

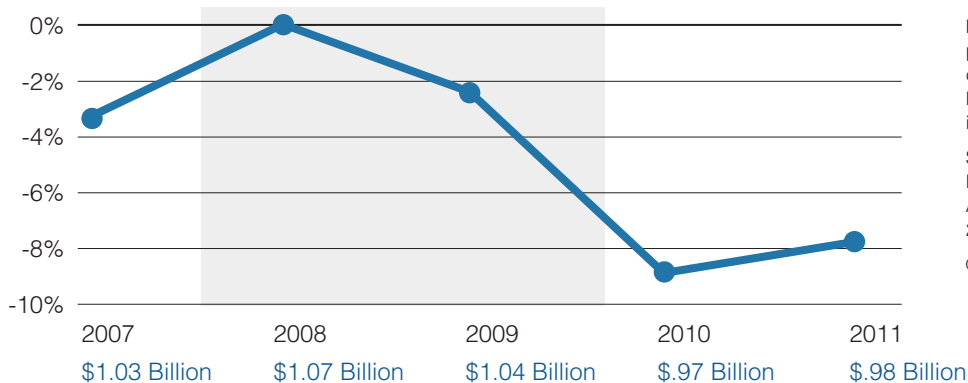
Kansas City, MO

Revenue bottomed out after the recession, and there has been only a slight rebound

In 2011, Kansas City's revenue remained far below its prior peak, and the city faced ongoing financial challenges two years after the end of the Great Recession. Kansas City had steep revenue losses, led by sales and income taxes and nontax revenue such as investment income and interest. Intergovernmental aid helped partially offset the declines, but overall revenue still fell 9 percent between the 2008 peak and the bottom in 2010. (See Figure 1.) In addition, Kansas City grappled with unfunded pensions and costly debt-service payments stemming from a less-than-successful downtown redevelopment effort.¹

FIGURE 1

Kansas City 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 Kansas City's Comprehensive Annual Financial Reports for fiscal 2007-11.

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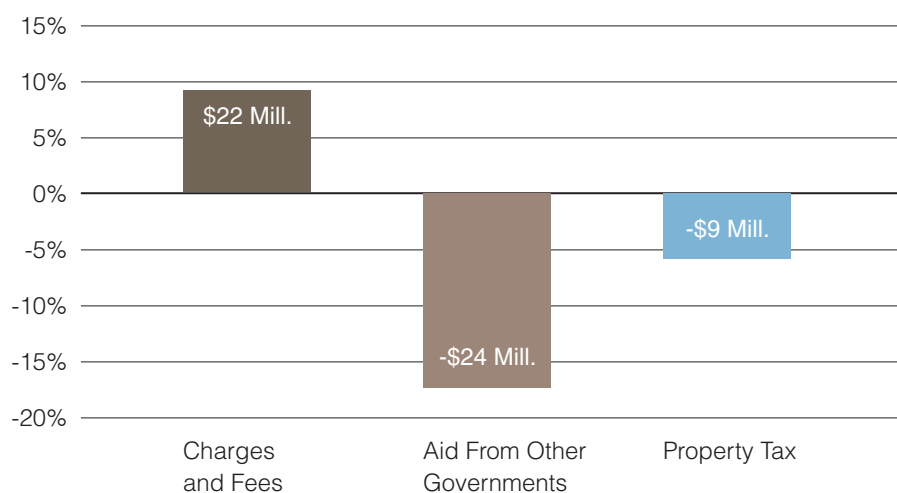
Declining revenue hit in many areas, with intergovernmental aid serving as a partial backstop

Kansas City hit its revenue low point in 2010. Nontax revenue—including, among other items, investment income and interest—fell \$57 million from the peak in 2008, making it the largest single category of the city's revenue losses. Sales and income taxes together declined an additional \$56 million during the same period. Although intergovernmental aid—which included American Recovery and Reinvestment Act funds—grew, it was not enough to offset losses elsewhere.² As a result, the city drew down reserves in order to maintain relatively flat operating spending between 2008 and 2010.³

Revenue rebounded somewhat in 2011 on the strength of growth in charges for services, but steep declines in intergovernmental aid and property tax receipts—two categories that had helped temper earlier revenue losses—created new financial woes.⁴ (See Figure 2.) To address these shortfalls, Kansas City voters approved in 2011 the continuation for another five years of a 1 percent earnings tax on residents and nonresidents who work in the city.⁵ This tax generates about \$200 million annually and represents approximately one-fifth of the city’s total revenue. Voters reconsider the referendum every five years, which adds uncertainty to the city’s long-term fiscal outlook.⁶

FIGURE 2

Key Drivers of Change in Kansas City's Revenue, 2010-11



Source: Pew calculations from Kansas City's Comprehensive Annual Financial Reports for fiscal 2007-11.
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Managing the future: The recession cut into planning for long-term obligations

Demand for services, investment decisions, and revenue performance driven by economic activity and demographic changes will shape Kansas City’s fiscal future. Long-term factors of financial health, which can be analyzed using the data available, are pensions and retiree health care obligations and debt from investments.

One unexpected drag on city finances has been the middling results from plans to revitalize downtown Kansas City.⁷ The Power and Light District development is now 85 percent occupied, but sales and property tax revenues have thus far fallen short of projections, contributing to fiscal challenges.⁸ The city continues to put aside revenue in its budget to supplement its annual bond payments.

In 2010, Kansas City’s pensions were 78 percent funded, down from 91 percent two years earlier.⁹ In 2011, a city-convened task force recommended that workers contribute an additional 1 percent of their wages into pension plans. The review also called on the city to make downward adjustments in cost-of-living increases and benefit levels, but no action had been taken as of July 2013.¹⁰

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 City of Kansas City, MO, *Comprehensive Annual Financial Report, for the Fiscal Year Ended April 30, 2011* (2011), B-13, v, <http://www.kcmo.org/idc/groups/finance/documents/finance/ocs879231-100315.pdf>. Through 2011, the city had been awarded a total of \$92 million in federal stimulus funding.

3 The decrease was driven largely by a \$39 million decline in other spending, a category that includes nondepartmental expenditures from the tax-increment financing special allocation fund and moneys sent to the Kansas City Area Transit Authority, a separate entity. These losses were offset somewhat by a \$39 million increase in housing and economic development spending, the result in part of the creation of a housing department in 2009. General government spending fell \$10 million during the same period, the result of overall expenditure cuts and wage and hiring freezes. City of Kansas City, MO, *Kansas City Adopted Budget 2009-10* (2009), 13 and 187, <http://www.kcmo.org/CKCMO/Depts/Finance/Office%20of%20Management%20and%20Budget/Adoptedbudgetforfiscalyear2009-2010/index.htm>; City of Kansas City, MO, *Comprehensive Annual Financial Report, for the Fiscal Year Ended April 30, 2011 and 2010* (2011), B-13, B-20, and C-5, <http://www.kcmo.org/idc/groups/finance/documents/finance/ocs879231-100311.pdf>.

4 Additional charges for services included increased trash collection, restaurant inspection, convention center use, and administrative fees. City of Kansas City, MO, *FY 2010-11 Submitted Budget* (Feb. 11, 2010), 7, <http://www.kcmo.org/idc/groups/citymanager/documents/citymanagersoffice/budgetpresentation021110.pdf>.

5 Steve Vockrodt, "Kansas City Voters Overwhelmingly Approve Keeping Earnings Tax," *Kansas City Business Journal* (April 5, 2011), <http://www.bizjournals.com/kansascity/news/2011/04/05/kansas-city-voters-approve-earnings-tax.html>.

6 Moody's Investors Service, "Moody's Assigns Aa2 Rating to the City of Kansas City's (MO) \$212.7 Million GO Improvement and Refunding Bonds, Series 2012 and A1 Rating to \$75.4 Million Special Obligation Bonds, Series 2012A-B; Outlook Remains Stable" (March 1, 2012), <http://www.kcmo.org/idc/groups/finance/documents/finance/ocs879231-101414.pdf>.

7 Eliot Brown, "Urban Center Is Budget Hole," *Wall Street Journal* (April 23, 2012), <http://online.wsj.com/article/SB10001424052702304331204577356471425094502.html>.

8 Ibid.

9 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.

10 *Kansas City Star*, "Make Pension Reform Happen at City Hall" (Nov. 25, 2011), <http://voices.kansascity.com/entries/make-pension-reform-happen-city-hall>; and Lynn Horsley, "Proposed KC Budget Would Spend More on Streets and Youths," *Kansas City Star* (Jan. 16, 2013), <http://www.kansascity.com/2013/01/16/4012880/proposed-kc-budget-would-spend.html>.