

# Memorandum



Date October 3, 2014

To Honorable Members of the Budget, Finance & Audit Committee: Jerry R. Allen (Chair), Jennifer S. Gates (Vice Chair), Tennell Atkins, Sheffie Kadane, Philip T. Kingston

Subject State and City Revenue Volatility: Experiences and Management

On October 6, 2014, the Budget, Finance and Audit Committee will be briefed on State and City Revenue Volatility: Experiences and Management. The briefing will be presented by Robert Zahradnik, Director of State Policy, State Fiscal Health and Economic Growth, of The Pew Charitable Trusts.

Please contact me if you need additional information.

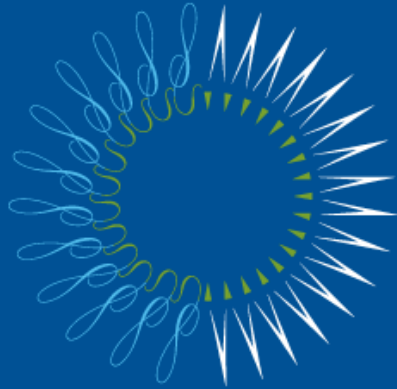


Jeanne Chipperfield  
Chief Financial Officer

## Attachment

c: Honorable Mayor and Members of City Council  
A.C. Gonzalez, City Manager  
Warren M.S. Ernst, City Attorney  
Craig D. Kinton, City Auditor  
Rosa A. Rios, City Secretary  
Daniel F. Solis, Administrative Judge  
Ryan S. Evans, First Assistant City Manager

Eric D. Campbell, Assistant City Manager  
Jill A. Jordan, P.E., Assistant City Manager  
Forest E. Turner, Assistant City Manager  
Mark McDaniel, Assistant City Manager  
Joey Zapata, Assistant City Manager  
Sana Syed, Public Information Officer  
Elsa Cantu, Assistant to the City Manager



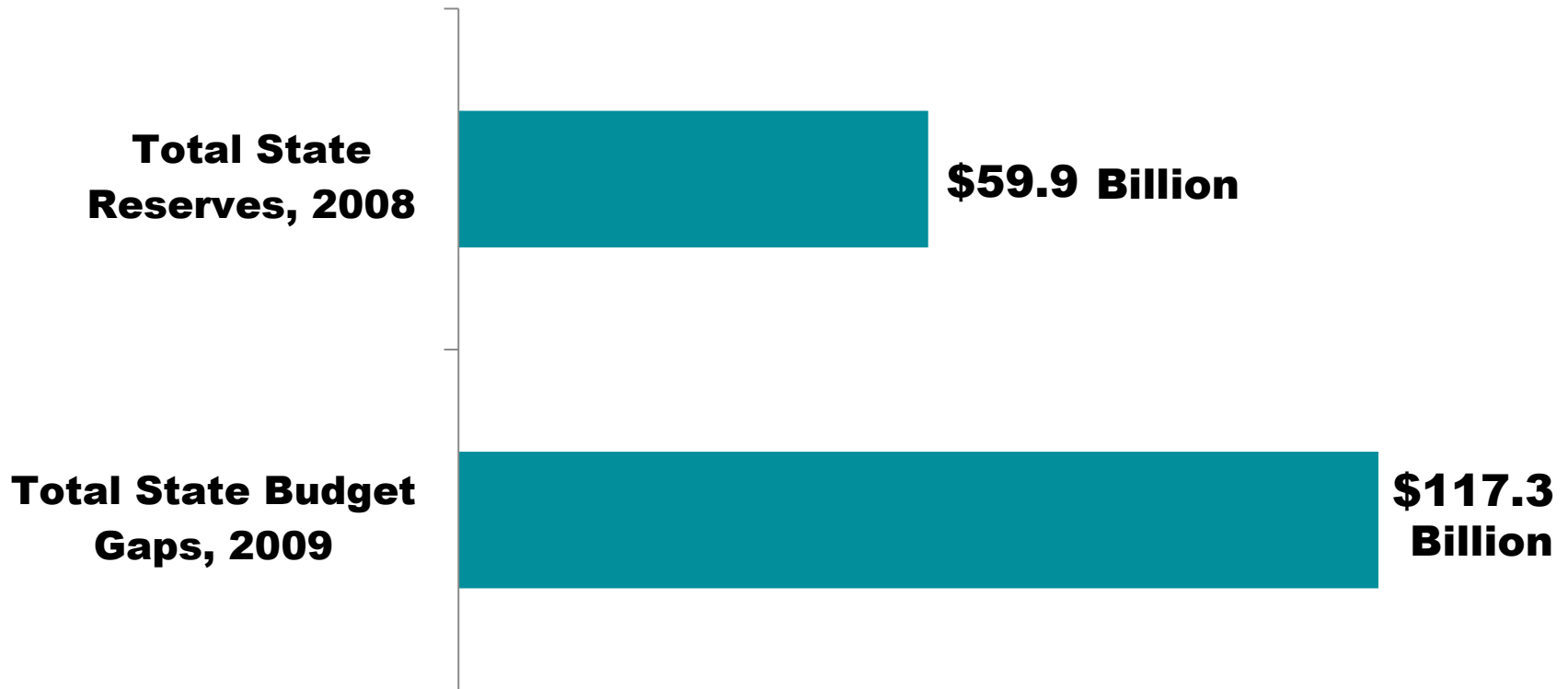
THE  
**PEW**  
CHARITABLE TRUSTS

# State and City Revenue Volatility

## Experiences and Management

Robert Zahradnik  
October 6, 2014

# Are States Saving Enough?



State shortfalls outstripped savings nearly 2 to 1 entering the Great Recession

# The Challenge of Volatility

- Dramatic swings in revenue have become more common for state and local governments
- Volatility can:
  - Amplify forecast errors
  - Influence timing and size of shortfalls and surpluses
  - Force difficult & unexpected mid-year budget choices

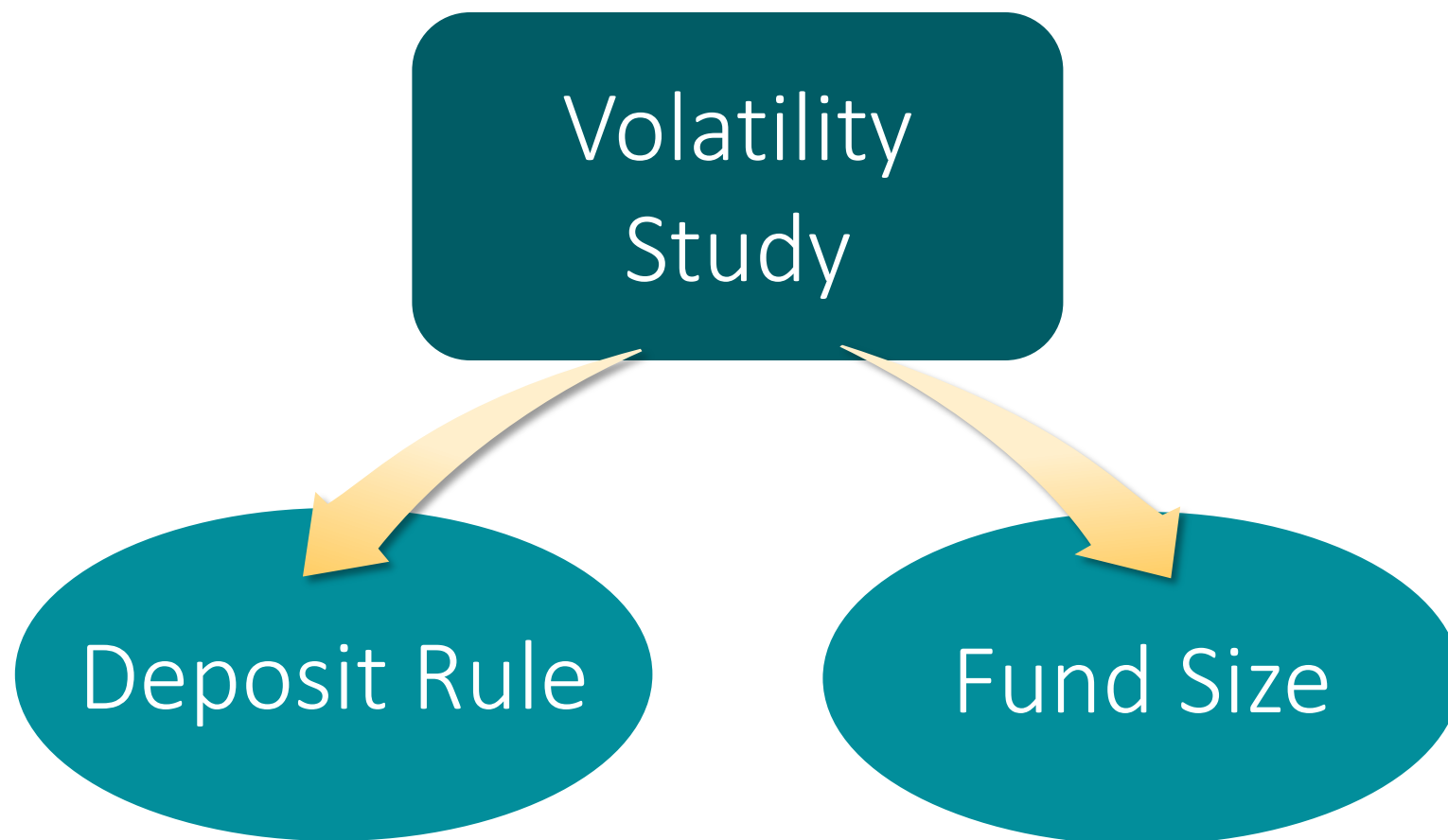


# Building State Rainy Day Funds

- Report helps policymakers prepare for the next economic downturn by explaining the ways states can design their rainy day funds to harness fluctuations in revenue
- Reviews the rules that guide when, how, and how much states are saving—including deposit rules and fund caps—and compares these policies with each state’s experience with volatility to identify best practices



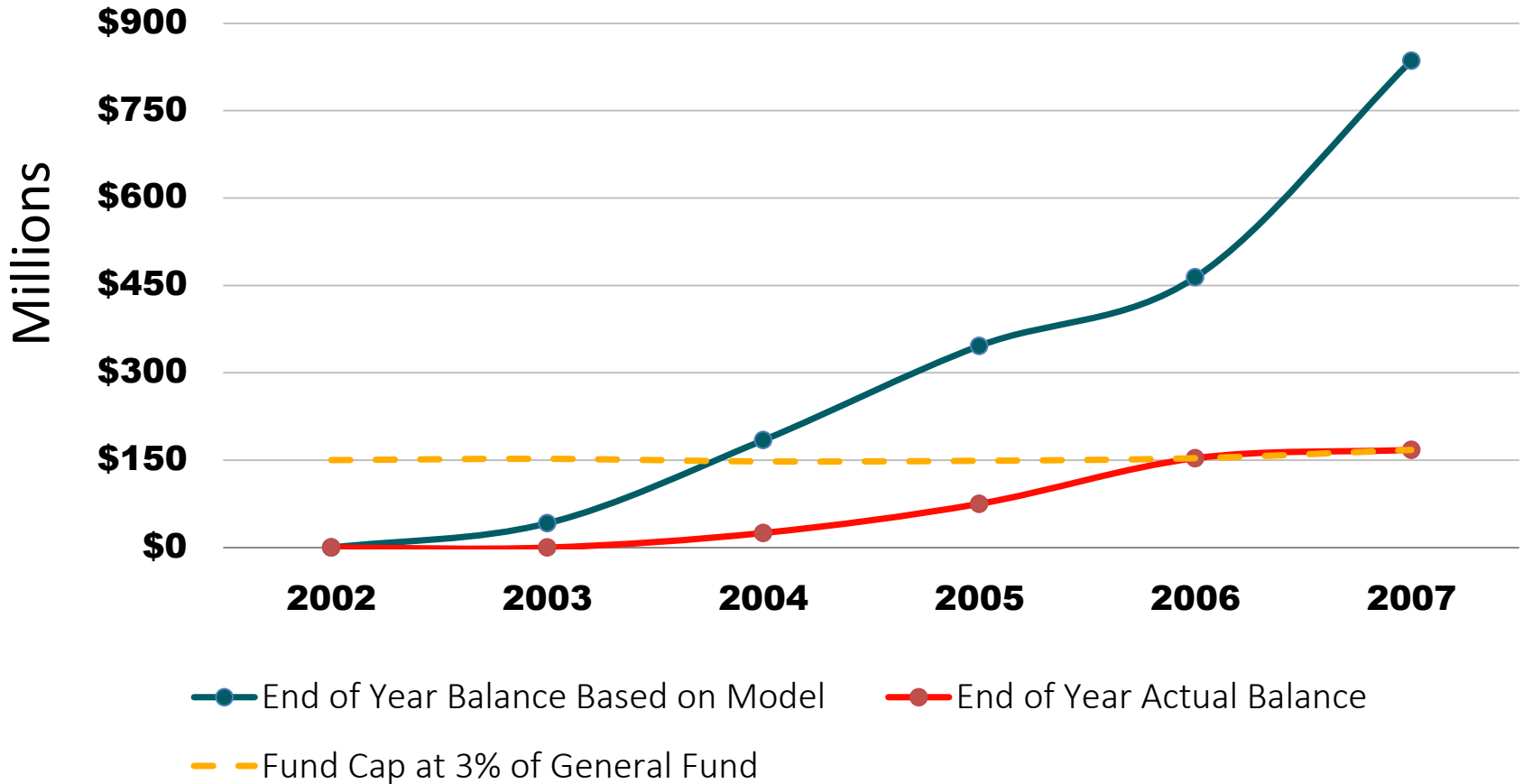
# Key Considerations for States



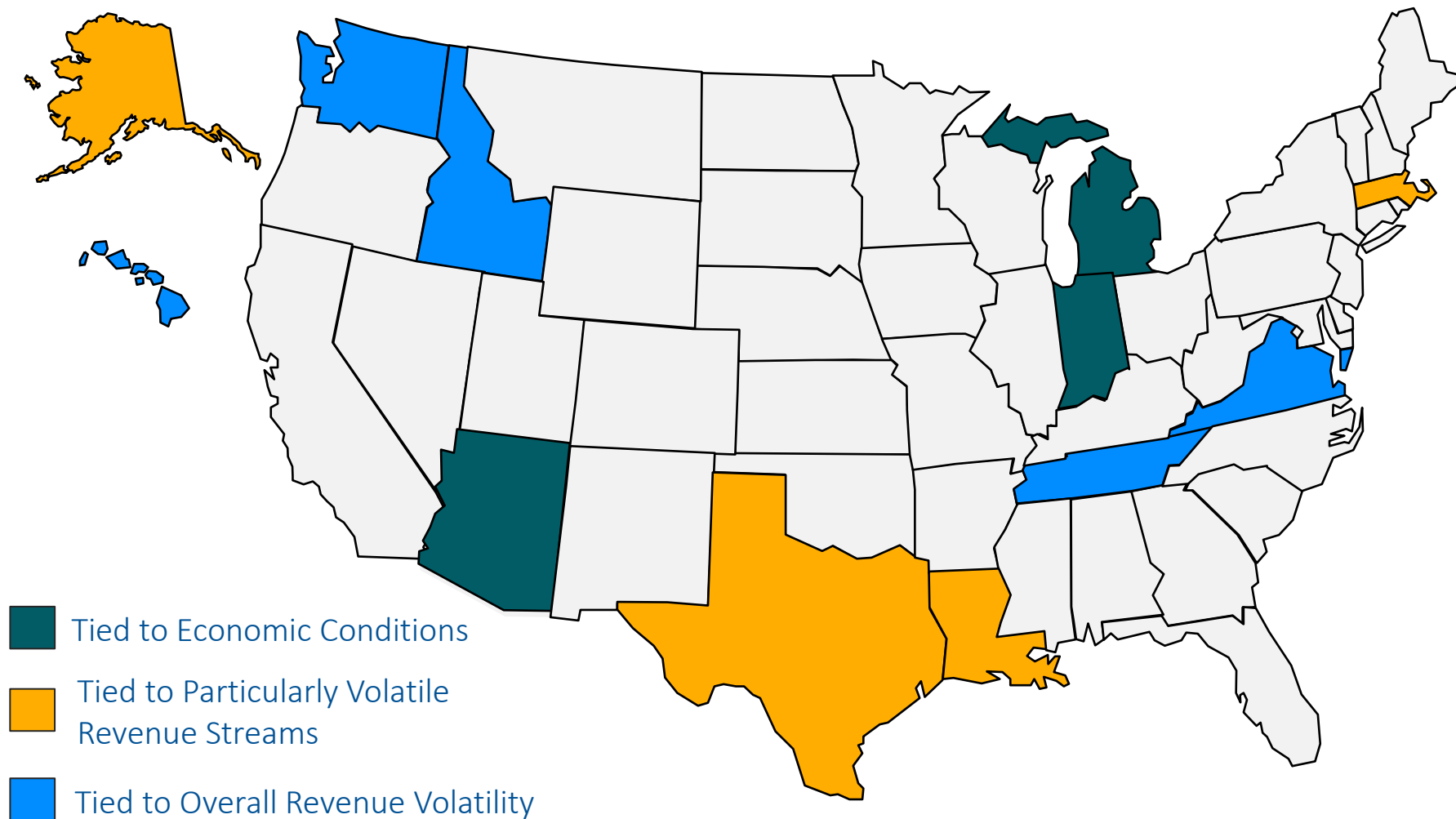
# Missed Opportunity: South Carolina



Potential rainy day fund deposits based on a rule like Virginia's



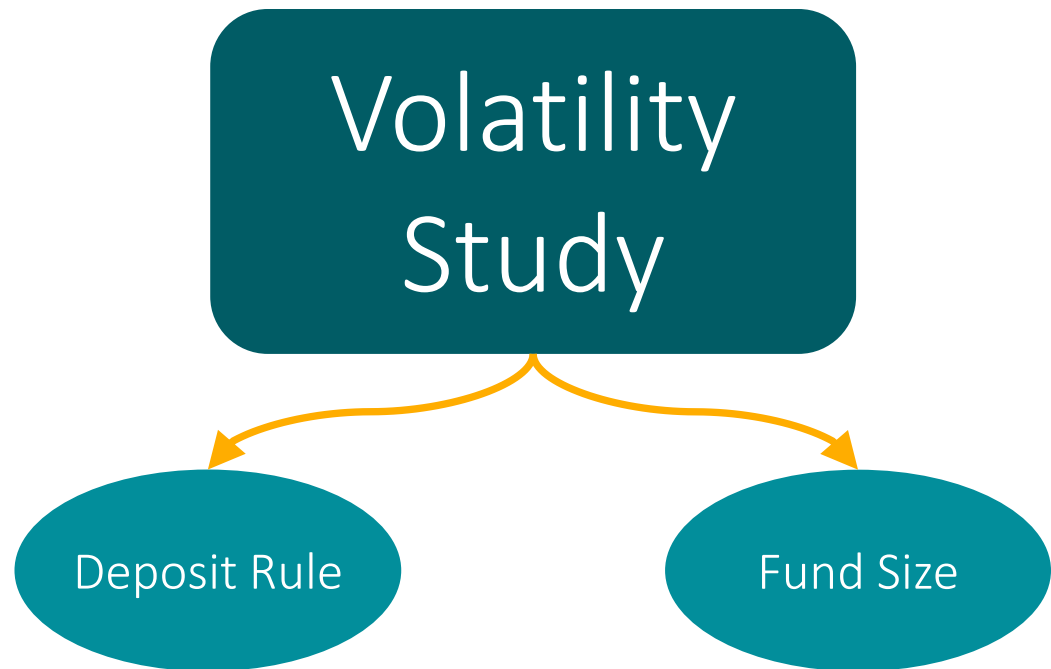
# 12 States Link Deposit Rules with Volatility





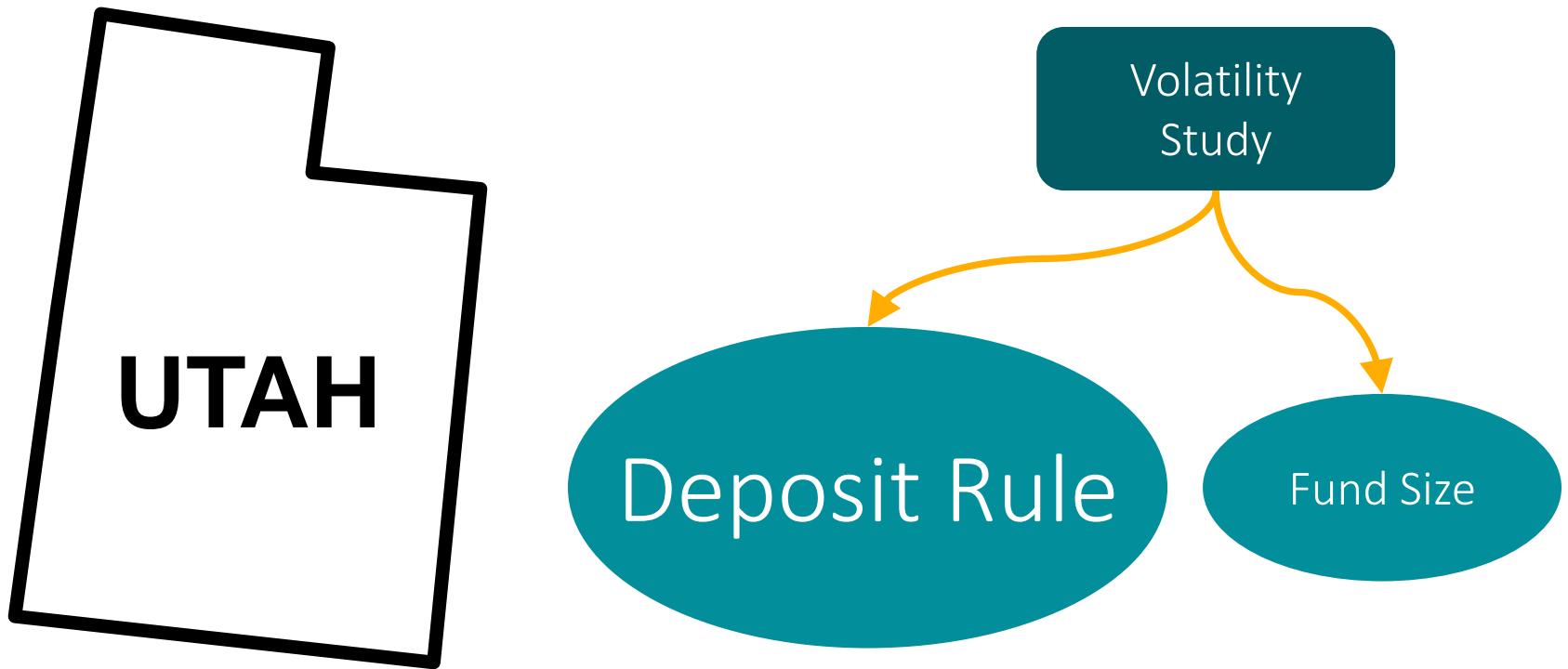
# Recommendations

1. Require regular studies to identify major sources of volatility and present appropriate policy solutions



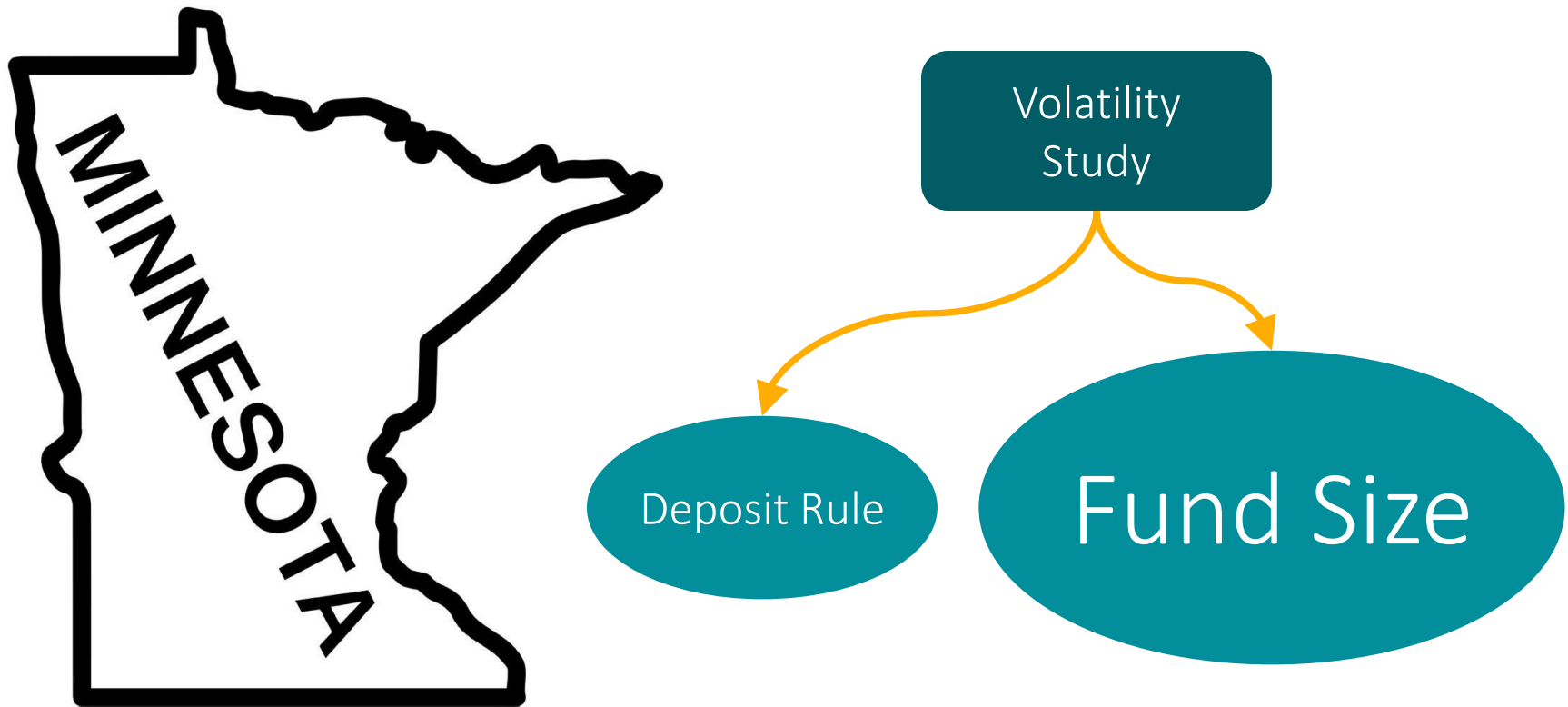
# Recommendations

2. Tie budget stabilization fund deposits to observed volatility



# Recommendations

3. Set fund size targets that match state's experience with volatility



# The Big Picture: Cities



- Fiscal brunt felt later than state and federal government

- Recovery slow

- City strategies

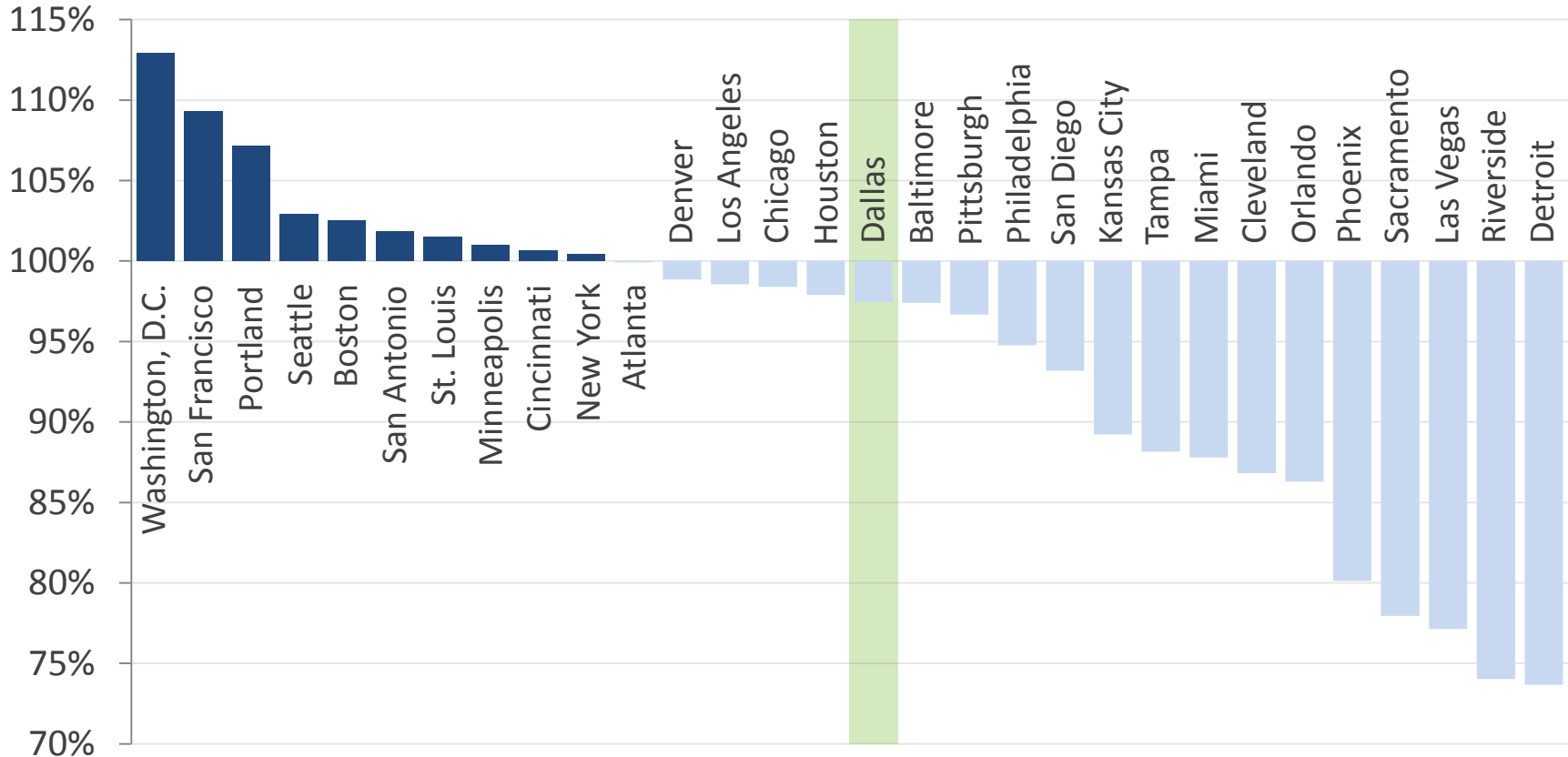
- Reserve funds
- Cut spending
- Intergovernmental aid
- Tax and non-tax sources

- Short-term relief, long-term issues

# Most Cities had not Recovered by 2012



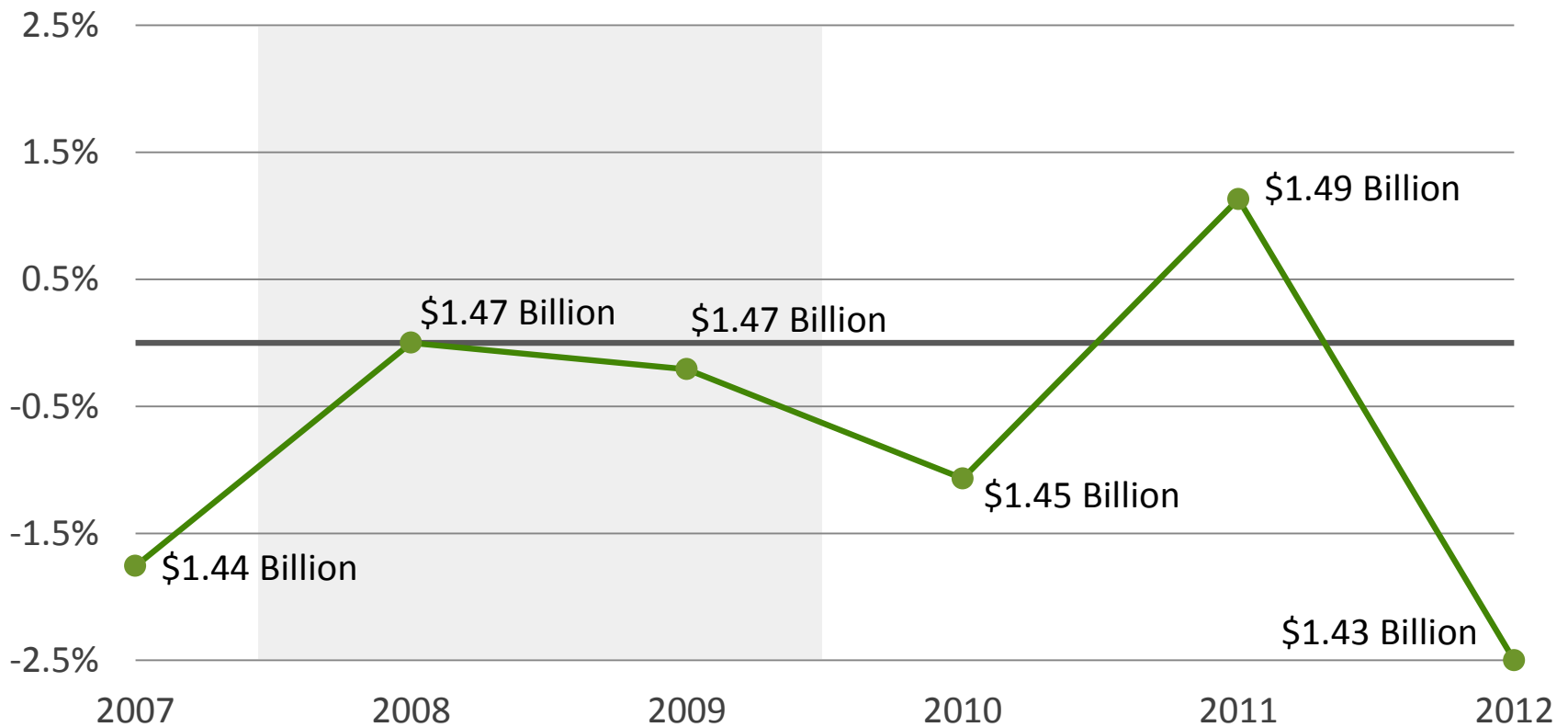
2012 revenue as percent of previous peak, by city



# Dallas Surpasses Peak in 2011, Declines in 2012



Dallas governmental revenues, percent change from pre-economic downturn peak, 2007-12

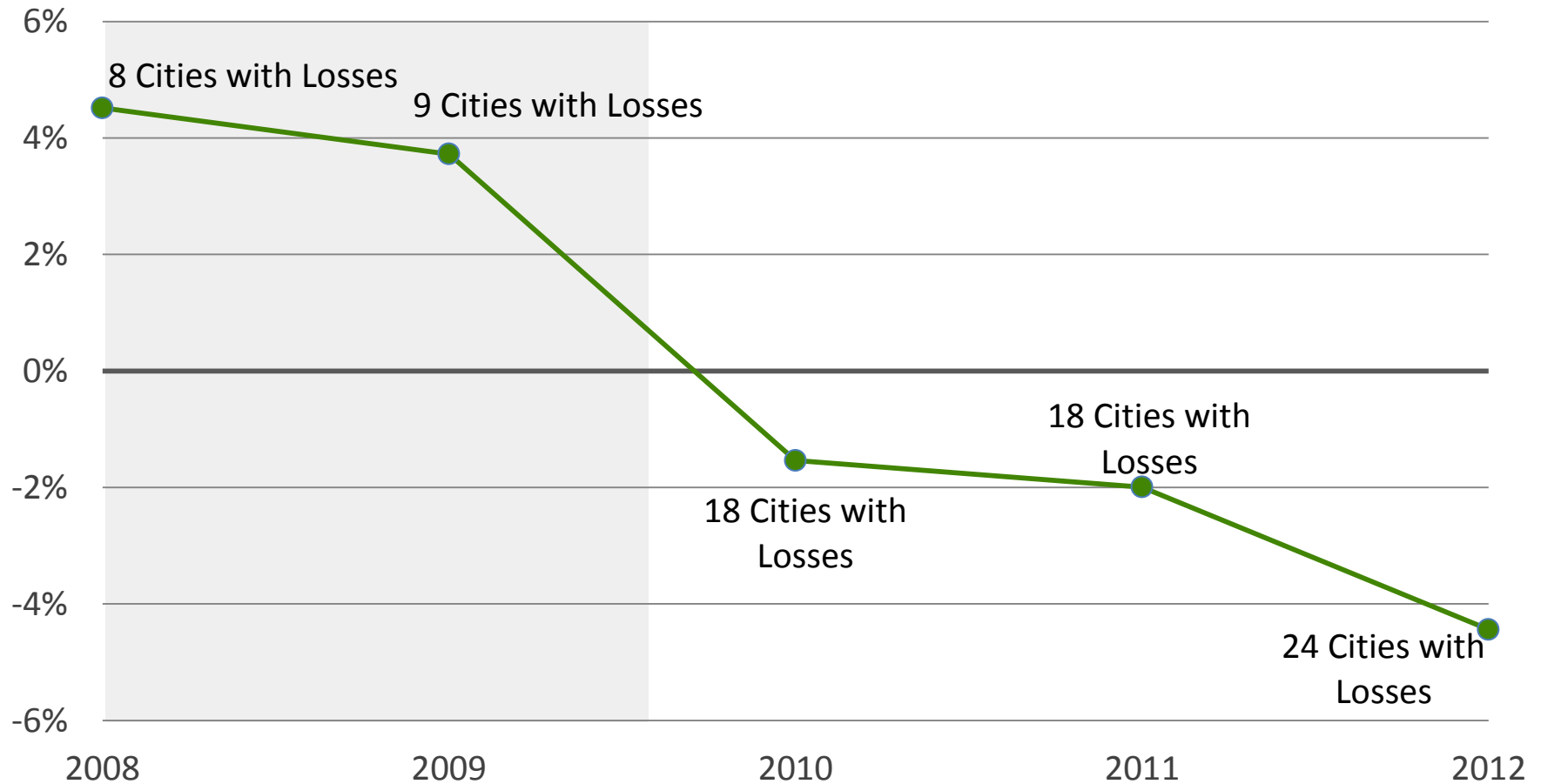


Note: Shaded area represents the period of the Great Recession as defined by the National Bureau of Economic Research

# Property Tax Collections in Most Cities Did Not Begin to Decline until After the Great Recession Ended



Property tax year-over-year percent change: average across 30 cities, 2008-12

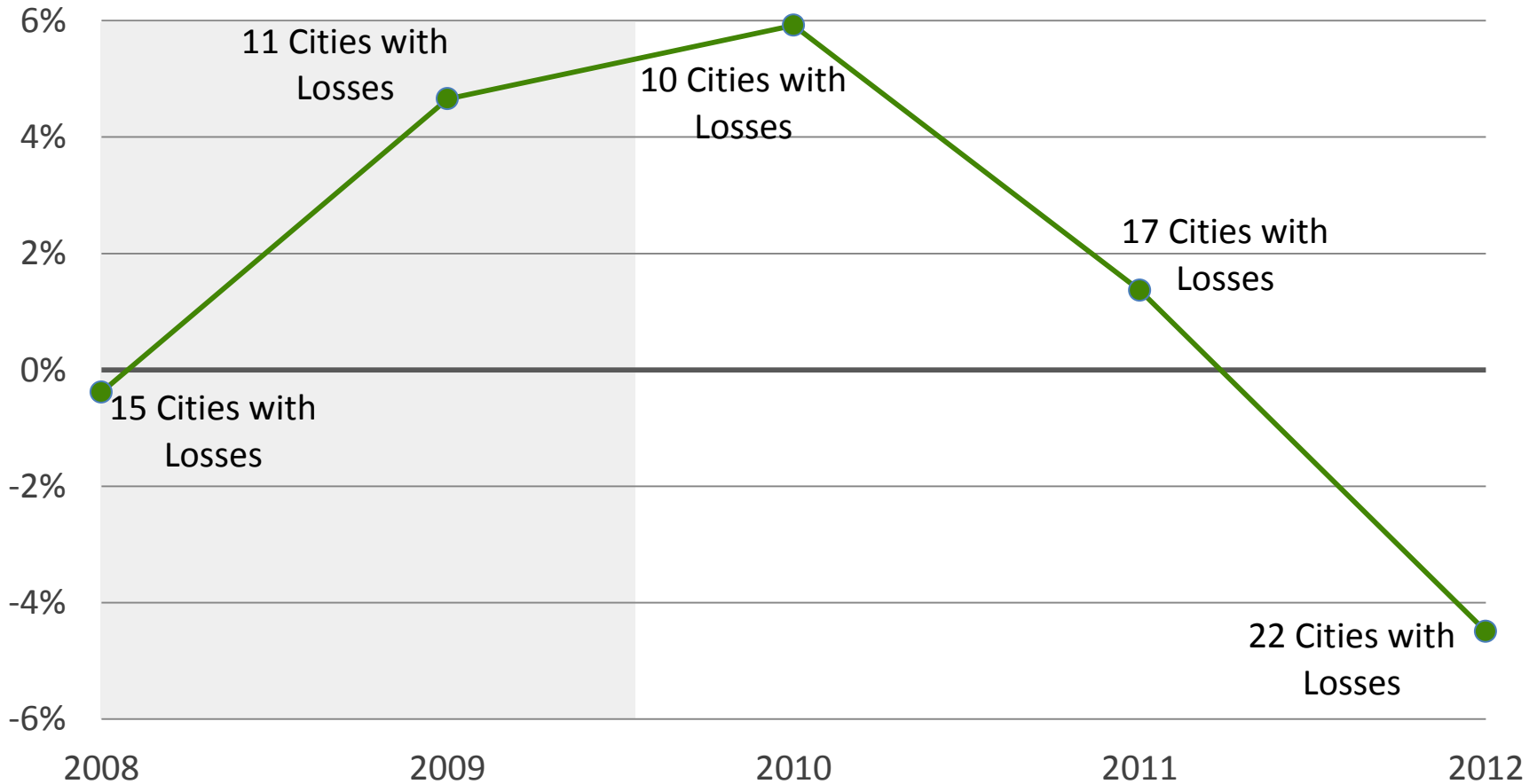


Note: Shaded area represents the period of the Great Recession as defined by the National Bureau of Economic Research

# Intergovernmental Revenue Peaked in 2010



Year-over-year percent change: average across 30 cities, 2008-12



Note: Shaded area represents the period of the Great Recession as defined by the National Bureau of Economic Research



# Managing Downturn



- Tap reserve funds
  - 29 out of 30 cities accessed reserve funds
- Cut spending but preserved some core services
  - Public safety cuts came after other spending cuts
- Some cities reduced staff
  - Collectively eliminated 40,000 positions between 2008 and 2011

# City Considerations for Managing Volatility



- Studying and understanding volatility is important for cities
- Volatility in cities differs from states due to the different mix of revenue sources
- State aid and property taxes are large components of city revenue that behaves differently than other revenue sources (such as income and sales taxes)

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