturn, between national economic policy--as articulated at the Federal level--and budgetary actions of State and local governments.

To accomplish this goal, title II was to provide emergency Federal financial assistance to State and local governments hard hit by recessionary pressures to reduce the need for these governments to take budgetary actions which run counter to Federal efforts to stimulate speedier economic recovery. The assistance was designed to

--go quickly into the economy, with as little administrative delay as possible;

--be selectively targeted, by means of a formula, to go to only those governments substantially affected by the recession; and

--phase itself out as the economy improves.

A fundamental premise underlying title II was that the amount and quality of government services at the State and local levels should not be determined by national economic conditions over which State and local governments have no control.

Recipient governments were expected to use antirecession assistance payments to maintain basic services customarily provided by their jurisdictions.

Initially the Congress authorized $1.25 billion to be paid State and local governments for the five quarters ending September 30, 1977. Public Law 95-30 renewed the program for an additional year, raised the authorized level by $2.25 billion, and extended the program through September 30, 1978. As of April 7, 1977, $1.18 billion was paid to recipient governments.

The Office of Revenue Sharing, Department of the Treasury, is responsible for administering the antirecession program, including distributing funds to State and local governments; establishing overall regulations for the program; and providing such accounting and auditing procedures, evaluations, and reviews as necessary to insure that recipient governments comply fully with the law.

METHOD AND BASIS FOR ALLOCATING FUNDS

Moneys are authorized to be paid out under the anti-recession program as long as the national unemployment rate exceeds 6 percent. Specifically, section 202 (d) of title II states that

> "No amount is authorized to be appropriated * * * for any calendar quarter if (1) the average rate of national unemployment during the most recent calendar quarter which ended three months before the beginning of such calendar quarter did not exceed 6 percent, or (2) the rate of national unemployment for the last month of the most recent calendar quarter which ended three months before the beginning of such calendar quarter did not exceed 6 percent."

One-third of the available funds are distributed to State governments and two-thirds to locals. Individual amounts are based on assigned unemployment rates and revenue sharing amounts. Unemployment rates are used as a measure of how severely the recession affected a particular government, and the revenue sharing amount is used to measure the size of the jurisdiction. No government receives funds if its unemployment rate is below 4.5 percent, or if its computed allocation is less than $100 for a quarter. For the first four quarters beginning July 1, 1976, $472 million were distributed to city governments throughout the United States.

SCOPE OF REVIEW

Several major factors which affect State and local government budgets were evident during 1974-75. Recession reached its depth. Unemployment rose in 1975 to the highest levels since 1941. Inflation soared. Major population shifts have continued.

In addition, governments' priorities and needs have changed as have revenues from other sources. Also, revenues a government receives often can be used interchangeably.

The interaction of the above factors made it difficult, if not impossible, to isolate and measure the specific effect or impact of any one economic factor or one type of Federal aid on a government's operations. However, to assist the Congress in determining the effectiveness of the antirecession program in meeting its stated objectives, we

--evaluated, to the extent practicable, the impact of antirecession assistance on the operations of 21 selected cities and

--evaluated whether the cities were adversely affected by 1974-75 recessionary problems by examining trends in the cities' financial conditions from 1972 through 1976, by discussing with officials what they perceived to be the major factors influencing their fiscal health, and by eliciting from them the rationale employed in making budgetary adjustments.

We selected 10 cities at random from the 48 most populated cities in the Nation. Another 11 cities were chosen to provide a better geographical distribution and a wide range of unemployment rates. Cities chosen were:

Boston, Massachusetts	New Orleans, Louisiana
Chicago, Illinois	Norfolk, Virginia
Cincinnati, Ohio	Oakland, California
Detroit, Michigan	Phoenix, Arizona
Evansville, Indiana	Providence, Rhode Island
Fort Worth, Texas	Salt Lake City, Utah
Honolulu, Hawaii	Seattle, Washington
Los Angeles, California	Spokane, Washington
Miami, Florida	St. Louis, Missouri
Newark, New Jersey	St. Paul, Minnesota
	Toledo, Ohio

Comments from the Office of Revenue Sharing were considered in preparing the final report.

In addition to this report, we are issuing two other reports concurrently (GGD-77-60 and GGD-77-69) which describe how the program affected 16 county and 15 State governments. Our overall observations based on the information contained in these three reports were summarized in a report to the Congress on July 20, 1977 (GGD-77-76). A future report will describe the impact that antirecession assistance had on these 52 governments as of October 31, 1977.

CHAPTER 2

BUDGET ADJUSTMENTS BY CITIES

NOT PRIMARILY RECESSION-RELATED

The principal objective of title II is to selectively target Federal assistance to those governments substantially affected by the recession, and thereby reduce the need for these governments to take budgetary actions which run counter to Federal efforts to stimulate the economy. The antirecession assistance program was proposed because national economic problems were thought to have imposed considerable hardships on State and local government budgets, particularly revenue shortfalls and increased demand for certain services due to the recession. Also, because of recession-related difficulties, some governments were being forced to take budgetary actions, such as tax increases, layoffs, and cuts in basic services, all of which can undermine Federal efforts to stimulate the economy.

Almost every city visited took one or more of these actions during fiscal years 1974-76. The principal underlying reasons for most adjustments, however, were perceived to be chronic problems, such as loss of population, and inflation.

Several cities were not substantially affected by the recession. The recession, however, did adversely affect the revenues of many cities and the demand for services. The effects, however, appeared less adverse than problems caused by inflation and chronic difficulties.

BUDGET ADJUSTMENTS REQUIRED IN MOST CITIES

Most of the 21 governments reviewed followed national trends and initiated actions to offset financial difficulties. Taxes which provide major revenue resources were increased, layoffs occurred, and city services were cut.

Only Evansville, Boston, Fort Worth, and Honolulu did not take some action to increase their major tax rates, cut basic service levels, or lay off employees during fiscal years 1974-76. During this period, 14 of the 21 cities raised a major tax rate. In addition to, or in lieu of, increasing taxes, many of the cities balanced their budgets by reducing payroll expenditures or by cutting services. Nine cities laid off employees, and six reduced basic services.

The degree to which cities made budgetary adjustments and the rationale for them varied. Although the recession was a factor in some cases, the principal reasons for most adjustments were perceived to be inflation and chronic difficulties, such as unfavorable demographic changes. Examples follow.

--St. Louis cut services and laid off employees. Officials cited inflation, an eroding tax base, strikes which reduced revenues from an earnings tax, and inefficiency as contributing to the reductions. Officials believed the recession had compounded their existing problems by somewhat limiting their revenues and increasing the demands for services. The city also raised taxes, in part, to pay bonded indebtedness.

--Los Angeles made small cuts in low priority services and projects and raised taxes. Officials stated the tax increases were normal and had occurred because of budget requirements for salaries, fringe benefits, pension and retirement, and inflation in general. Although the city laid off some workers, fewer were laid off in 1975 than in 1972. The recession had a minimal impact on the city government.

--Newark laid off employees in 1975 and in 1976. While property taxes have not been particularly sensitive to the recession, successful appeals of assessments and chronic problems have eroded the tax base. Inflation has been taking its toll in the form of union salary demands and higher prices for services. The city raised taxes in 1975 because of prior year overexpenditures, revenue losses from outside sources, and salary increases. The recession had some adverse impact on the city's revenues and compounded demands for certain services.

--New Orleans cut services and laid off employees. Officials attributed such adjustments primarily to an eroding tax base and inflation. The recession was perceived to have had little appreciable effect on the city government.

--Rapidly increasing operating costs have forced Spokane to raise taxes and make some reductions in services. Officials stated that the city's economy had remained relatively stable during the recession, and despite inflation, all essential services have been maintained.

--Cincinnati laid off employees and reduced its budget due to an eroding tax base, inflation, failure of the voters to approve a tax increase, and recession-reduced income tax collections.

Not all budgetary adjustments made during fiscal years 1974-76 countered Federal stimulative efforts. Some cities reduced taxes, added employees, increased or expanded services, or reduced surpluses. For example, during this period four cities which raised property taxes also had tax reductions during the same period. Salt Lake City increased its sales tax in 1975 and decreased its property tax in 1976, and five other cities also decreased property taxes during 1974-76.

CHRONIC FACTORS AND INFLATION PERCEIVED TO BE THE UNDERLYING CAUSES OF FISCAL PROBLEMS

Appendix I includes individual synopses of the 21 cities. Each summary delineates the major problems facing the city, the impact the recession had on its operations, and the budgetary adjustments made during fiscal years 1974-76.

Eleven cities believed that chronic factors, such as loss of population and industry, urban decay and hardcore unemployment, and inflation, were the underlying causes of their fiscal difficulties. The occurrence of budget adjustments was very pronounced in these cities; eight raised a major tax rate, five cut basic services, and eight laid off employees. In many of these cities, the recession compounded existing and continuing problems. In others, it had a minimal impact.

Some of the 11 cities lost revenue during the recession; however, the amounts of revenue unrealized because of the recession were in several cases inseparable from income lost due to eroding tax bases. Throughout the recession, city tax bases deteriorated due to the continued population decline and exodus of industry, and was perceived to be a much larger problem because of its magnitude and apparent permanence. The following table illustrates the extent of this problem.

Net Decrease in Population

	1970-73		1973-75		1970-75	
	Number	Percent	Number	Percent	Number	Percent
Chicago	174,404	5.2	95,562	3.0	269,966	8.0
Cincinnati	22,902	5.1	15,944	3.7	38,846	8.6
Detroit	121,616	8.0	57,362	4.1	178,978	11.8
Newark	17,396	4.6	24,966	6.8	42,362	11.1
New Orleans	15,624	2.6	18,077	3.1	33,701	5.7
Oakland	12,319	3.4	18,591	5.3	30,910	8.5
Providence	9,189	5.1	2,203	1.3	11,392	6.4
Seattle	25,807	4.9	17,933	3.6	43,740	3.2
St. Louis	68,221	11.0	29,051	5.2	97,272	15.6
St. Paul	22,313	7.2	8,018	2.8	30,331	9.8
Toledo	6,598	1.7	8,814	2.3	15,412	4.0

Source: Department of Commerce, Bureau of the Census, data.

The exodus was thought to pose bigger problems not only by causing a revenue loss but also by creating a host of other difficulties, such as leaving larger proportions of hardcore unemployed and lower income persons and urban decay. The dilemma was how to provide more services to an increasingly larger proportion of people who could least afford to pay for them. Inflation further compounded the cities' problems. As unfavorable demographic changes induced revenue losses, inflation caused large increases in expenditures.

Inflation affected every government visited. City officials cited rising costs for salaries, supplies, equipment, and construction as major factors impeding their ability to provide normal service levels.

Personnel costs were pinpointed as the most significant factor contributing to increases in city expenditures. These costs account for a significant proportion of city budgets. In 14 cities, personnel service costs were at least 50 percent of their total fiscal year 1975 budgets.

These expenses have risen substantially. From 1972 through 1975 personnel costs rose 25 percent while employment grew only 5 percent in the 21 cities. For all cities nationwide, employment grew 6 percent while personnel costs jumped 29 percent.

The 10 remaining cities had not reported significant chronic problems. These cities as a group took about half as many counterproductive adjustments as those made by the 11 cities reporting chronic problems. Phoenix, Boston, Miami, and Norfolk reported some recessionary pressures, while Los Angeles, Fort Worth, Evansville, Honolulu, Salt Lake City, and Spokane were minimally impacted.

Inflation was perceived as a more significant problem than the recession in most of these cities. Where budgetary adjustments were made, officials most often cited the need to cope with inflation.

For the 21 cities the primary sources of city-generated revenues were property, sales, and income taxes. Property taxes are a major revenue source of all 21 cities and the main income producer for 17 cities. Of the remaining four cities, three--Cincinnati, St. Louis, and Toledo--rely more heavily on income taxes, and the sales tax is New Orleans' major revenue source.

Our analysis and discussions with city officials indicated that property tax revenues were the least sensitive to recessionary pressures. However, delinquent taxes rose in several cities, and a few cities believed the depressed construction industry limited the tax base growth.

General sales and income taxes were more sensitive to the recession because they are directly affected by economic cycles and consumer buying habits. Eleven cities obtain a large portion of their revenues from general sales taxes, and four rely on income taxes. Many of these cities experienced some recessionary impact, such as not achieving revenue estimates, a decline in collections, or a slowdown in the rate of growth in these revenues. Also, inflationary wage and price increases in income and sales tax bases may have helped to offset losses due to unemployment.

The recession also stimulated demand for services in several cities. Most of the cities realized increased demands for public safety services, such as police protection, and leisure-related services, such as parks and recreation. Nearly all officials believed, however, that inflationary pressures which raised service costs were a much greater problem than these short-term demand increases. Additionally, city officials identified factors other than the recession or inflation that induced an overall increase in the cost and demand for services. Chronic problems, particularly unfavorable demographic changes, or greater public awareness and citizen participation were often cited as contributing factors.

During a recession, welfare and unemployment claims programs are two of the most likely services to increase as unemployment rises. Although some or all of the costs of these benefits may be borne by the Federal Government, the antirecession program was to alleviate the administrative burdens of these programs which fall on local governments. Because 19 of the 21 cities do not administer welfare and none administer unemployment claims, the amount of recession-related expenditures did not increase as much as might have been expected. These responsibilities generally rested with the county and/or State government.

Intergovernmental funds also helped combat fiscal problems. Intergovernmental revenues for all city governments in the United States increased from $11 billion in fiscal year 1972 to over $22 billion in 1976. The 21 cities collectively received similar increases, from $1 billion in fiscal year 1972 to $2.4 billion in 1976. As shown in the following table, the proportionate increase in Federal and State funding could well represent an increasing dependence upon those sources.

Amount and Proportion of
Federal and State Funding to General Revenues

		Intergovernmental revenues (note a)			
		Federal		State	
	FY ended	Amount (billions)	Percent of general revenues	Amount (billions)	Percent of general revenues
21 cities total	1972	$0.5	11	$0.6	14
	1975	0.9	15	1.1	18
	1976	1.1	17	1.1	17
All cities total	1972	2.5	7	8.4	24
	1975	5.8	12	13.1	26
	1976	7.4	13	13.8	25

a/Does not include small amounts of intergovernmental revenue collected from other local governments.

According to most city officials, Federal funds through block grants, revenue sharing, and Comprehensive Employment and Training Act (CETA) programs had tremendous impact on city finances. Many officials attributed their ability to continue some services and maintain or increase employment levels to such aid. A few cities, however, said that the recession had caused decreased State aid.

A variety of funds are used to finance city activities and programs. The most important is the general fund, which finances most of a city's operations. At the end of fiscal year 1976, 17 cities had surpluses ranging from $0.5 million to $327 million in their general fund. During fiscal years 1973-76, six cities experienced deficits [illegible]ur in more than 1 year.

Many of the 21 cities used general fund surpluses to help finance operations. Between fiscal years 1973 and 1974, 4 of 20 cities 1/ decreased fund balances; between fiscal years 1974 and 1975, 11 made reductions; and between fiscal years 1975 and 1976, 10 reduced fund balances. One city decreased its balance all 3 years, and six cities drew down the fund balance in 2 of the 3 years.

"EXCESS UNEMPLOYMENT" AS A MEASURE OF FISCAL STRESS

For many cities visited there was a relationship between unemployment and financial difficulties. Some factors, however, limit the reliability of using "excess unemployment," as defined in current legislation, as a measure of the recession's impact.

--No distinction is made between chronic difficulties and cyclical impacts of the recession.

--Some cities with high unemployment were minimally impacted by the recession, while some cities with lower unemployment reported some impact.

--Unemployment is only one of many factors that influence a government's fiscal health.

Moneys are authorized to be paid out under the anti-recession program as long as the national unemployment rate

1/ Comparable data was not available in one city due to a change in fiscal years.

exceeds 6 percent. Individual amounts each government receives are based on assigned unemployment rates and revenue sharing amounts. Unemployment rates are used as a measure of how severely the recession affects a particular government, and the revenue sharing amount is used to measure the size of the jurisdiction. The present formula subtracts 4.5 percent from each government's current unemployment rate to measure excess unemployment. Consequently, this method does not distinguish between long-term, or structural, unemployment and recession-induced changes in unemployment rates.

Eleven cities, many of which have structural unemployment difficulties, were experiencing chronic problems. Officials in these cities believed that continued unemployment is directly related to their financial problems.

Our analysis and discussions with officials showed that chronic difficulties were the causes of fiscal stress in most cases. The recession compounded the problems of many of the cities but had little effect on others. The long-term decline of the cities complicates formulating a methodology to allocate recession-targeted assistance, especially since many of the effects, including loss of income and increased demand for services, are similar. Although the distinction between secular and cyclical problems is difficult to make, some effort should be made to distinguish between the two if a truly countercyclical program is desired.

Of the 10 cities that had not experienced chronic difficulties, 6 were in good financial condition and had been minimally impacted by the recession. Officials of all six believed there was little, if any, correlation between unemployment rates and their city governments' financial health. All six collect a major proportion of their revenues from property taxes, and none administer welfare programs. The remaining four reported some recessionary impact. All four felt that the depressed construction industry had affected their tax bases. The sales tax revenue growth slowed in two cities, and the other two lost considerable State aid.

Three of the six cities minimally impacted had high 1976 unemployment rates and received large antirecession payments, as follows.

	1976 unemployment rate (note a)	Antirecession assistance first 4 quarters	Per capita assistance received (note b)
		(000 omitted)	
Cities minimally impacted:			
Los Angeles	10.1	$12,696	$4.66
Honolulu	8.6	3,160	4.48
Spokane	8.2	688	3.95
Salt Lake	6.5	425	2.50
Fort Worth (note c)	6.2	355	0.99
Evansville (note c)	5.6	88	0.66
Cities somewhat impacted:			
Miami	11.6	3,267	8.95
Boston	10.0	6,471	10.16
Phoenix	8.1	1,756	2.64
Norfolk	6.5	828	2.89

a/ Arithmetic average of four quarterly rates for 1976.

b/ Population figures used as of July 1, 1975--latest Census Bureau data available.

c/ Received payments only for first three quarters because their unemployment rates fell to or below 4.5 percent.

As illustrated above, three of the six cities minimally impacted--Los Angeles, Honolulu, and Spokane--received higher per capita payments than two cities--Phoenix and Norfolk--somewhat impacted. Similar anomalies existed in State and county governments visited (GGD-77-69 and GGD-77-60). As discussed below, several factors explain these exceptions.

Unemployment rates, or changes in such rates, may be a good indicator of the recession's impact on the private sector; however, other determinants also influence a government's financial condition. The sensitivity of a government's tax structure to cyclical changes is one factor. In general, governments relying heavily on income and sales taxes were more likely to experience recessionary pressures than jurisdictions whose major revenue source was property taxes, a somewhat inelastic income producer. Another factor is whether the governments administer social programs, such as welfare and unemployment claims, two likely candidates to increase during a recession. Also the extent to which the State government was affected by the recession could affect localities indirectly through loss of State aid. A government's accumulated surpluses and Federal aid also influence the extent to which it can compensate for recession-induced fiscal difficulties.

In addition, law, governmental policy and practice, managerial ability, and citizen concern collectively influence governmental fiscal health.

When the Congress extended the antirecession program (Public Law 95-30), it recognized that anomalies could arise from using unemployment rates as a basis for allocating funds. The Department of the Treasury was directed to study the extent to which other data, which may be better measures of true economic conditions, could be used for allocating payments. Results are due the Congress by March 1, 1978. Our November 29, 1977, report to the Congress, entitled "Antirecession Assistance--An Evaluation," PAD-78-20, discussed certain alternative "triggering" and distribution statistics.

CONCLUSION

Almost every city visited raised taxes, laid off employees, and/or cut basic services during fiscal years 1974-76. The principal reasons for most adjustments, however, were perceived to be chronic problems, such as loss of population, and inflation. The recession had some adverse impact on revenues of many cities and on the demand for services, but the effects appeared less than problems caused by inflation and chronic difficulties.

Officials in 11 of the 21 cities emphasized chronic problems they were experiencing as posing the major threat to fiscal stability and their ability to maintain adequate levels of services. In many of these cities, the recession compounded existing and continuing problems, and in others it had a minimal impact.

The remaining 10 cities made far fewer adjustments that countered Federal stimulative efforts. Four cities reported some recessionary impact, while the other six reported minimal impact. These cities most often cited inflation--a major problem common to all cities visited--as the main factor prompting budgetary adjustments.

Although some relationship existed between unemployment and financial difficulties, some factors limit the reliability of using excess unemployment as defined in current legislation, as a measure of the recession's impact.

--No distinction is made between chronic difficulties and cyclical impacts of the recession.

--Some cities with high unemployment were minimally impacted by the recession, while some cities with lower unemployment reported some impact.

--Unemployment is only one of many factors affecting a government's fiscal health. Sensitivity of its tax structure, program responsibilities, intergovernmental aid, and accumulated surpluses all influence the severity of the recession's impact.

CHAPTER 3

IMPACT OF ANTIRECESSION ASSISTANCE

ON CITY OPERATIONS

Because antirecession assistance represents an addition to total available revenues, the funds will have favorable impact on city operations. Attempts to measure the actual effect, as well as when the impact will occur, are impaired by the interchangeable nature of moneys, shifting needs and priorities, changing amounts from other revenue sources, and the relatively small contribution antirecession funds make to total resources. Although these limitations preclude any conclusive evaluation of the impact, antirecession funds will probably fill a budgetary void for some cities, increase the expenditure levels in others, and help some increase or maintain surpluses for fiscal year 1977.

As of February 28, 1977, the cities visited had disbursed 24 percent of the total antirecession funds received for the first three quarters beginning July 1, 1976. As of April 30, 1977, 78 percent of the first payment had been disbursed. Officials estimated 89 percent would be disbursed by May 31, 1977, about 6 months after receipt.

Antirecession funds will reportedly have a favorable employment impact in many cities. New hires and rehires were reported and some layoffs prevented. Also some funds were substituted to pay for positions normally funded by other revenues.

ACCOUNTING STATUS OF ANTIRECESSION FUNDS

For the first three quarters of the antirecession program, the 21 cities received over $70 million. One payment for the first two quarters was received in November 1976, and the payment for the third quarter arrived in early January 1977. 1/ As of February 28, 1977:

--Seven cities had disbursed some or all of the funds.

--Five had appropriated all or some but not disbursed

1/ St. Louis received payment for all three quarters in January 1977.

any of the payments.

--Nine had not appropriated or disbursed any of the funds.

The following schedule summarizes the status of the antirecession funds received by the 21 cities as of February 28, 1977.

	Amount	Percent of total available for appropriation
	(000 omitted)	
Funds received	$70,077	99.5
Interest earned	350	.5
Total available	$70,427	100.0
Disbursed	$16,606	24.0
Appropriated but not spent	26,120	37.0
Total	42,726	61.0
Unappropriated	27,701	39.0
Total	$70,427	100.0

The Public Works Employment Act of 1976, title II, requires that the funds be spent within 6 months of receipt. Department of the Treasury regulations interpret this requirement to mean appropriated. Almost all the first payment received by the 21 cities was expected to be appropriated, and over 89 percent was estimated to be disbursed, within 6 months, as follows:

STATUS OF FIRST ASSISTANCE PAYMENT
21 SELECTED CITIES
AS OF MAY 31, 1977

	Estimated amount	Percent of total available for appropriation
	(000 omitted)	
Funds received	$44,391	98.9
Interest earned	483	1.1
Total to be accounted for	$44,874	100.0
Disbursed	$40,078	89.3
Obligated	1,162	2.6
Unobligated	3,528	7.9
Unappropriated	106	.2
Total first payment to be accounted for	$44,874	100.0

REPORTED USES OF ANTIRECESSION FUNDS MAY NOT MEASURE ACTUAL IMPACT

The uses of antirecession assistance payments discussed in this section and the status of funds described in the previous section are those indicated by financial records or as described to us. As we have pointed out in our earlier reports on the revenue sharing program, 1/ the uses shown in the financial records are solely accounting designations and may have little or no relation to the actual impact.

1/ "Revenue Sharing: Its Use by and Impact on State Governments," B-146285. August 2, 1973; "Revenue Sharing: Its Use by and Impact on Local Governments," B-146285, April 25, 1974; "Case Studies of Revenue Sharing in 26 Local Governments," GGD-75-77, July 21, 1975; "Revenue Sharing: An Opportunity for Improved Public Awareness of State and Local Government Operations, GGD-76-2, September 9, 1975.

A government can identify the amount of antirecession funds received, as well as the amounts and sources of all other revenues. However, once funds from different sources are commingled for budgetary purposes, it is often impossible to identify the source of the dollars that fund an expenditure category or a specific item.

For reporting purposes, it becomes somewhat meaningless to assign one revenue source for a specific set of expenditures and a second source for another where both revenues can be used interchangeably. Antirecession assistance, revenue sharing, Federal categorical aid, State aid, and a local government's own revenues can often be used to provide the same service. This creates an environment where funds can easily be displaced or substituted.

When a government spends antirecession payments for activities that were financed, or would have been financed, from local or other revenue sources, considerable latitude exists for the use of funds thus freed. Freed funds may be used to increase expenditures in other program areas, to avoid a tax increase, to postpone borrowing, to increase yearend fund balances, and so forth. For example, Spokane budgeted antirecession funds for street maintenance which would have been funded even if the city had not received the antirecession payments. This action freed funds to be used for other purposes and created about 17 additional positions.

It can be misleading to conclude that reported uses indicate a positive impact, i.e., increased spending in those programs for which antirecession funds are designated. The interchangeable nature of money can nullify the meaning of a report that relates specific expenditures to a specific source of revenue, such as antirecession assistance.

Reported uses of funds

The cities reported the majority of their funds have been or will be spent to maintain existing services rather than to expand or add new services. Over 90 percent of the antirecession funds will be used for operations and maintenance expenses. (See app.II.) The most widely designated functions follow.

--Nine cities will allot some portion for police protection.

--Six will appropriate a portion for fire protection.

--Six will allot money for parks and recreation.

--Five will spend a portion for highways and streets.

--Other funds will be disbursed for such functions as sanitation, transportation, social services, tree trimming, and printing.

Over 50 percent of the total funds available will be allotted to police and fire protection.

Favorable impact on employment reported by some cities

Officials of 10 cities reported antirecession funds had been or would be used to fund employee positions. The funds used for salaries will amount to about $34.4 million, or about 48 percent of the total antirecession funds available to the 21 cities as of February 28, 1977. In addition, four cities reported that about $6 million would be used for across-the-board wage increases. Appendix III lists in detail the reported uses by object class.

Although statistics were hard to obtain or estimate, the governments reported that 2,873 jobs would be filled or saved as a result of antirecession funding. The following table reflects the best available data on positions reportedly funded with antirecession payments.

	Number
New Positions:	
Temporary	373
Permanent	305
	678
Rehires	862
Positions previously funded by other revenues	1,333
Total	2,873

IMPACT OF ANTIRECESSION ASSISTANCE ON CITY BUDGETS VARIED

The identification of antirecession funds' net fiscal effect is complicated not only by the interchangeable nature of money but also by shifting priorities and needs, changing amounts of revenue from other sources, and the relatively small contribution antirecession assistance made to the governments' total resources. In every city visited, total antirecession assistance payments for the first four quarters represented only a small proportion of total fiscal year 1975 revenues.

Nevertheless, because this was the first period money was received and 16 cities had not included it in their fiscal year 1977 budgets, initial assessments regarding the net fiscal impact of the antirecession funds can be made. Our analysis and discussions with officials about how the current year budgets would be modified to include antirecession assistance led us to conclude:

--Six cities' revenue collections were falling short of meeting expenditures, and antirecession funds were used to help balance the budget.

--Eight cities were collecting enough revenues to meet budgeted expenditures, and antirecession funds were used to increase authorized expenditure levels.

--Two cities were collecting sufficient revenues to meet budgeted expenses, but expenditure levels were not increased. In effect, antirecession funds were used to replace the government's funds, which were then held as unappropriated reserves or surpluses.

Of the remaining five cities, four had anticipated receiving antirecession payments and planned accordingly when preparing their fiscal year 1977 budgets, and one city--Evansville--had no approved plans for the funds at the time of our review. But Evansville was considering several proposals, including repairing streets and waterlines, improving sewer systems, continuing a student intern program, and paying utility bills. Officials believed none of the proposed uses would seriously affect the budget, the level of services, employment, or tax rates.

Antirecession funds included in current budgets

Four cities had included the antirecession funds in their planned fiscal year 1977 revenues and budget deliberations, and thus the funds became an indistinguishable part of the total budgets. Summaries on how these cities used the payments follow.

When Chicago prepared its budget, all revenues were considered available for any expenditures. Therefore, the assistance was not specifically related to any function, program, or object class.

According to officials, the assistance payments will be used to help fund existing basic services--specifically, fire and police cost-of-living raises, since the $18 million payments roughly equaled the budgeted salary increase. Their primary concern is to balance the budget and counter inflation, because salary expenditures have been increasing while the number of employees has been decreasing. Without the antirecession funds, officials believe the city probably would have increased property tax rates.

Toledo estimated how much it would receive and included the funds in the 1977 budget. The funds were reportedly used to pay wages of municipal garage employees. The decision was based on a desire by officials to select a cost element which approximated the assistance payments and which would also be spent in 6 months.

Had the payments not been received, the city would have had to use its own funds to maintain basic services. The city may have been forced to lay off employees or cut back other programs. The city is reluctant to raise taxes because of recent taxpayer resistance.

New Orleans anticipated receiving $2.9 million in antirecession money and included it in the 1977 operating fund budget. Uses for the funds were not designated until officials learned about the law's restrictions. Under the circumstances, it is difficult to determine whether the payments were used to maintain basic, add new, or expand existing services.

Officials believed the payments had not affected tax rates or employment but had prevented a further decline in basic services. Inflation and an eroding tax base contributed to the revenue-expenditure gap.

Seattle's funds were included as part of the total budget, but it was not possible to identify the net impact. Officials believed the impact had been spread throughout the budget, preventing a tax increase and staffing cuts and permitting the city to add employees. They stated the problems of the city are related to needing increased service levels, providing new State-mandated services, and combating inflation.

<u>Antirecession funds used to help balance budgets</u>

Six cities used their antirecession funds to fill a revenue void in their current year budgets. Profiles of the reported impacts follow.

Boston is using the payments to finance positions eliminated from the 1977 budget, thereby avoiding layoffs and service reductions. The cutbacks appeared necessary because of inflation and because there had been no increase in the tax rate over a 54-month period until fiscal year 1977, when the city increased the rate 25 percent to offset reductions in State support.

Cincinnati will use its antirecession funds to help reduce a projected 1977 deficit. The deficit was based on continuing all existing programs at 1976 levels, an employee wage increase, an expected revenue shortfall, and no new sources of income. If antirecession funds had not been available, more employees would have been laid off.

Miami used antirecession funds to ease the impact of revenue shortfalls. The budget deficit was caused by a voter rejection of a tax increase coupled with a cost-of-living salary increase. To compensate, the city ordered a budget cut, including eliminating positions and laying off workers. Officials stated that without the funds the city would have had to eliminate additional positions and lay off more employees.

Norfolk imposed a hiring freeze in fiscal year 1977 to help balance the budget and forecast a fiscal year 1978 deficit. The city believes increasing costs have contributed most to the city's fiscal situation. Antirecession payments will be used to meet fiscal 1978 expenditures by funding critical positions vacated during the freeze. Officials stated that to fill these positions without antirecession assistance might mean an increase in taxes or cutbacks in services.

Oakland's expenditures are rising faster than revenues, and the fiscal year 1977 budget has been cut. The assistance is being used to pay increases resulting from arbitration decisions on firemen's salaries, benefits, and working conditions. Without the assistance, funds would have had to come from other budget areas by cutting services.

Providence officials stated that revenues had been falling short of expectations. Assistance payments were transferred to the general fund and will be used to cover extra public works costs incurred during the past winter.

Antirecession funds used to increase expenditure levels

Several cities used antirecession funds to finance activities or programs not included in the current year's budgets.

Newark officials stated that the city had laid off employees in 1975 and in 1976 to avoid a further tax increase. Antirecession funds will enable the city to finance salary increases, prevent the elimination of some positions, and enhance some of its services. Without antirecession funds, officials said the city would probably have had to lay off employees or increase property taxes, because a State law would have prevented the increase in operating expenses.

Detroit will use the funds primarily to restore basic services cut to balance the fiscal 1977 budget. The police force had been cut because revenues had not been keeping pace with inflation. Citizens had been demanding increased protection, so the city used the money to recall 762 police officers. Had Detroit not received the payments, some officers still would have been rehired, but officials had no idea how many and where the funds would have come from.

Spokane plans to use the payments mostly to finance street resurfacing budgeted before the city received the payments. This released funds which officials said would be used to add 17 new positions which otherwise would not have been possible.

St. Paul used its antirecession funds to expand its shade tree disease control program. Dutch elm disease has been a problem since the 1940s. The funds may have created some jobs for contractor personnel. If antirecession funds had not been available, the city most likely would have sought more State aid.

St. Louis plans to use almost all its antirecession funds to pay about 171 employees' salaries in 15 departments. This will help fund services, such as removing overhead cables, which had been delayed.

The city has been experiencing declining purchasing power due to inflation, the inability of revenues to keep pace, and a declining tax base. Services have been cut and projects delayed. According to officials, without the antirecession payments, these projects would have been delayed further.

Antirecession funds will allow Los Angeles to reduce its backlog in street repairs, maintenance, and tree trimming. If funds had not been available, the projects would have been financed in some future budget. Officials believe the payments will relieve the city from financing the projects with its own funds and thereby possibly reduce future taxes.

Salt Lake City will use its funds to grant pay raises to about 2,000 city employees. This increase was authorized by a supplement to its budget. The payments had no effect on city tax rates. Without the funds, officials said, the salary adjustments would have been delayed until fiscal year 1978, and the city might have laid off some employees to pay increases to those remaining.

Honolulu will pay police wage increases totaling $4.1 million (which were not originally budgeted), in part, with antirecession payments. The payments had little or no impact on current tax rates or service levels. If the funds had not been available, Honolulu would have had to decrease current funding of capital improvement projects and authorize additional bond funding.

<u>Antirecession funds used to increase or maintain surpluses</u>

Two cities were collecting sufficient revenues to meet expenses and did not use their antirecession payments to increase the current year budgets. Antirecession funds simply displaced city budgeted funds and allowed them to maintain or increase surpluses.

Fort Worth used the money, in part, to displace other funds. The funds had little or no impact on the city's taxes, services, or employment during the current year.

City officials said that if the payments contribute to a fund surplus for fiscal years 1976-77, they may result in the prevention of employee layoffs in the following fiscal year.

The antirecession funds which Phoenix received will help maintain a surplus at the end of fiscal year 1977. The city raised the sales tax in late 1976, but voters repealed it in February 1977. This would result in less revenues than expected for fiscal year 1977 and a projected fiscal year 1978 deficit. However, decreases in operating expenditures more than made up the revenue loss in fiscal year 1977. The most important consideration for using the funds involved preserving a 1977 yearend fund balance to help finance the 1978 budget because, we were told, Arizona law limits annual budget increases to 10 percent over the previous year. The city decided to use the first two quarter payments for street maintenance to replace highway revenues and carry over those displaced moneys to finance the 1978 budget.

CONCLUSIONS

Since antirecession funds provide an additional revenue source, they will favorably affect the cities' operations. Attempts to gage what the effect of the funds will be as well as assess when such impact will occur are complicated by the interchangeable nature of moneys, shifting needs and priorities, changing amounts from other revenue sources, and the relatively small contribution antirecession payments made to the total resources of the cities. Although these factors preclude any conclusive assessment, we found the following effects:

--Six cities' revenue collections were falling short of meeting current year expenditures. Antirecession funds were used to help balance the budgets and possibly avoid counterproductive steps.

--Two cities were collecting sufficient revenues to meet budgeted expenses, and 1977 expenditure levels were not increased. In effect, antirecession funds were used to maintain or augment surpluses. Consequently, little or no impact will occur until subsequent fiscal periods.

--Eight cities were collecting enough revenues to meet fiscal 1977 budgeted expenditures, and antirecession funds were used to increase authorized expenditure levels. It is difficult to gage what would have occurred without the funds because the cities may have funded the expenditures by using surpluses or by taking counterproductive actions or they may not have made the expenditures.

--Four cities incorporated antirecession funds into their fiscal 1977 budgets. Thus the funds became an indistinguishable part of the total budgets. In these cities, as in those mentioned above, gaging what would have occurred without the funds is difficult since many options are available to the cities.

--One city had no plans for the funds at the time of our review. Officials believed, however, the payments would have little impact on taxes, employment, or levels of services.

Antirecession funds reportedly had a favorable impact on many cities' employment. New hires and rehires were reported and some layoffs prevented. Some funds were also substituted to pay salaries of positions normally funded by other revenues. These are reported uses as shown in financial records or as described to us. Because of the interchangeable nature of city resources, however, these reported uses may have little or no relation to the actual impact.

CITY SYNOPSES DELINEATING MAJOR FISCAL PROBLEMS, IMPACT OF THE RECESSION, AND BUDGETARY ADJUSTMENTS

CITIES WHOSE CHRONIC PROBLEMS OVERSHADOWED RECESSIONARY IMPACTS

Newark, New Jersey

Officials said that many chronic factors affect their government. The tax base is deteriorating because of declining population and property values. For example, assessed real estate values dropped $95 million, or 7.65 percent, from 1970 to 1977. Officials believed this problem perpetuates itself as declining property values force increasingly higher tax rates in order for the city to "tread water" in providing municipal services. Over half of Newark's area is tax exempt. The city's economic base is declining, and movement of trade and industry out of the city has gradually accelerated. Thus, the quality of job opportunities has diminished and the number of residents on public assistance has increased. Long-term unemployment has persisted.

While officials believed property taxes--the major revenue source--are not sensitive to the recession, collections declined because of other factors, primarily successful appeals of assessments. Also the tax base has declined because of chronic problems.

The recession added to the already heavy pressure on levels of services. The city lost some income in depressed 1975 payroll tax receipts and substantially diminished State aid. Officials also cited the recession for increasing demands for public assistance and public safety services. In total the city experienced a deficit in 1975 of several million dollars largely as a result of the recession. Newark reversed this trend in 1976 and accumulated a modest surplus. Although service levels were reduced, basic services have been maintained.

Newark raised property taxes in 1975 because of prior year overexpenditures, revenue losses from outside sources, and salary increases. The city also laid off employees in 1975 and 1976. Officials cited inflation as a primary cause of the layoffs. Inflation has been taking its toll in the form of union salary demands and high prices for services, supplies, and equipment, which drained the city's ability to maintain services while keeping taxes tolerable.

Officials hoped that with Federal assistance, such as antirecession assistance, the city would be able to provide sustained tax relief and improve Newark's financial situation by breaking the cycle of increasing expenditures, a deteriorating tax base, and higher tax rates.

Detroit, Michigan

Officials believed Detroit does not have the financial resources to effectively deal with the needs of its residents. The city has chronic long-term economic and social problems, which include:

--Declining population, including loss of affluent families.

--High rates of crime and fire incidence.

--Large numbers of citizens on welfare.

--An aging housing stock, coupled with a large number of abandoned buildings.

--High unemployment.

Although these conditions have led to residents demanding more basic services, Detroit has been unable to obtain the additional funds needed to maintain even previous service levels. The city's financial trend has been one of increased taxes--coupled with a decrease in basic services.

The recession adversely affected Detroit especially because of the economic slump in the automobile industry. Officials attribute an approximately $6-million drop in 1975 income tax revenues to the recession as automobile workers were laid off. In 1976, when workers were rehired, revenues increased by about the same amount. Income tax revenues for fiscal year 1977 are exceeding estimates by about $3 million because of increased automobile production.

Officials believe the income tax is volatile to changes in unemployment, magnifying the city's economic condition. This is enhanced by the tax structure, which taxes residents' earnings four times those of nonresidents, who tend to be less affected by the business cycle. Officials also believe this difference in the tax structure encourages the more affluent to leave Detroit.

Officials believed the recession also caused them to lose intergovermental revenues; they expected to receive \$76 million from the State in fiscal 1976 but received only \$67 million.

Demand for recreation services increased during the recession because more people were unemployed, as did the demand for police and fire protection. Officials did not know whether this was triggered by recessionary pressures or chronic social and economic problems. The recession did not create any administrative burdens because welfare and unemployment compensation are county and State responsibilities; however, the city self-insures its own layoff benefits, which amounted to \$2.6 million in fiscal year 1976.

While Detroit has been adversely affected by the recession, the impact was minor compared to the city's long-term problems. Tax bases continue to erode as businesses and affluent families leave. Officials thought the recession caused some drop in property tax revenues because of declining business inventories. The failure of property tax revenues--the largest single tax source--to keep pace with inflation is a major problem. For example, from 1972 through 1976 the property tax base increased only 1 percent. Officials attribute this stagnation to a reduction in housing stock by 21,000 dwellings in the last 5 years, a relocation of many businesses, and a deteriorating housing stock. Also in 1976 the State reorganized business taxes and about \$708 million of business inventories were removed from personal property assessed values effective January 1, 1976. Property tax collections for fiscal year 1977 are slightly less than projected because Detroit is experiencing a higher than normal delinquency rate.

In 1976, among other reductions, the city had to cut police and fire services primarily through employee layoffs. Officials said this move became necessary because other expenses had been "cut to the bone" and there were no other sizable areas to reduce. From 1972 through 1975 Detroit reduced overall service levels to balance its budget. Since 1972 the city has had a general fund surplus only in 1973 and 1974, which resulted from the Federal revenue sharing program. Historically, the city has cut art and historical museums, libraries, parks and recreation, and sanitation programs because revenue sources had not kept up with inflation. The city's expenditures are tied to inflation; for example, the largest cost, employees' salaries, is directly related to inflation, as most workers are given cost-of-living increases.

In 1976 Detroit's bond rating was reduced due to its chronic problems. Standard and Poor's justification for lowering the rating follows:

> "Detroit, like many other old central cities, is reaching the point where the economic base can no longer generate sufficient revenues to cover the growth in expenditures. As a result the city is running a deficit with even larger revenue gaps projected for the future. Several alternatives have been proposed to close these gaps including increased income taxes, nuisance taxes, state takeover of certain services, off-track betting and a change in the city's fiscal year. These measures, along with current efforts to control expenditures may temporarily alleviate the problem. However, the long-term problem will exist as long as the economy remains stagnant."

Current tax rates are at State maximum limitations. Officials said the local tax effort is currently almost four times the statewide average. To replace revenue losses in the past years, the city has assessed every tax permitted by its charter and State law to the maximum allowable rate. If the needs of residents are to be met, officials say new revenues must come from either the State or the Federal Government, as the city's revenue sources seem no longer adequate to finance basic services. While a deficit is not expected in 1977, revenue deficiencies of about $40 million in 1978 to over $169 million in 1982 have been projected.

The 1976 Economic Report of the Governor of Michigan describes the financial problems of Michigan local government as follows:

> "The serious financial plight of New York City, despite its location in the heart of the richest urban area in the world, was brought about in part by selfishly competitive, rather than cooperative, local economic planning. Many Michigan communities, both large and small, are also suffering from serious fiscal difficulties. The problem is long-term. It is not due to the recent recession, nor can it be solved by simply transferring more Federal and State money to local units of government. The immediate problem may require more outside financial aid, but a permanent solution requires a fundamental change in the financing of local government."

Oakland, California

Officials said they have been in a recession for years. Decreasing population, chronic unemployment, urban decay, a high crime rate, a high proportion--almost 50 percent--of low income and minority residents, loss of business, and inflation were emphasized as major causes. For example, at least 50,000 people have left the city since 1969 and unemployment was still 14 percent during 1976.

Officials said the demand for services, particularly for leisure areas, such as parks, athletic facilities, etc., had increased during the recession, magnifying chronic problems. No additional administrative burdens were noted as welfare and unemployment are county functions.

Major revenues have steadily increased from 1972 through 1976, partially due to tax increases. Despite these increases, officials stated property taxes, the major tax, have not kept pace with inflation and rising expenditures. From 1974 to 1976 expenses rose 22 percent faster than revenues. Officials explained that property tax revenue increases have been lessened by urban decay in some areas and delays by the county in reassessing appreciated properties in others. Revenue estimates for fiscal year 1977 are generally proving accurate, although sales and gasoline taxes are somewhat less than projected.

Basic service levels have been reduced substantially, although few employees were laid off. Officials cited inflation as their major problem. Personnel costs constitute 80 to 85 percent of the city budget and tend to rise with inflation.

From 1972 to 1976, city employment rolls grew less than 10 percent while payroll expenses increased nearly 58 percent. Over the same period, police and fire personnel costs, including pension benefits, rose from 45 to 51 percent of the city's total budget. Total pension costs for all employees increased from $13 million in 1972 to more than $22 million in 1976.

The city projects that all nonrestricted fund balances will be depleted by the end of fiscal years 1977-78, with deficits in succeeding years' budgets, unless further budget cuts or revenue increases are implemented.

St. Paul, Minnesota

Officials believed the city faced many long-term problems typical of older cities, including inflation, an eroding tax base, a possible need to raise about $300 million for replacing sewer and water systems, a growing long-term debt, and an underfunded pension liability.

St. Paul's financial condition did not appear to be seriously affected by the recession. Officials stated that property taxes--their major tax--are somewhat isolated from the effects of a recession. The city continued to collect between 96 and 97 percent of taxes levied from 1972 to 1975, and 1976 revenue estimates were being achieved.

Officials stated that if the demand for services had increased at all, it had been very slight and had occurred in the health and parks and recreation areas. The city's crime rate increased, but officials said this increase had not been due necessarily to the recession. The only administrative burdens created were in the personnel department, because the number of job applicants increased. The county took over the city's welfare system in 1973 and the court system in 1974, which helped reduce any recession-related burden on the city.

During fiscal years 1974-76, St. Paul did not cut services but raised property taxes slightly and laid off some employees, primarily seasonal workers, such as lifeguards, who elected to be released instead of taking leave.

Officials stated 85 percent of their expenditures are personnel related. They believed inflation impacted expenditures more than the recession. Fringe benefits increased 21 percent in 1975, and the total employee benefit package was 16 cents of every tax dollar spent.

St. Louis, Missouri

Officials stated that a recession compounds existing problems, such as tax base erosion. Officials stated this erosion, the most significant long-term problem, is magnified because middle- to upper-income bracket people are leaving and removing a proportionately larger percentage of the tax base, leaving lower-income people, who require more services. Also an increasing percentage of unskilled workers has further contributed to chronic high unemployment. Officials believed unemployment is responsible for much of their financial problems because of unrealized potential tax revenues.

Officials stated two of their major taxes--sales and income--are sensitive to recessionary pressures. Though taxes were raised, revenue receipts for fiscal years 1973-76 were less than estimated. Officials stated it would be impossible to measure the recession's effect on revenues, however, since the recession is only part of their economic problems. Loss of population and industry continued throughout the recession.

The city's largest self-generated revenue--income tax--has grown only 5 percent from fiscal year 1972 to fiscal year 1975. An official stated this increase is due to better collection procedures because the city lost about 25 percent of its income tax base in the last 10 years. Property taxes, the city's second major self-generated revenue source, have declined as assessed values have steadily dropped during fiscal years 1972-75. Delinquent amounts have been about 6 or 7 percent during the same period.

During fiscal years 1974-76, the city raised taxes, in part, to pay bonded indebtedness; cut services; and laid off some employees. The recession appeared to cause some increased demand for services, such as police and hospitals. Officials believed inflation had much more of an impact on expenditures and also cited the eroding tax base, strikes, and inefficiency as contributing to service reductions. St. Louis officials cited many examples of inflationary cost increases since 1972; asphalt and fertilizer prices rose 80 percent, gasoline jumped 122 percent, and telephone costs grew 29 percent. Since 1970, they said, heating oil costs soared 275 percent.

The city's bond rating was reduced in 1976 largely due to its chronic problems. Services are being increasingly financed by assistance received from other levels of government. During fiscal years 1972-75, intergovernmental funds increased over 153 percent and rose from 14 percent of 1972 budget revenues to over one quarter of 1975 revenues.

Toledo, Ohio

Officials stated the city government is in relatively good financial condition, but they believe their city has chronic problems. Hardcore unemployment has created an increased demand for services. Middle class families have been moving to the suburbs; however, industry has thus far remained.

Officials stated the recession had caused some problems in balancing the budget but added they had been able to cope by shifting program priorities. A major problem is that revenues have not kept pace with rising costs of services. Officials believed inflation, particularly salary increases, had affected expenditures more than had the recession. They said a cost-of-living agreement with employees ties salaries to the Consumer Price Index. Therefore, inflation has immediate impact because payroll costs constitute over 45 percent of total expenditures and about 85 percent of general fund expenditures.

Officials said their major revenue source, the income tax, is adversely affected by recession because layoffs reduce the base, but they could not quantify the impact. In 1974 and 1975 corporate income taxes dropped sharply. Pay raises, however, increase the tax base, and income tax collections increased each year from 1972 through 1975. In 1976 the city collected more income tax than projected.

Officials stated the other main revenue source, property tax, has been insensitive to shortrun recessionary impacts. Although officials believe population shifts have slowed the growth in the property tax base, collections increased annually during fiscal years 1972-75 without raising rates, and, the percent of delinquent taxes remained fairly constant. In fiscal year 1976 real property tax collections were about the same as estimates.

According to officials, the recession increased the demand for law enforcement and recreational services. No additional administrative burdens were created. Welfare applications are processed by the county and unemployment claims by the State.

Toledo reduced employment in 1975 and 1976 through temporary layoffs and attrition. Most employees laid off were recalled because Comprehensive Employment and Training Act funds became available. While basic services have been maintained, officials believed there is a need to increase levels. Officials said "tightening the belt" on the budget coupled with expected revenue increases will enable them to offset increasing expenditures. Officials felt that additional revenues would be needed in fiscal years 1978 and 1979 to cover their capital improvement program. The increases in assessed values and income tax collections will allow for some leeway, but they project that the additional money generated will not be sufficient.

New Orleans, Louisiana

The mayor said the city's major financial problems stem from inflation, a lack of industrial diversity in its economy, and the exodus of citizens to the suburbs--leaving vacant and deteriorated property. The mayor explained the most significant problem affecting the city's financial stability, and one common to all major sizable older cities, is an eroding tax base. New Orleans' major taxes are on sales and property. People are continuing to move out of the city to the suburbs and are spending money at the new shopping centers in surrounding communities, as well as buying and building homes in these areas.

Because people keep leaving, tax collections have not kept pace with inflating service costs. For example, personnel costs increased 38 percent from 1972 through 1975, while sales and property tax collections increased only 11 percent during the same period.

The mayor said no appreciable short-term problems had been caused by the recession. Sales tax revenues--the principal revenue source--were affected little, if any, by economic conditions because collections increased by 5 to 11 percent each fiscal year since 1971. Tourism did not fall off as expected; there will be about an 80-percent increase in hotel and motel room capacity from 1970 to 1978.

A combination of other factors, such as the construction of the Superdome and several major hotels, plus planned riverfront expansion, a major tourist area rehabilitation project, and other city improvements created jobs and helped the city escape the normal expected impact of a recession. The city's 1977 revenues were substantially on target to meeting estimates.

Officials believe that tourism and sales taxes are unpredictable and that during a recession people are in a position to reduce buying and tourists could stay away. Officials believe a possible solution is to attract new industry to provide a more diversified tax base and a more responsive economic structure.

The demand for certain services, such as police and sanitation, has increased, in part, because of increased unemployment and by greater awareness and citizen participation. No additional administrative burdens, such as welfare applications, were noted because this is a State function.

During the fiscal year 1974-76 recession, New Orleans raised its property tax rates, laid off a few employees, and cut city services. Officials attributed such adjustments primarily to chronic and inflationary reasons, as indicated above.

About half the city's 1977 budget is federally and State funded. During fiscal years 1972-75 intergovernmental revenues rose from $35.2 million to $79.4 million. Officials believe that without continued Federal assistance levels of basic services cannot be maintained.

Cincinnati, Ohio

Major long-term problems affect Cincinnati's financial condition. The most serious are the city's inability to attract and retain new sources of employment and recurring financial crises resulting from continued erosion of its tax base. As higher income citizens move to the suburbs, a high percentage of low-income, minority, and elderly residents remain. As a result, the city collects less income tax, experiences higher unemployment, and more services are required.

This problem raises complications for the future as capital funds are allocated to short-term and temporary projects and maintenance funds are reduced to balance the budget. Eventually, repairs may no longer be adequate and there will be no capital funds to build anew. Officials said these problems would have surfaced as early as 1973 if the city had not received revenue sharing and some other unexpected revenues. Without continued Federal assistance further tax increases or substantial budget reductions would have been necessary. The city's unobligated general fund balance was strong from 1972 through 1975. In 1976 the balance was significantly reduced.

The recession and inflation were both blamed for aggravating the city's financial woes; inflation received the larger share. Inflation has helped cause double digit percentage increases in expenditures every year from 1973 to 1975, as costs for salaries, wages, fringe benefits, materials, supplies, and services have all escalated and exceeded growth in revenues. Meanwhile the city's major tax base--income tax--had been affected by the recession in 1976, as collections fell short of estimates, in part, because unemployment remained higher than anticipated. In fiscal year 1977 it appeared that revenues would match estimates.

The city was forced to lay off employees in 1976. In addition, when a tax increase was not approved in November 1976, 10-percent budget cuts affecting all departments were made. These moves were attributed to recession, inflation, and the eroding tax base.

Cincinnati experienced growing demands for services but not directly because of recession. The main problem is demographic changes, which result in a greater percentage of low-income citizens, who require more services. Officials believe higher unemployment during the recession may have contributed to increased crime and possibly increased demand for police services.

Seattle, Washington

Seattle's population is declining and becoming older and poorer than that of its suburbs. Demographic changes have altered the appropriate mix of services the city must provide and the capacity of residents to pay. The shift has also resulted in a gradual change in residential shopping patterns and the location of manufacturing facilities, both of which have slowed city tax revenue growth.

Seattle's major taxes are property, sales, and business taxes. An official believed the recession had not greatly affected the city's revenue-raising capacity. The official stated that sales tax revenues have increased substantially with inflation, but property taxes have not followed inflation as well, due primarily to a lag in local property revaluation and possibly, in part, to the recession.

The increased demand for services did not appear to be recession-related, according to an official. Rather, he said, these increases were due to public awareness and demand to promote development and maintenance of parks. The city had not experienced any recession-induced administrative burdens, particularly since it does not administer food stamps or welfare. Inflation was perceived to have had a much greater effect on the level of services. An official stated that over the past 4 to 5 years costs and demands have grown more rapidly than recurring revenues.

During the 1974-76 recession, Seattle raised tax rates, laid off a few employees, and cut services due primarily to factors other than the recession. Its business and occupation tax increased in 1975, because prior efforts to generate revenue and reduce costs did not keep pace with salary settlements. Although many positions were eliminated to reduce costs and increase efficiencies, the only employees released were those who had completed capital projects. Cuts in basic service levels were attributed to changes in priorities (both by choice and as a result of adding recent State-mandated services) and failure of revenues to keep pace with an overall 35-percent salary increase over the past 5 years.

Chicago, Illinois

Like many major cities, Chicago faces several long-term problems. Population has declined as upper- and middle-class citizens have emigrated. Unemployment has been high (reaching 10.5 percent in 1975), and there are 39,500 hardcore unemployed people.

Officials believed the recession had adversely affected revenues but found it difficult to measure the sensitivity of the tax base. Property taxes, the largest single revenue source, have remained fairly stable since 1972. Although recognizing the increased sales taxes (from $67 million in 1971 to $87 million in 1976) and other revenues collected, officials believe the recession restricted the growth rate. They attributed the city's ability to achieve revenue projections every year to conservative budget estimates and new and increased taxes. Federal grants have risen from $105 million in 1971 to $277 million in 1975 and have become a vital income source.

During fiscal years 1974-76, no employees were laid off and no basic services were cut. In fact, services were increased to meet demands for services, such as police, fire, sanitation, health, senior citizens activities, child care, and job placement. Some of this increased demand may have been recession induced; however, officials could not estimate the extra expenditures caused by recession.

Chronic and recession-related problems affect the city's financial condition in the same ways. The population's reduced income limits its participation in the economy. The need for city services expands. Growth of the economy and the tax base are restricted.

Though officials could not evaluate recessionary and inflationary effects separately, they believed inflation is the greater evil and a long-term problem because it erodes their purchasing power.

City operations fund balances increased in 1973 and remained stable at about $440 million through 1975. Total debt remained nearly constant at $1.3 billion from 1971 through 1975.

Providence, Rhode Island

Major problems are the permanent loss of major industries, hardcore unemployment, and declining population. Officials stated the major tax base--property--is not very sensitive to a recession. Property taxes levied remained fairly stable during fiscal years 1972-74. In fiscal year 1975 property taxes jumped considerably due, in large part, to a rate increase. In fiscal year 1976 the total levy again increased as property was reassessed. Delinquent taxes increased in 1974 and 1975. The percentages delinquent in fiscal years 1972-75 were 7.4, 9.3, 10.4, and 9.9, respectively. Revenue receipts for fiscal year 1976 were running a few percentage points below estimates due to a lag in collections caused mostly by the reassessment and related increase in abatement requests.

Officials believed the recession had increased demand for police services due to higher unemployment. They believed, however, that inflation, particularly salary increases, has had a much greater impact on the rising level of expenditures.

The city has not had to lay off any employees, but taxes were raised to meet inflationary cost increases. Officials considered the city's financial condition healthy during fiscal years 1972-76 and felt that they had been able to handle recession-related problems. Increased costs resulting from higher union demands have been somewhat of a problem in fiscal years 1975 and 1976. The city's operating fund decreased sharply in fiscal year 1975 and again in fiscal year 1976.

CITIES EXPERIENCING SOME RECESSIONARY IMPACT

Phoenix, Arizona

The major revenue source--privilege tax (includes general sales tax)--appeared to be sensitive to recessionary pressures. Officials believed the recession had contributed to reducing annual increases in sales tax collections in 1974 and 1975. They said any increase in unemployment would negatively affect these revenues. The city's other main revenue source--property taxes--was reduced in fiscal year 1974, partially due to revenue sharing funds, but the rate was raised in 1975 to assure continuation of services. The delinquency percentage of property tax revenues rose from 1.8 in 1974 to 3.3 in 1975. The city has experienced increased demand for services, due to both recession and continuing population growth. No additional administrative burdens were noted, particularly since the city does not administer welfare or unemployment claims.

Phoenix reduced some programs but did not cut basic services or lay off employees during the recession.

Officials believe revenue sharing helped keep the government fiscally sound. Federal funds have grown to 16.3 percent of the fiscal year 1977 budget compared to 7 percent in fiscal year 1972.

Phoenix has grown rapidly in recent years both in land area and population, and the government has grown accordingly. Government revenues have increased 68 percent from $123.8 million in fiscal year 1972 to $208.3 million in 1975. During the same period expenditures increased 76 percent, from $140.6 million to $247.6 million. Some of these expenses could be related to increased demand due to the recession. City budget documents, however, indicated that expenditure increases had resulted primarily from inflation, population growth, new facilities and programs, and increased Federal funding.

Although the recession had some adverse effect, officials stressed that inflation had a greater impact, particularly through salary increases and rising utility rates. A Phoenix official reported that inflation has driven government costs to new high levels. For example, the average annual utility rate increase has been over 23 percent over a 3-year period. An official stated that cost increases have exceeded rising revenues resulting from economic recovery.

<u>Boston, Massachusetts</u>

The recession affected Boston as did inflation, according to city officials. The city's main source of income is property tax, which officials believe is recession sensitive in the long run. They said recession and inflation affect construction and recession limits property tax base growth as the existing housing stock deteriorates, creating a long-term tax base shrinkage. Property tax levies increased annually during fiscal years 1972-76 (not including 1974, which was a 6-month transition period to a new fiscal year basis), and the percentage of delinquent taxes decreased below prerecession levels. Demand for services has generally not increased. Inflationary cost increases in construction, personnel, electricity, telephone, and fuel were identified.

Officials identified as major problems the heavy reliance upon property taxes for revenues and the tax-exempt status of much of Boston's property. Currently, Boston receives 69 percent of its locally generated funds from property taxes, compared to about 41 percent in the

Nation's 49 largest cities.

The city did not cut basic services, lay off employees, or increase property tax rates during fiscal years 1974-76. Officials believe the city needs more Federal and State assistance from programs like revenue sharing. Boston's general fund had deficits during several years between 1972 and 1976. Outstanding debt increased annually during the same period.

Norfolk, Virginia

The recession had some adverse impact. Inflation, however, was perceived as a much greater problem. The financial condition was described by one official as "serious but not critical."

Norfolk's major taxes are on real and personal property, sales, and public utilities. Revenues from property and sales taxes increased annually, while utility tax revenues fluctuated. Officials believed that property taxes had been very sensitive to the recession. A construction slowdown resulted in fewer real estate developments being added to Norfolk's tax base. Delinquent taxes increased from 5.1 percent in fiscal year 1974 to 6.6 percent in fiscal year 1976. Additionally, sales tax growth slowed in fiscal years 1975 and 1976, primarily because of increased unemployment.

In fiscal year 1975, the assessed value of real property as a percentage of market value was lowered from 75 to 60 percent while the tax rate remained constant. Total assessments increased, however, because property values had grown enough to offset the assessment percentage decrease. The city began annual assessments of real property in fiscal year 1975 rather than every 5 years. In addition, the business electrical tax was reduced to encourage businesses to remain in or come to Norfolk.

During fiscal years 1974-76 the recession did not force the city to cut services or lay off employees. The public had requested increased police protection and community services. As a result, policemen were added in fiscal year 1976. The only additional administrative burden was an 8-percent increase in the number of monthly welfare applications processed in fiscal year 1976 compared to the number processed in 1974.

Revenue sharing funds supplemented the operating budget to combat inflation and prevent a tax increase. The city drew down total fund balances steadily since fiscal year 1974, decreasing them from $38 million to $23 million in fiscal year 1976. However, Norfolk decreased its total debt outstanding by over $13 million annually from fiscal year 1972 to 1976.

Norfolk's main long-term problem, besides inflation, is that 45 percent of the assessed value of city real estate is tax exempt. This equals about $24 million in unrealized tax revenues each year.

Miami, Florida

Officials blamed both the recession and inflation equally for the city's problems. Recession restricted revenue growth, while inflation rapidly drove costs higher.

Funding deficiencies have occurred in recent years because revenues have not increased as expected. Officials attributed this partially to the recession. They believed property tax revenues have been affected by both a declining construction industry and increasing delinquent taxes. Delinquent taxes have doubled since 1972 to $4.4 million in 1976; most of the increase occurred after 1974. The city also was indirectly affected by recession because anticipated revenues of $1.3 million from the State were not realized in fiscal year 1976.

Meanwhile, expenditures have increased about 63 percent from fiscal year 1972 to fiscal year 1976 compared to a 52.5-percent increase in revenues. Twenty million dollars of the increase resulted from salary adjustments for personal services. From October 1972 to October 1975 average employee earnings grew about 52 percent.

Miami has maintained basic services and hired additional police to meet the rising crime rate, which may have been recession induced. Between 1973 and 1975, 187 positions were added in the police and fire departments. The recession caused some administrative burdens as management spent more time on the budgetary process. The only layoffs in recent years occurred in early 1977 because of budgetary problems. Ninety-three sanitation employees were laid off because the function was transferred to the county.

A city official said 106 vacant positions had been abolished without affecting service levels because many departments were "too fat." This reduction will result in more efficient operations. Future layoffs and curtailed services might be expected if the city's financial condition doesn't improve.

Miami's general fund balance increased to over $4 million in fiscal year 1974 but plunged to a $600,000 deficit in fiscal year 1976. This deficit resulted primarily from lower than anticipated income from State revenue sharing programs. Without antirecession assistance the deficit would have been larger, according to officials.

Miami's total net outstanding debt rose from fiscal year 1972 to fiscal year 1976. The increase was caused primarily by capital expenditures for police protection, city sewers, and park and recreation facilities.

Officials believed Miami's main problem is its inflexible tax structure. The property tax--its major locally generated revenue--is near the State-imposed 10-mill limit. Rates since 1972 have varied depending on the need for additional revenue and increases in assessed property valuation. An official cited a need to find new revenue sources.

CITIES MINIMALLY EFFECTED BY THE RECESSION.

Los Angeles, California

Officials stated inflation had caused the greatest problem in balancing the budget and providing normal service levels. The recession was perceived to have had minimal impact.

The city's revenues continued to rise throughout the recession. Officials stated that the property tax--their primary tax--has a great degree of stability, especially in periods of economic adversity, and is not sensitive to recessionary pressures. The rate of total revenue growth declined in 1975, due to a growth reduction in sales tax, license fees/permits, and grants and, according to officials, may have dropped, in part, due to the recession. However, a transfer from the reserve fund helped balance the budget until 1976 revenues exceeded expectations. Officials stated revenue sharing had increased the reserve fund before 1975 and had very positively affected city operations. Revenue estimates for fiscal year 1977 are on target.

The demand for services did not increase noticeably during the recession, and no additional recession-related administrative burdens were noted. Welfare and unemployment functions rest with the State and county.

Some layoffs occurred; however, fewer occurred in 1975 than in 1972. Basic service levels were not affected during the recession, according to officials, although small cuts were made in low priority services and projects. The city raised taxes during the recession. Officials stated these increases were normal and had occurred because of budget requirements for salaries, fringe benefits, and pension and retirement and for inflation in general. Officials cited inflation as one reason for taking "belt tightening" measures. Inflation induced mandatory salary increases and increased operating expenses through higher fuel, medical, and worker compensation costs.

Officials described the city's financial condition as sound, noting that the uncommitted balance in the reserve fund, which is a significant measure of the city's fiscal health, had increased from $15.7 million in fiscal year 1972 to $34.4 million in fiscal year 1976. The city's general obligation bonded indebtedness continually decreased during fiscal years 1972-76.

Salt Lake City, Utah

The government's financial condition was minimally affected by the recession. Officials believed the city to be financially healthy and able to meet recession problems. The mayor attributed this to a stable major source of revenue--property taxes--and the fact that the city does not administer social programs. Salt Lake City did not lay off any employees, cut services, or raise property taxes during the recession.

Revenues increased annually from property, sales, and franchise taxes and were not adversely affected by the recession. Officials believed that the sales tax should have been sensitive to the recession but continued to grow because a new indoor shopping complex and street beautification project completed in 1975 had attracted customers downtown. In fiscal year 1976 sales tax receipts rose further as the tax rate was raised from one-half to threefourths of a percent. After 10 years of lobbying, this increase had been authorized by the State for all cities, to provide more flexible revenues. In fiscal year 1976 the property tax was reduced 1 mill because of a surplus in the debt service fund. From 1972 to 1976 there was no property reassessment. Because of conservative revenue estimates, a surplus of $500,000 to $636,000 is projected for fiscal year 1977. Changes in State aid had minimal impact on the city government, because such aid is not used to fund basic services. On the other hand, revenue sharing funds enabled the city to purchase new capital equipment and prevented a property tax increase in fiscal year 1973.

The recession had less impact on expenditures than did inflation, because it did not result in eliminating or reducing normal service levels or create administrative burdens. Although demand for certain services, such as garbage collection, snow removal, paramedical rescue, and police protection, increased, officials stated the increases were not primarily recession related but, for example, were a result of greater public awareness of the services available.

Yearend balances for the general, operating, and other funds varied between $19 million and $25 million during fiscal years 1973-76, closing at the higher figure.

Evansville, Indiana

Officials believe the government had been little affected by the recession. They stated the city was financially healthy and able to meet recession problems.

The recession had no adverse affect on tax collections, although it may have slowed property tax growth. Revenues rose primarily because of increased intergovernmental revenues. Property tax assessments remained fairly stable from 1971 to 1976 despite an annual decrease in the tax rate, which fell 15 percent over this period. The city was having no problem collecting 1977 revenues.

Normal levels of basic services were maintained, and 20 policemen were added due to an increasing crime rate, which may have been recession related. The city did not lay off any employees, nor are any predicted for 1977. The recession caused no additional administrative burdens mainly because the city is not responsible for welfare and unemployment payments.

Evansville's unappropriated surplus exceeded $2 million in fiscal year 1973 and reached $5.3 million in fiscal year 1974 due to revenue sharing, before being reduced the following years to an estimated $2.3 million in 1977. Officials said inflation had contributed most to increased expenditures, which in turn reduced the surplus.

Honolulu, Hawaii

The recession had little impact on the government. Honolulu did not cut services, lay off workers, or raise taxes because of funding shortages for fiscal years 1974-76.

Honolulu's main revenue source--property tax--and other income sources have been generally insensitive to the recession. Increasing real property assessed values have enabled Honolulu to reduce tax rates and yet increase revenues from $80 million in fiscal year 1972 to $117 million in fiscal year 1976.

During fiscal years 1972-75, State aid decreased slightly, but Federal assistance increased from $18 million to $43 million, more than offsetting State reductions. The 1977 revenue collections are below projections because new State laws, enacted after Honolulu passed its fiscal year 1977 budget, reduced property tax receipts. The new laws reduced the real property assessment ratio and increased the amount of homeowners' real property tax exemptions by 50 percent.

To meet the shortfall in property tax revenues, Honolulu reprogramed revenue sharing funds to operating agencies and substituted bonds to finance certain capital projects and postponed portions of others. Also the city expects to receive a grant-in-aid from the State. The budget director believed the city would end up with a fiscal year 1977 operating surplus after making these adjustments. In fiscal year 1978, budget cuts may be necessary but reductions will be made to economize rather than to reduce services.

The recession's impact on revenues was reflected in increased delinquencies and assessment appeals. Fifty percent of appealed taxes are held in escrow. This total amount of unrealized revenues rose from 2.2 percent of total assessments in fiscal year 1974 to 5.9 percent in fiscal year 1976. Delinquencies rose from 0.9 percent in fiscal 1974 to 2.2 percent in fiscal 1976. The assessed value of real property, which had grown by as much as 20 percent annually in recent years, leveled off to an increase of about 10 percent in 1976.

Due to unemployment and high fuel costs, the demand for bus service has expanded greatly and the city's subsidy has grown from $320,000 in fiscal year 1971 to nearly $15 million in fiscal year 1977. Rising crime rates have spurred the need for more crime prevention. Inflation has had more impact than recession. However, neither has significantly affected the city's financial position. The recession did not create additional administrative burdens. Honolulu does not administer the public welfare and health services. Inflation's effect on city expenditures has been offset by increases in Honolulu's property tax revenues through higher property values.

Honolulu's net debt increased 3 percent during fiscal years 1972-76. The city remained well below the legal debt limit and its bond rating improved.

The total operating fund balance grew from fiscal year 1972 to fiscal year 1974 before declining in fiscal year 1976. The recent decline resulted primarily from funding increased capital improvement projects with current revenues. Capital improvement project spending doubled during fiscal years 1972-76.

According to officials, the city's basic problem is being overly dependent upon real property tax. Since real property values are growing more slowly than in past years, tax rate increases may be needed.

Fort Worth, Texas

Officials stated the city has a healthy financial condition. The recession had little, if any, impact. The city did not raise property or sales taxes, cut basic services, or lay off employees during fiscal years 1974-76.

Tax collections--mostly property and sales--have steadily increased during fiscal years 1972-76, growing from about $33 million to about $44 million. Fiscal year 1977 revenue collections are relatively consistent with projections. The city has received significantly increased intergovernmental revenues as well. Federal funds grew from $2 million in fiscal year 1972 to $22 million in fiscal year 1975. According to budget officials, revenue sharing allowed the property tax rates to remain constant while services which otherwise may have been discontinued were maintained.

Officials cited good management, reduction of unnecessary programs, and improved city employee productivity as the reasons they were able to minimize service and employment decreases. For example, the only service eliminated was sweeping of residential streets and reduced sweeping of downtown streets since these services were no longer considered essential.

The recession caused no increase in administrative burdens since the city does not administer welfare or unemployment programs. The recession also did not produce any increased demand for services.

The city's general fund balance has risen every year since 1971, except in city fiscal year 1975 when it fell about $500,000. The fund grew from less than $1 million as of September 30, 1971, to over $9.6 million on September 30, 1976. Fort Worth's net outstanding debt has remained nearly constant at about $160 million. Over this period total general revenues increased from $54 million to $91 million. Thus the ratio of debt to revenues decreased from 3 to 1 in 1971 to 2 to 1 in 1975. Fort Worth's bond rating remained high throughout the past several years.

Inflation was cited as a major problem. Fort Worth experienced rising salary, utility, and gasoline costs. Increased wages are significant because most city services are labor intensive. Employment expanded 12 percent during fiscal years 1972-76, while personnel services costs grew 40 percent.

Spokane, Washington

Officials believed their economy had remained stable during the recession and the government had not experienced any major problems. The city had no difficulty achieving revenue projections from 1972 through 1976.

Officials believed that there had been no increased demand for services as a result of the recession, and no additional administrative burdens were noted. The city does not administer food stamps or welfare programs.

Officials believe the city is in reasonably good financial condition; however, revenue sharing, CETA, and other Federal moneys have prevented major service cutbacks. Inflation was perceived to be Spokane's biggest problem. Wage and salary settlements have averaged about 12 percent annual growth during the past few years, while revenues from the city's own sources increased about 8 percent each year. Slightly over 75 percent of the general fund budget is used to pay salaries and fringe benefits. Rapidly growing operating costs forced the city to increase taxes, double parking meter fees, and reduce library hours and park maintenance. A city official explained that despite inflation all essential services have been maintained.

APPENDIX II

ACTUAL AND PLANNED USES OF ANTIRECESSION FUNDS AND

INTEREST EARNED BY FUNCTION AS OF FEBRUARY 28, 1977

Function	Operations and Maintenance		Capital Outlay		
	Number of governments	Amount	Number of governments	Amount	Amount
Highways and streets	2	$ 5,002,745	2	$1,898,260	$ 6,901,005
Police and fire protection (note a)	2	16,633,984			16,633,984
Police protection	6	20,461,820			20,461,820
Fire protection	4	4,765,763			4,765,763
Sanitation other than sewerage	1	440,000			440,000
Parks and recreation	4	2,473,428	1	120,000	2,593,428
General control	2	382,120			382,120
General public buildings	3	387,350	1	1,754,400	2,141,750
Police protection, parks and recreation, highways and streets (note a)	1	597,893			597,893
Transportation department		2,275,000			2,275,000
Social services		288,750			288,750
Tree trimming/sidewalk repair		3,000,000			3,000,000
Various general fund functions		7,080,513			7,080,513
Printing department		805,000			805,000
Housing inspection		52,135			52,135
Total		$64,646,501		$3,772,660	68,419,161
Various general fund functions-maintenance and operations/capital outlay not specified	1				1,342,608
Total actual and planned uses					69,761,769
Funds not planned for or appropriated					670,403
Total					$70,432,172

a/Amount not specified for each function.

APPENDIX III

ACTUAL AND PLANNED USES OF ANTIRECESSION FUNDS AND INTEREST EARNED BY OBJECT CLASS AS OF FEBRUARY 28, 1977

	Number of governments	Amount disbursed	Amount appropriated but not disbursed	Amount planned	Total (note a)
Salaries/wages for positions	10	$11,835,339	$ 8,586,940	$13,996,970	$34,419,249
Across-the-board wage and benefit increases	4	1,301,378		4,714,058	6,015,436
Supplies and equipment	3	127,830	1,687,215	2,592,400	4,407,445
Repairs and maintenance	3	-	1,197,117	2,370,563	3,567,680
Capital construction/improvement	1	-	-	2,163,150	2,163,150
Other:					
School building rental	1	226,930	73,070		300,000
Contractual services	3	118,050	26,950	630,000	775,000
Indirect support cost	1	-	-	936,600	936,600
Shade tree disease control	1	416,715	-	-	416,715
Mosquito control	1	-	10,000	-	10,000
Cannot be traced to object class	3	2,578,647	16,067,601	-	18,646,248
No plans	2	-	-	464,253	464,253
Total (note a)		$16,604,889	$27,648,893	$27,867,994	$72,121,776

a/Totals exceed total funds received plus interest available as February 28, 1977, since some cities have appropriated or have planned uses for total funds expected to be received.

(01925)