

PREPARING FOR THE NEXT RECESSION

Michael A. Pagano
Director, Government Finance Research Center
Dean, College of Urban Planning and Public Affairs
University of Illinois at Chicago

21 October 2019. 10:30-11:00am

Fiscal Policy Space. Variation Matters.

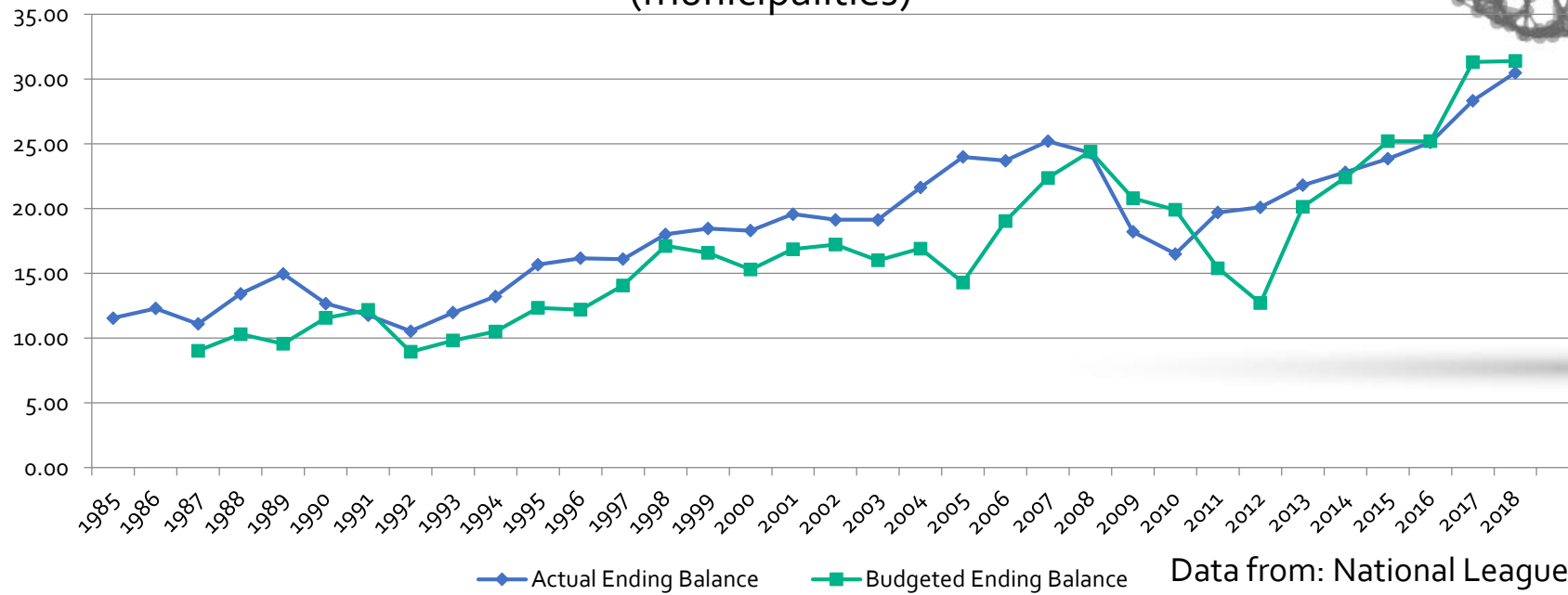
- The *intergovernmental context*, including both state-imposed and locally-imposed limitations on taxes and expenditures.
- The *fiscal base*, meaning the linkage between a city's or county's economic base and its fiscal architecture or authority to tap into the underlying economy.
- The *demands and preferences of citizens* for a quantity and quality of services and the *local political culture* that creates a set of expectations, norms of conduct and behavior, and informal rules.

Adapted from: Michael A. Pagano and Christopher W. Hoene, "City Budgets in an era of increased uncertainty," Brookings, July 18, 2018 at <https://www.brookings.edu/research/city-budgets-in-an-era-of-increased-uncertainty/>

Nothing new here, but we might consider...

Savings. Elected officials need to understand importance of reserves; voters need to as well.

Ending Balance as Percentage of Expenditures
(municipalities)



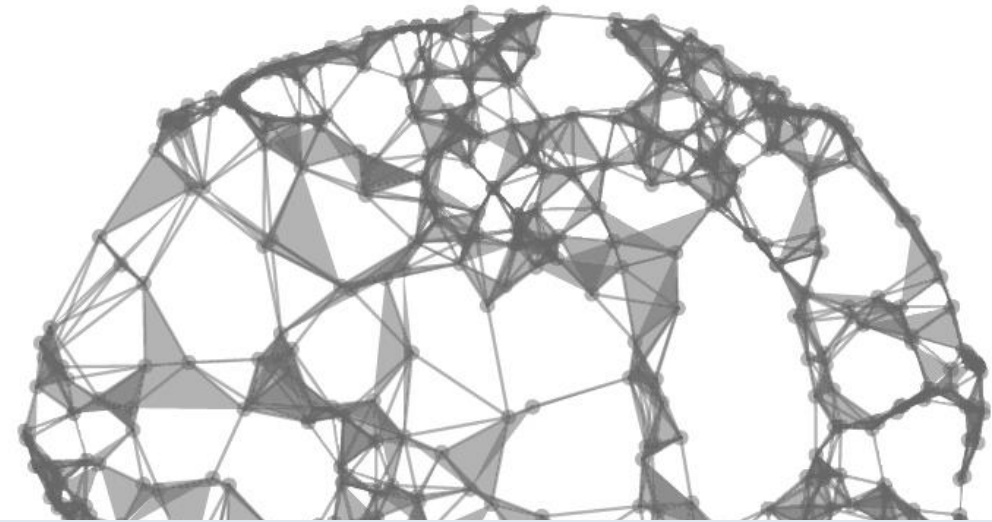
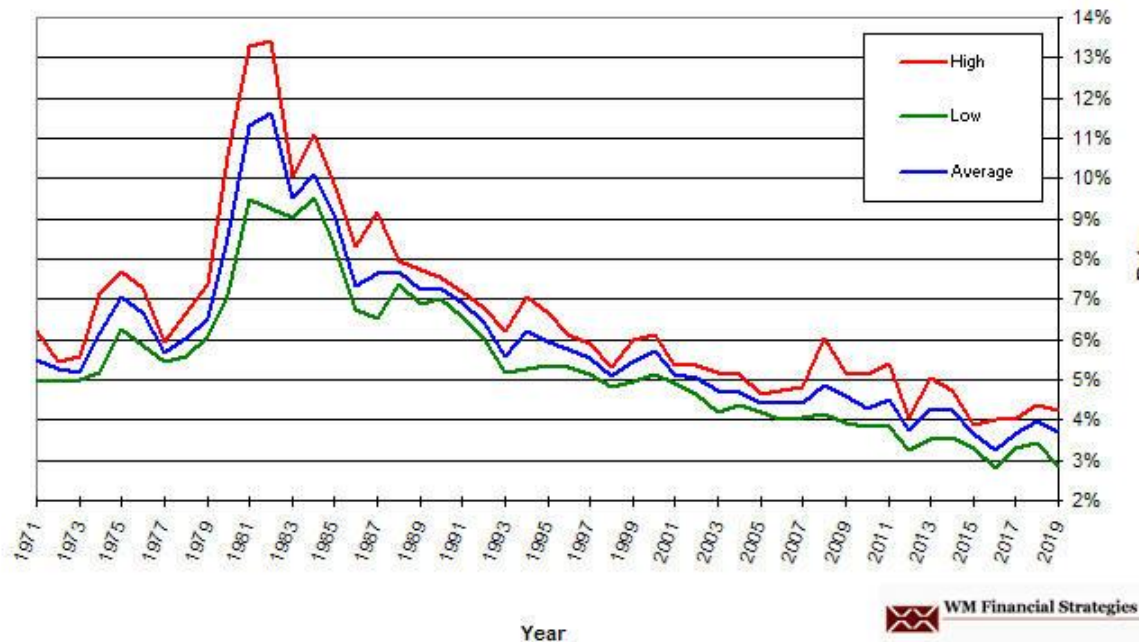
#ICMA2019

Data from: National League of Cities, City Fiscal Conditions reports

Nothing new here, but we might consider...

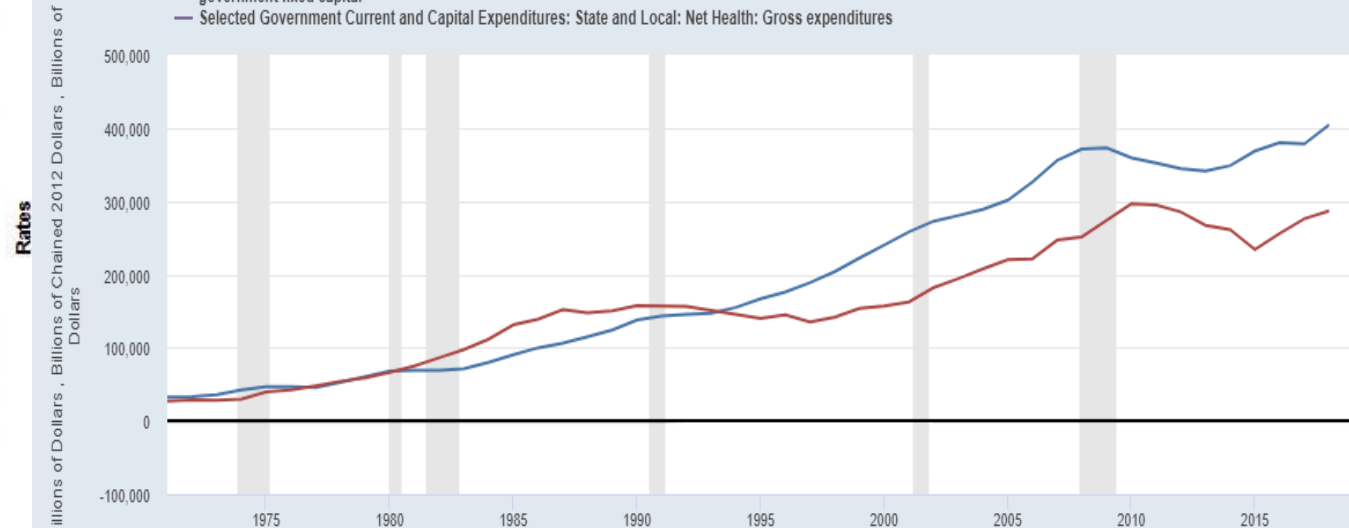
Cash for capital. Stimulation is fed responsibility, but locals make a difference. Bonds are at historic lows, but interest rates decline during recession.

20-BOND BUYER INDEX
1971-PRESENT



FRED

— Capital expenditures State and local governments
— Federal government; total capital expenditures, Flow
— Real federal government consumption expenditures: Nondefense consumption expenditures: Gross output of general government: Value added: Consumption of general government fixed capital
— Selected Government Current and Capital Expenditures: State and Local: Net Health: Gross expenditures



Shaded areas indicate U.S. recessions

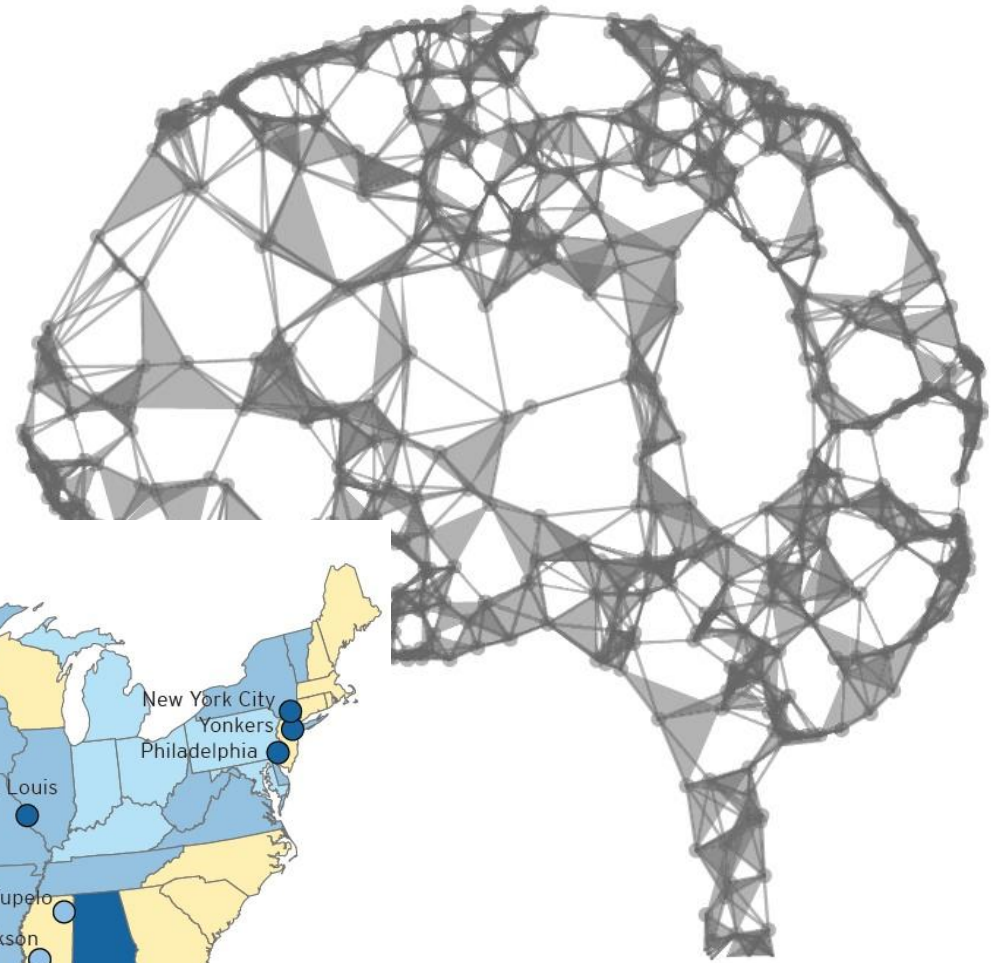
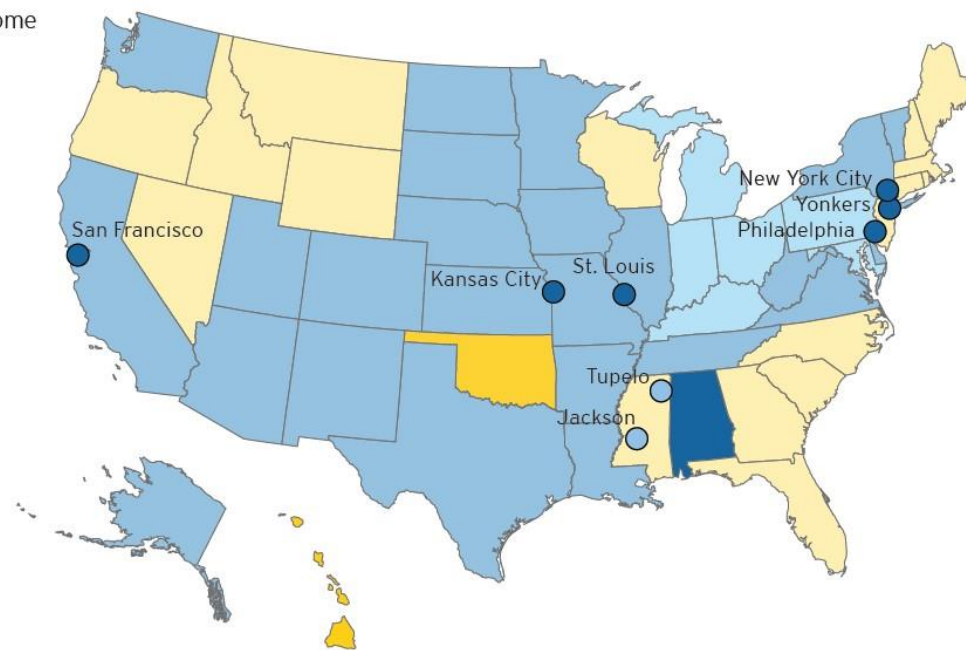
Sources: BEA, Board of Governors

fred.stlouisfed.org

Nothing new here, but we might consider...

Is your fiscal architecture aligned with your economic base? Identify an ideal and begin gradually moving. The Great Recession produced marginal changes. Get ahead of the curve!

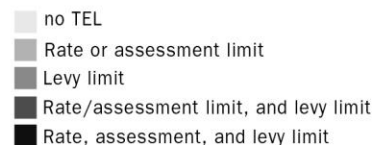
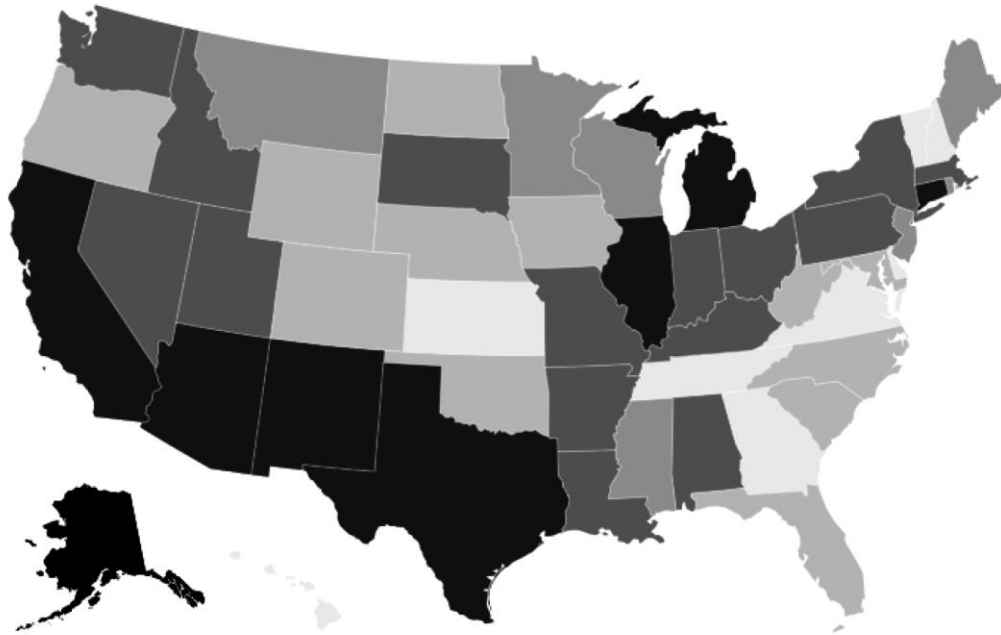
- Property, Sales, & Income
- Property & Sales
- Property & Income
- Property only
- Sales only
- Cities authorized to levy income taxes
- Cities authorized to levy sales taxes



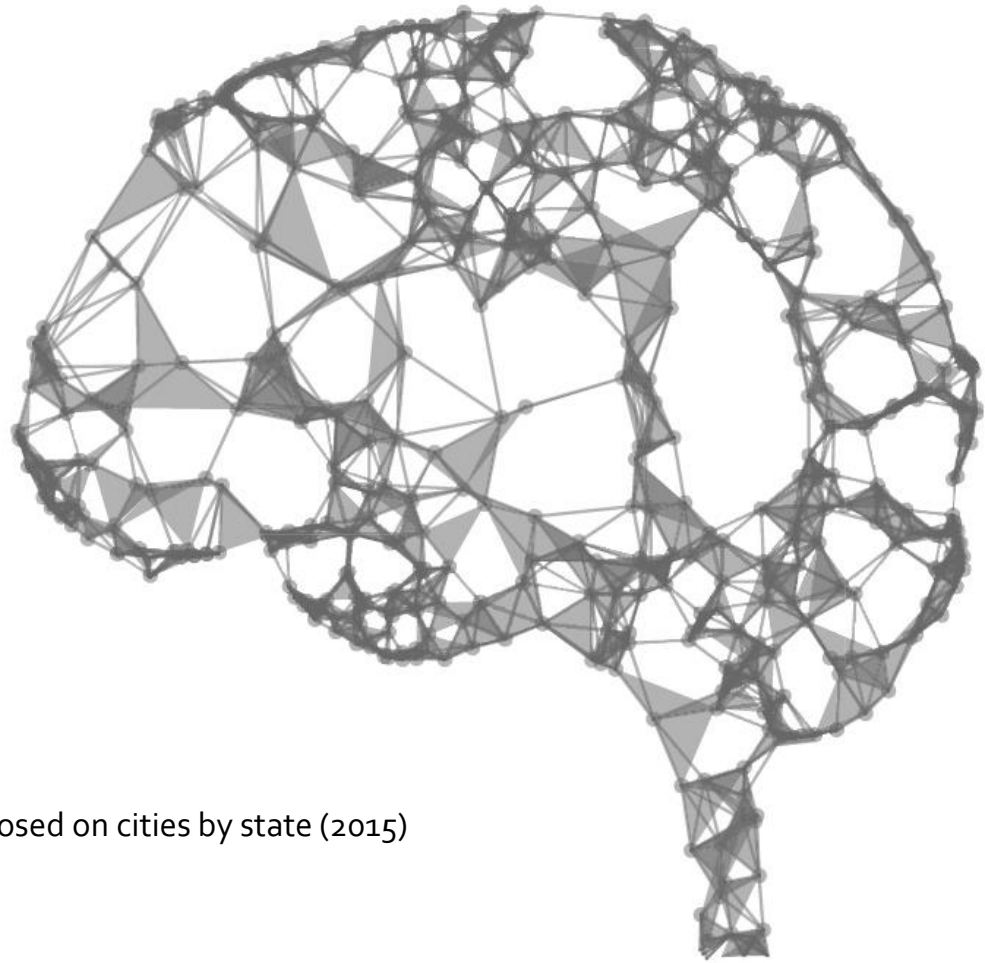
#ICMA2019

Nothing new here, but we might consider...

While states' fiscal positions are generally strong (income tax authority--especially capital gains-- helps), petition for relief from onerous TELs or other disadvantageous arrangements



TEL types imposed on cities by state (2015)

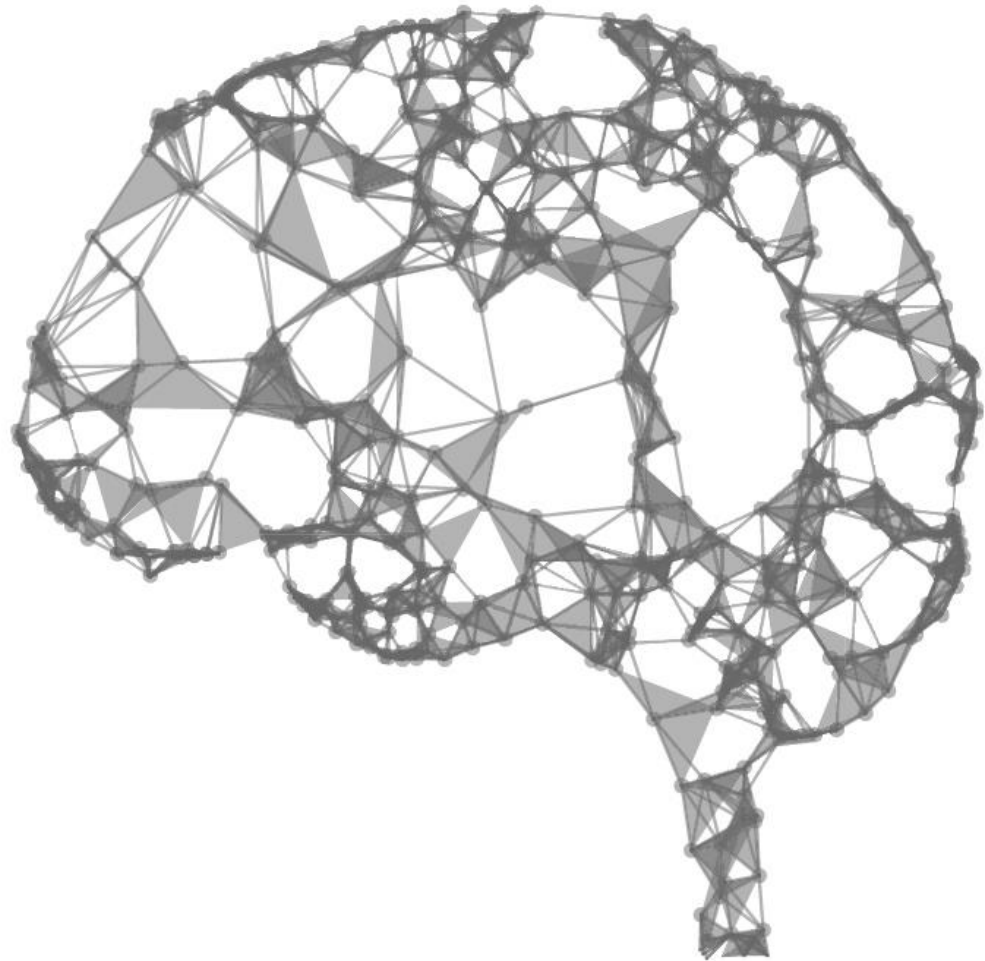


#ICMA2019

Nothing new here, but we might consider...

Sensible but sometimes politically charged actions ...

- Avoid borrowing from future generations by fully investing in infrastructure maintenance and repair today
- Stockpile resources and/or add capacity for public services designed for the most vulnerable residents
- Make annual pension contributions per actuarial recommendations and continue paying even when they are 'fully funded.'





THANK YOU

Questions?

Michael A. Pagano, University of Illinois at Chicago

MAPagano@uic.edu

ICMA | conference

