

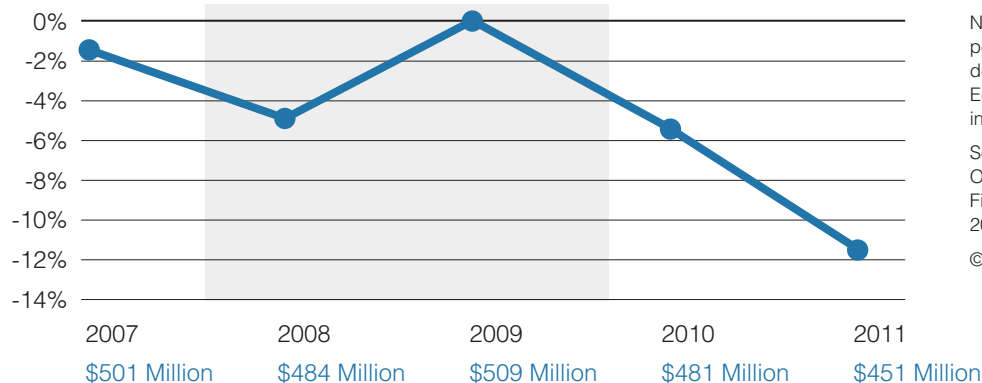
Orlando, FL

Choosing to meet annual pension payments and build reserves, Orlando cut spending as the housing bubble burst and revenue dropped

Two years after the Great Recession ended in 2009, Orlando's revenue was still dropping. Overall receipts fell 11 percent from their 2009 peak to 2011 largely because of a drop in property tax receipts as assessed home values declined sharply after the housing bubble burst in 2007. (See Figure 1.) Thanks in part to spending reductions, however, Orlando saw its financial cushion grow even as other Florida cities tapped their reserves in the wake of the state's housing crisis. Through the recession, Orlando continued to make full, recommended pension payments to keep up with its growing obligations.¹

FIGURE 1

Orlando Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from Orlando's Comprehensive Annual Financial Reports for fiscal 2007-11.

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Property tax revenue fell sharply in the wake of the Great Recession

The city's property tax revenue, its second-largest source of income, began faltering in 2008 as taxable assessed values began to reflect declining home values. That year, city officials increased property tax rates, leading to a short-lived jump in collections.² After peaking in 2009, property tax receipts then declined 28 percent through 2011, after adjusting for inflation.

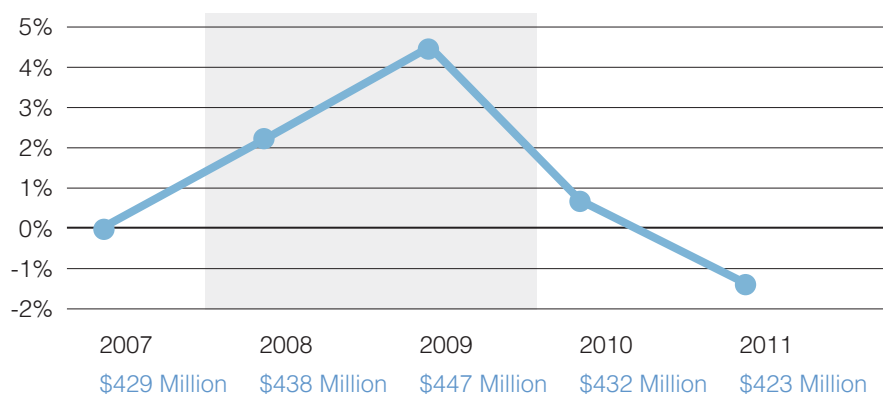
Nontax revenue also declined, falling \$17 million between 2009 and 2011 as investment earnings dropped by more than half. Charges and fees—particularly building and related permit and transportation-impact fees—decreased \$7 million during the same period.

Modest growth in intergovernmental revenue partially helped to offset these losses. The gains included increased contributions from the region's three Community Redevelopment Agencies as well as at least \$7.5 million in grants from the American Reinvestment and Recovery Act in fiscal 2010.³ Another \$3.6 million in federal funds the following year included grants for community development, public safety, infrastructure, and energy conservation.

Operating expenditures fell 5 percent between 2009 and 2011 as local government shed 400 positions, consolidated public works and transportation, and eliminated cost-of-living increases for city employee groups.⁴ (See Figure 2.)

FIGURE 2

Change From 2007 in Operating Spending in Orlando, 2007-11



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

Source: Pew calculations from Orlando's Comprehensive Annual Financial Reports for fiscal 2007-11.

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Managing the future: Looking forward, Orlando built reserves and consistently set aside money for pension obligations

Spending commitments, demand for services, and revenue performance are among key factors that will affect Orlando's future fiscal health. Two long-term obligations which can be analyzed using the data available are pensions and retiree health care and other benefits and reserve levels.

Orlando's reserves grew \$26 million in 2011 and represented 39 percent of general fund revenue that year, far exceeding the 15-to-25-percent requirement enacted in 2004.⁵

Between 2007 and 2010, Orlando made 100 percent of its annual recommended pension contribution each year, but its funding levels dropped from 95 to 84 percent as liabilities ballooned from \$795 million to \$982 million. The city's retiree health care obligations were funded at 15 percent in 2010, and in an effort to control costs and improve funding levels, in 2008 Orlando capped benefits for employees hired after 2004 and began fully funding those commitments.⁶

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

2 State-imposed limits on property taxes, intended to aid homeowners during the recession, were implemented in 2008 and compounded the effect of the downturn. The following year, the city restored its property tax approximately to 2007 levels. For owner-occupied properties, a cap was set to restrict increases in assessed value to 3 percent per year. In addition, a one-time measure required municipalities to roll back collections to levels from the prior year, largely keeping property tax revenue flat and effectively reducing the property tax rate. Trista Winnie, "Florida Property Taxes," *NuWire Investor* (June 21, 2007), <http://www.nuwireinvestor.com/articles/florida-property-taxes-51106.aspx>; Constitution of the State of Florida, Article VII: Finance and Taxation, Section 4: Taxation, Assessments, <http://www.flsenate.gov/Laws/Constitution>; "No Sacred Cows in Crisis," *Orlando Sentinel* (May 24, 2009), http://articles.orlandosentinel.com/2009-05-24/news/ed_1_dyer-police-department-police-positions; Mark Schlueb, "Dyer: Orlando Budget Stable," *Orlando Sentinel* (July 17, 2007), http://articles.orlandosentinel.com/2007-07-17/news/BUDGET17_1_property-taxes-property-tax-city-property.

3 City of Orlando, *Comprehensive Annual Financial Report, for the Fiscal Year Ended September 30, 2010* (2010), 257–61, http://www.orlandoairports.net/finance/cafr/CAFR_2010.pdf.

4 City of Orlando, *Comprehensive Annual Financial Report, for the Fiscal Year Ended September 30, 2011* (2011), 255–56, and 258, http://www.orlandoairports.net/finance/cafr/CAFR_2011.pdf. The cost of living adjustment increases were restored in fall 2012. Mark Schlueb, "Orlando Leaders OK \$354M Budget," *Orlando Sentinel* (Sept. 18, 2012), http://articles.orlandosentinel.com/2012-09-18/news/os-orlando-budget-approved-20120918_1_property-tax-rate-orlando-leaders-million-general-fund-budget.

5 City of Orlando, *Comprehensive Annual Financial Report, for the Fiscal Year Ended September 30, 2011*, viii.; City of Orlando, City of Orlando Reserve Policy, 3, approved by the City Council June 21, 2004, <http://orlapp1.ci.orlando.fl.us/asv/paperlessAgendaArchive.nsf/6acecff5f30ecb0d85256bd0005abae0/b329d6139d37dc4985256eb00059363e?OpenDocument>.

6 Ray Elwell, Orlando's deputy chief financial officer, pers. comm. (Nov. 14, 2012). For more information on and analysis of the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls* (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.