The financial health of America’s cities, towns and villages is on the brink.

A Recession Faster Than Imagined

The consequences of this economic fallout are impacting our hometowns faster than we could have imagined.

The revenue decline that took 6 years for cities to fully feel in the Great Recession is already happening in just the few short months of this pandemic-downturn - and it won’t go away easily.

It took over a decade for local revenues to bounce back from the Great Recession. It’s predicted that it will take years for local economies to recover from this recession.

Tax Sources Suffer: Fiscal Structure and the Economy

Cities generate most of their revenue by designing their own tax and fee structures within limits imposed by their states. Consequently, cities’ fiscal structures vary across the country.

Each source of revenue responds to economic changes differently.

- Property tax revenues typically reflect the value of a property anywhere from 18 months to several years prior, so they are less immediately responsive to economic changes.
- Sales taxes are more responsive to economic changes and often better reflect economic shifts.
- Like sales taxes, income taxes are also a more responsive source of revenue.
COVID-19’S IMPACT ON TAX SOURCES

Data from 2019 indicated that all three major tax sources were continuing to grow at a robust rate – then the pandemic hit.

Budget estimates for 2020, which were collected only two months after the pandemic started, demonstrate the immediate impact coronavirus had on sales and income revenues sources. Even property tax, which lags in comparison, will slow its rate of growth this year until it begins to experience decline in the coming years.

This Is Just the Beginning:
Fiscal Year Start Month and Budget Response

City fiscal years vary, many beginning January 1, July 1 or October 1, with some during other months.

- Because of this, some cities’ 2020 fiscal years were just beginning as the coronavirus spread and their budgets are facing the full brunt of the economic downturn throughout 2020.
- Those that started their fiscal years in 2019, reaped the benefits of a stronger economy and only felt the downturn in the tail end of their fiscal year.

This is just the beginning – the true depth of financial impact will only become more evident and more severe in the years to come as budgets absorb this economic hit.