

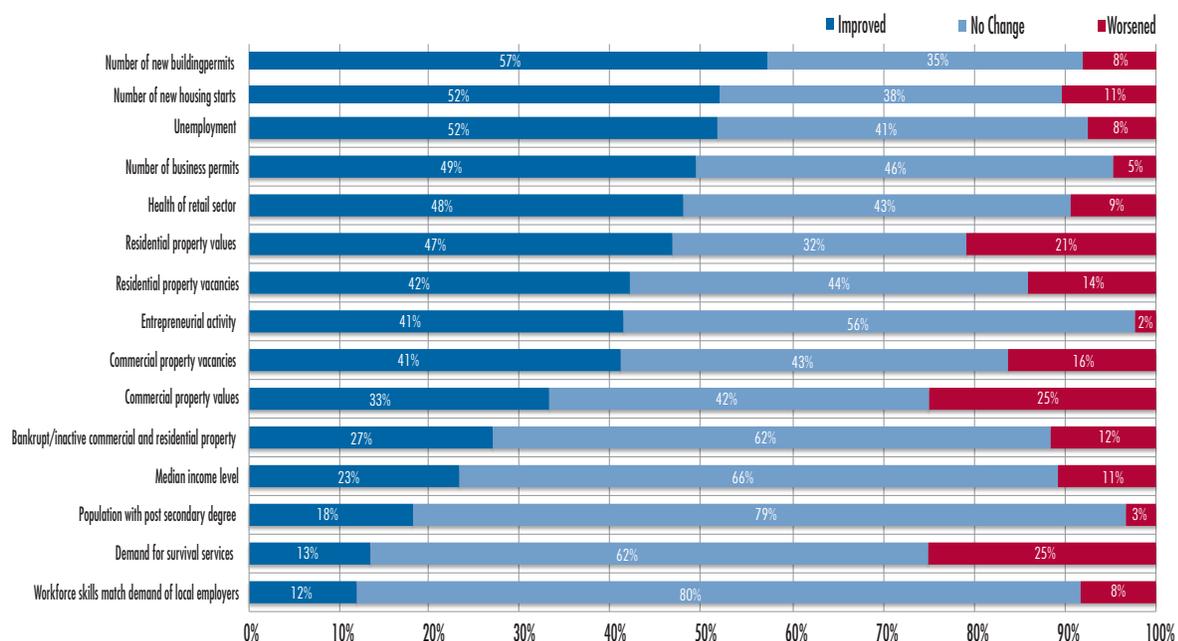
## 2013 Local Economic Conditions Survey

According to the nation's city officials, the performance of local, regional and state economies have improved over the past year. Despite improvements, cities are still struggling in significant ways, signaling that growth is not keeping pace at a level that is needed for a sustained recovery. Even worse, economic indicators that reflect the condition of cities' most vulnerable populations have resisted even a modest rebound in the face of broader national recovery.

The National League of Cities annual Local Economic Conditions Survey of city officials gauges the performance of local economic indicators and drivers of local fiscal health. Findings from this year's survey include:

- Tepid improvement in housing starts, commercial and residential property values, business activity and health of the retail sector;
- Persistent lack of growth in incomes and employment;
- Workforce skills not keeping pace with employer demand, as well as basic needs of the most vulnerable populations not being met; and
- Decrease in the number and scope of investment projects if a federal limitation is placed on the tax-exemption of municipal bonds.

Figure 1: Local Economic Condition Change in 2012



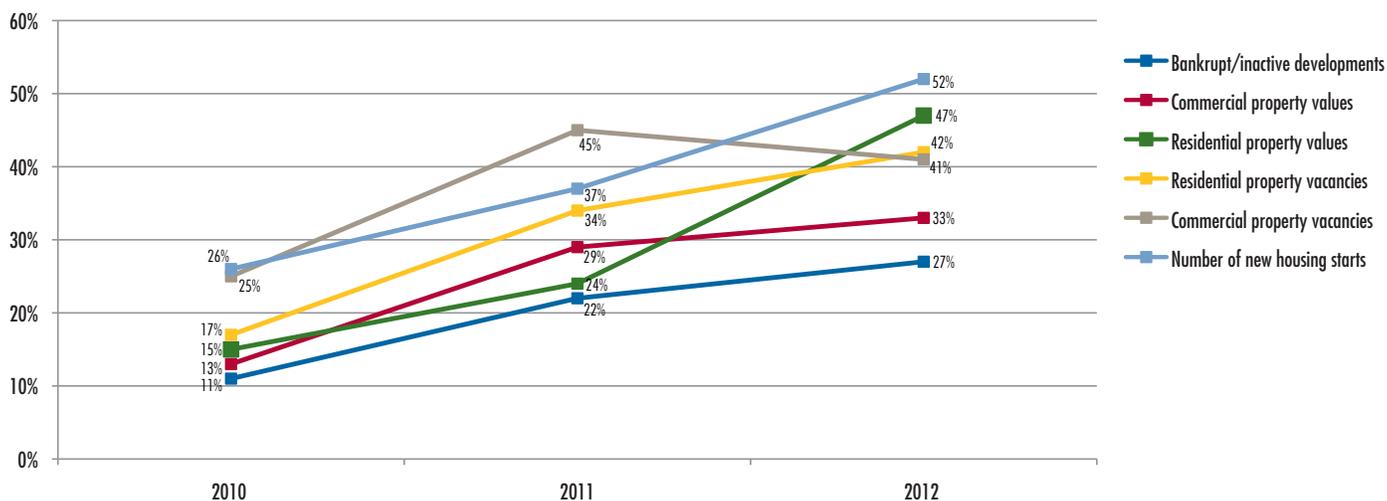
The Local Economic Conditions Survey is a national mail and online survey of city officials in U.S. cities conducted in the winter of each year. This is the third edition of the survey, which began in 2010.

## DRIVERS OF FISCAL HEALTH

Coming into 2013, cities were experiencing the sixth year in a row of year-over-year declines in revenues.<sup>1</sup> These trends can be attributed, in part, to the underlying economic conditions that drive much of the fiscal health of cities and affect their ability to provide critical services to residents.

Housing starts, building permits, commercial and residential property values and bankrupt/inactive commercial and residential properties are key indicators of the prosperity of the local property tax base, the main source of revenue for the majority of cities. City officials report signs of improvement in these areas during the past year, including one in two local officials reporting an improved number of housing starts (52%), an improved number of building permits (57%), and improved residential property values (47%) in 2012. Improvements in bankrupt/inactive property were not as pronounced, with only 27% of city officials reporting improvement.

Figure 2: Percent of City Officials Reporting Improvement (2010-2012) in Property Tax Indicators



Over the past three years, an increasing percentage of city officials report improvements in all indicators of real estate market health, except for commercial property vacancies. Less city officials report that the commercial property vacancies improved in 2012 (41%) than improved in 2011 (45%), signaling slowing market demand.

Despite overall improvements, the relatively slow recovery in the real estate market is still a drag on local economic recovery. The majority of city officials report that commercial property vacancies (65%) and values (57%) and residential property vacancies (51%) and values (59%) are still a problem for their communities. This is compounded by the lag between economic cycles and property tax collection, or the gap between when economic conditions change and when those conditions register on reported city revenue collections. This lag is typically 18 months to several years long.

<sup>1</sup> Michael Pagano, Chris Hoene, and Christiana McFarland. *City Fiscal Conditions 2012*. National League of Cities, Washington, DC.

Although a tempered rebound in consumer confidence has buoyed local sales taxes, this area of local finance, too, should be viewed cautiously. While one in two city officials (48%) indicate that a key economic indicator of sales tax base, health of the retail sector, has improved since last year, 55% report that retail sector health continues to be problematic for their communities.

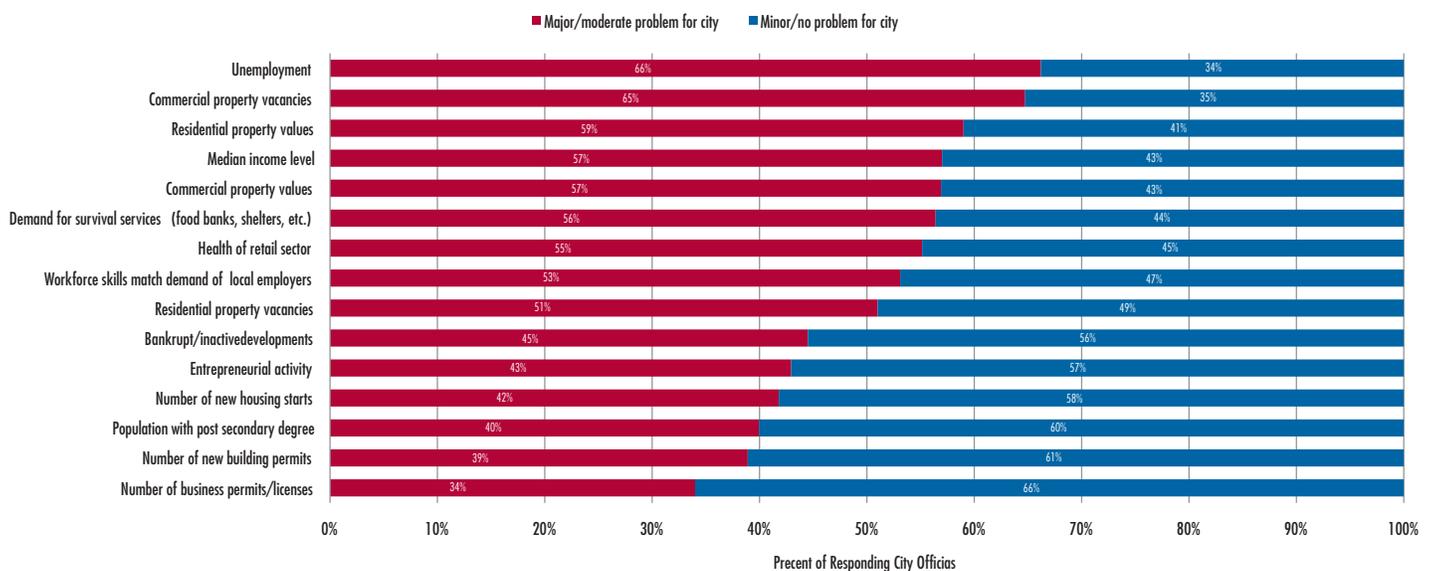
According to city officials, new business growth, as represented by indicators of entrepreneurial activity and new business permits, is showing signs of improvement. During 2012, city officials report, 49% and 41% respectively, that the number of new business permits/licenses and entrepreneurial activity improved, and for the majority of city officials entrepreneurial activity (57%) and new business permits (66%) is a minor or no problem.

Local income taxes have remained fairly flat in recent years, evidence of a national recovery characterized by slow income and job growth. The majority of city officials (66%) report that median income levels have been holding steady since last year, and that this lack of growth is a problem (57%). Even with more than one in two of city officials (52%) reporting improvements in unemployment, the persistently high unemployment rate continues to cause economic and fiscal instability and to be problematic for two-thirds (66%) of cities.

## BARRIERS TO SUSTAINED ECONOMIC GROWTH

The lack of an upward trajectory in income and job growth reflects areas of the economy that have resisted rebounding in the face of broader national recovery. Digging deeper into these findings reveals troubling consequences even beyond local budgetary concerns.

Figure 3: Current Status of Local Economic Condition



Unlike most other economic indicators, city officials report that workforce skills are not keeping pace with employer demand, and that the basic needs of the most vulnerable populations are not being met. These may signal areas of structural, versus cyclical challenges, presenting serious barriers to sustained economic growth.

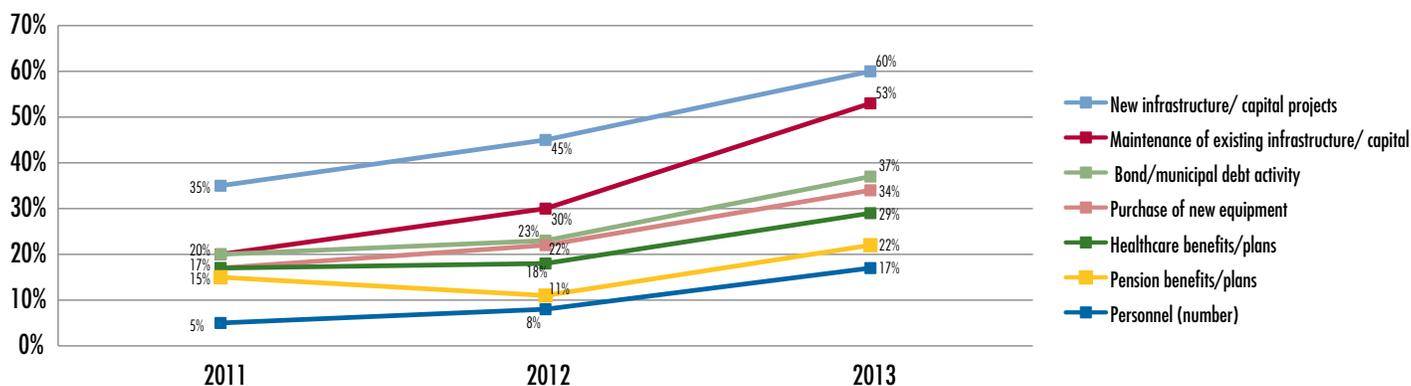
The changing nature and composition of the economy has highlighted the necessity of a local workforce with skills that are appropriately aligned and matched with employer demand. Unfortunately, more than one in two city officials (53%) report that current local workforce skills are posing a problem for the economic health of their communities. Nearly nine in 10 city officials (88%) note that workforce alignment has not improved over the past year. Similarly, more than eight in 10 (82%) report that the percentage of the population with a post-secondary degree has not increased.

Demand for basic survival services such as food, heat and clothing is a widespread concern, with one in two city officials (56%) reporting that it is a problem in their communities. One in four city officials (24%) report that this condition has actually worsened over the past year.

## SPENDING AND INVESTMENT ACTIVITY

Although there continues to be significant barriers to across-the-board economic growth, a tenuous recovery is taking hold. The increasing confidence of local officials can be seen in their anticipated spending and investment activities. More than one in two city officials anticipate increasing investments in 2013 in new infrastructure and capital projects (60%) and maintenance of existing infrastructure and capital (53%).

Figure 4: Percent of City Officials Anticipating Increased Spending/Investment Activities (2011-2013)



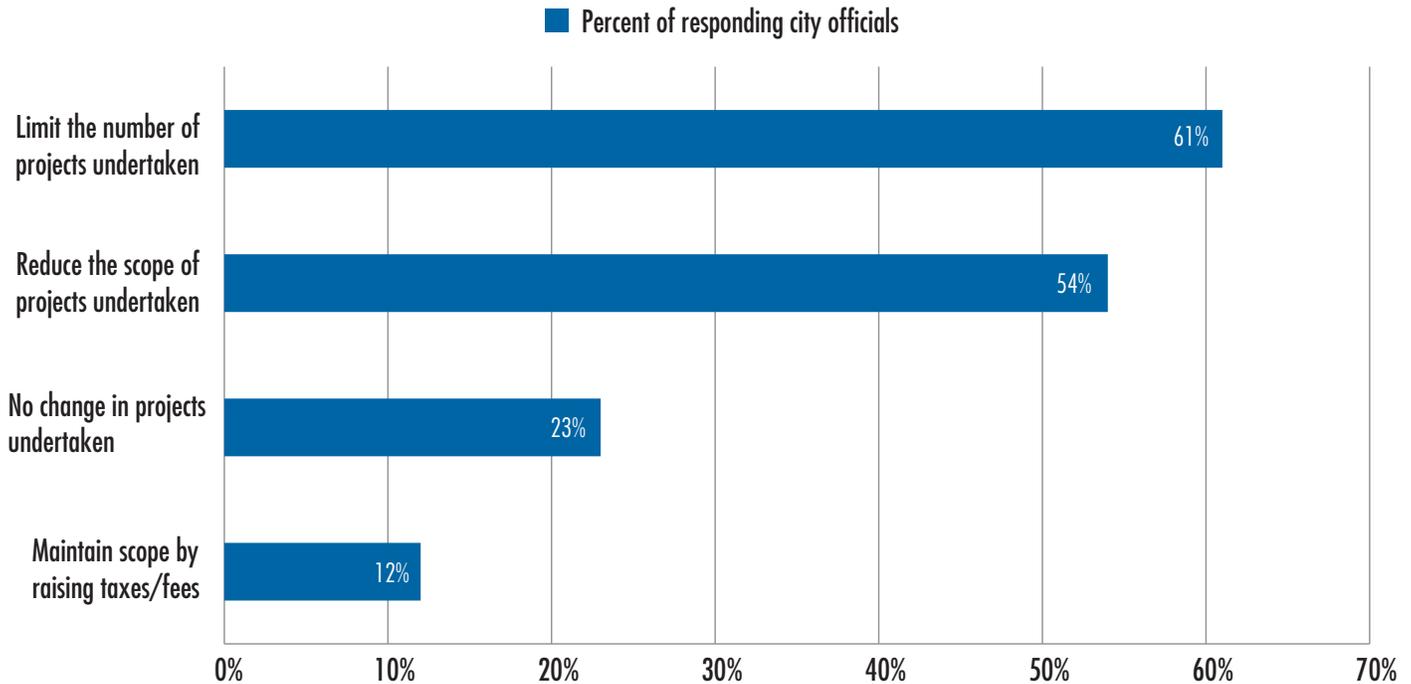
However, confidence can be expected to dampen if municipal financing mechanisms are limited.<sup>2</sup> Municipal bonds are the primary financing mechanism for state and local infrastructure projects, with state and local governments financing more than \$1.65 trillion of infrastructure investment over the last decade (2003–2012) through the tax-exempt bond market.<sup>3</sup>

If a federal limitation is placed on the tax-exemption of municipal bonds, 61% of respondents report that they would limit the number of projects undertaken, and 54% report that they would reduce the scope of projects undertaken.

<sup>2</sup> At current, the Administration and Congress are discussing a federal limitation on tax-exemption of municipal bonds as they look for revenue to reduce the deficit and fund programs.

<sup>3</sup> *Protecting Bonds to Save Infrastructure and Jobs* (2013). National Association of Counties, National League of Cities, U.S. Conference of Mayors. Washington, DC.

Figure 5: Anticipated Impact of Federal Limitation on Municipal Bond Tax Exemption



Barring a change in the status of tax-exempt municipal bonds, spending on physical assets will likely increase in 2013, but the majority of city officials anticipate no change in spending/investment in personnel-related categories. City officials report no change in anticipated spending/investment in healthcare benefits (52%), pension benefits (66%), and the number of personnel (61%). However, survey responses suggest that layoffs and furloughs are beginning to level off, and that local governments have already made the necessary budget cuts through personnel reductions over the previous few years. Twenty-one percent of city officials report that they anticipate reducing spending on the number of personnel in 2013, compared to 39% in 2011 and 52% in 2010.

## ABOUT THE SURVEY

The National League of Cities Local Economic Conditions Survey is a national mail and email survey of city officials conducted annually in January. Surveys were mailed and emailed to the chief elected officials in a sample of 1,127 cities asking for assessments of their city's local economic conditions in 2012 and anticipated spending and policy priorities in 2013. In total, the 2013 data are drawn from 310 cities, for a response rate of 28%.

CATEGORIES	CITY SAMPLE	SURVEY RESPONSES	SURVEY RESPONSE RATE
TOTAL	1,127	310	27.5%
Population			
>300,000	54	18	33.3%
100,000-299,999	141	39	27.7%
50,000-99,999	233	48	20.6%
10,000-49,999	698	201	28.8%

## ABOUT NLC

---

The National League of Cities is the nation's oldest and largest organization devoted to strengthening and promoting cities as centers of opportunity, leadership and governance. NLC is a resource and advocate for more than 1,600 member cities and the 49 state municipal leagues, representing 19,000 cities and towns and more than 218 million Americans. Through its Center for Research and Innovation, NLC provides research and analysis on key topics and trends important to cities, creative solutions to improve the quality of life in communities, inspiration and ideas for local officials to use in tackling tough issues and opportunities for city leaders to connect with peers, share experiences and learn about innovative approaches in cities.