

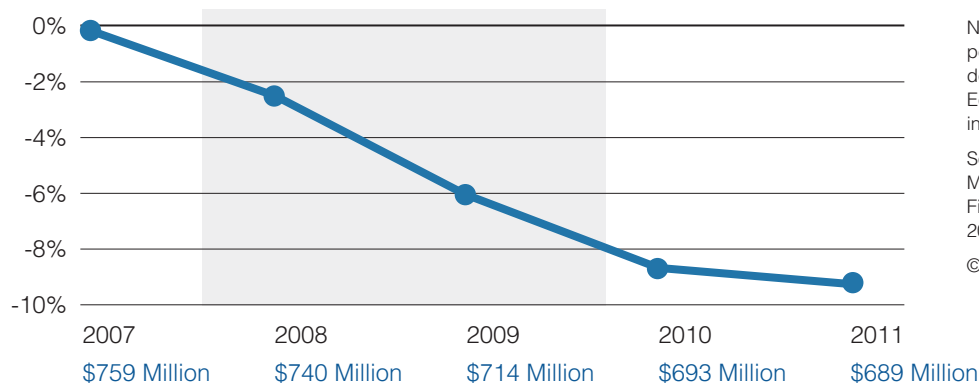
Miami

Falling revenue hits Miami hard long after the end of the Great Recession, forcing cuts and sapping reserves

Two years after the end of the Great Recession in 2009, Miami's revenue was still dropping. City receipts plunged 9 percent from 2007 to 2011, driven initially by reductions in intergovernmental aid and decreasing charges and fees. (See Figure 1.) The sharpest declines came in 2010, when property tax collections—the city's largest stream—began to reflect Florida's crumbling housing market. To address its revenue shortfall, Miami first tapped reserve funds and later enacted steep cuts in public safety. In addition to these immediate challenges, a sharp drop in pension funding levels has raised concerns for the future.¹

FIGURE 1

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

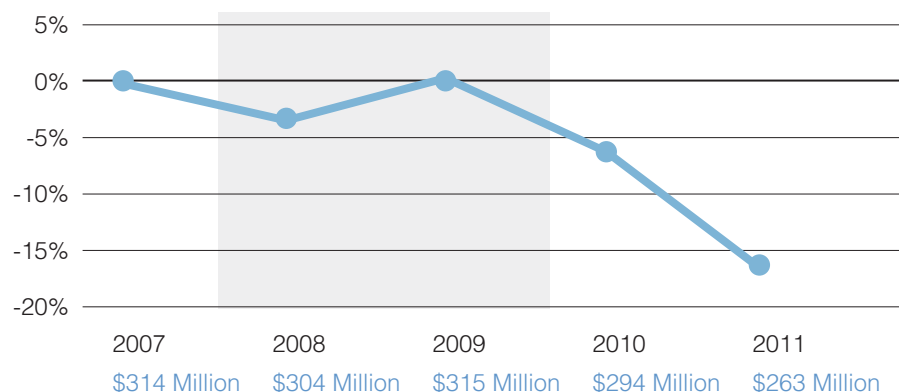
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Property tax collections collapsed in 2010, prompting sharp cuts

Property tax collections fell \$20 million between 2007 and 2010. Because of a 15-month lag between property tax assessments and the due date for payments, however, the most substantial declines did not hit until 2011—shrinking the city's property tax base by \$7.4 billion from 2010.² Those revisions in tax-assessed values drove receipts down another \$32 million. (See Figure 2.) Nontax revenue, predominately interest on investments, declined by \$23 million between 2007 and 2011. A small increase in intergovernmental aid was the only offset to these steep losses. The city received at least \$37 million in direct funding from the American Recovery and Reinvestment Act.³

FIGURE 2

Percent Change From 2007 in Miami Property Tax Revenue, 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 Miami's Comprehensive Annual Financial Reports for fiscal 2007-11.

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Miami responded to the revenue declines with significant spending reductions, cutting operating expenditures by \$41 million between 2007 and 2011. The city's biggest spending category, public safety, decreased 20 percent, with reductions split about evenly between police and fire operations.⁴ During the same period, the city also reduced spending on public works and transportation by 24 percent; spending for parks, recreation, and cultural facilities was trimmed by 18 percent. In some areas, however, spending grew. General government spending increased 11 percent between 2007 and 2011, and debt service grew steadily over the period by 28 percent.

Revenue shortfalls prompted officials to tap reserves, and a lawsuit over union contracts forced additional drawdowns, reducing reserve levels from \$103 million in 2007 to just \$17 million in 2011.⁵

Managing the future: Pension problems are among Miami's future challenges

Demand for services, investment decisions, and revenue performance will be key factors in Miami's future fiscal well-being. Long-term obligations which can be analyzed using the data available are pensions and retiree health care and other benefits and reserve levels.

Miami's pension plans experienced an erosion of assets—in part due to underperforming investments—that left the system's funding level at 77 percent in 2010, down from 92 percent three years earlier.⁶ In summer 2012, city officials renegotiated with union leaders to change the way the city's contributions are calculated, revising the plan, and adjusting employee contributions.⁷

Standard & Poor's cited the city's dramatic reduction in reserve funds, increasing debt, and shrinking pension funding when it downgraded Miami's debt from A+ to BBB+ in 2010.⁸ In 2012, the U.S. Securities and Exchange Commission alleged municipal securities fraud, saying the city manipulated its financial documents to give the appearance of a balanced budget in an attempt to mislead bond investors.⁹ Following that announcement, Moody's said it had "fundamental" concerns as it launched a review of the city's long-term financial stability, raising the specter of further downgrades.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 Miami, *Comprehensive Annual Financial Report, for the Fiscal Year Ended September 30th, 2011* (2011), 144, http://www.miamigov.com/finance/CAFR/2011%20CAFR_w_EY%20Opinion_v1_5-18-12.pdf.

3 City of Miami, *Comprehensive Annual Financial Report, for the Fiscal Year Ended September 30th, 2010* (2010), vii, <http://www.miamigov.com/Finance/CAFR/City%20of%20Miami%20FY2010%20CAFR.pdf>.

4 General fund spending on police and fire operations declined \$22 million and \$23 million, respectively, without adjusting for inflation; the reduction of 20 percent in public safety expenditures between 2007 and 2011 refers to public safety spending across all governmental funds and has been adjusted for inflation. City of Miami, *Comprehensive Annual Financial Report, for the Fiscal Year Ended September 30th, 2008* (2008), 79, <http://www.miamigov.com/finance/CAFR/2008%20CAFR.pdf>; City of Miami, *Comprehensive Annual Financial Report, for the Fiscal Year Ended September 30th, 2011*, 85.

5 Charles Rabin, "Imposed Salary, Pension Cuts Lead to Police Union Suit Against Miami," *Sun Sentinel* (Sept. 3, 2010), http://articles.sun-sentinel.com/2010-09-03/news/fl-miami-sued-20100903_1_police-union-financial-urgency-union-contracts.

6 Kathleen McGrory, "Inertia, Politics Keep Miami in Constant Financial Crisis," *Miami Herald* (Sept. 30, 2012), <http://www.miamiherald.com/2012/09/30/3028216/inertia-politics-keep-miami-in.html>. 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.

7 Kathleen McGrory, "Miami, Labor Unions Reach Contract Agreements That Help City Balance Budget," *Miami Herald* (Sept. 21, 2012), <http://www.miamiherald.com/2012/09/21/3014138/miami-labor-unions-reach-contract.html>.

8 Standard & Poor's, "Miami, FLs Debt Rating Affirmed at 'BBB+' " (Dec. 22, 2010), BondsOnline, http://www.bondsonline.com/Todays_Market/Credit_Rating_News_.php?DA=view&RID=594.

9 Kathleen McGrory and Charles Rabin, "Miami Misled Investors Over City's Financial Health, SEC Finds," *Miami Herald* (July 24, 2012), <http://www.miamiherald.com/2012/07/24/2909602/miami-misled-investors-over-citys.html>.

10 Douglas Hanks, "Moody's Cites New Concerns, Broadened Review of Miami's Financial Health," *Miami Herald* (Aug. 29, 2012), <http://www.miamiherald.com/2012/08/29/2975167/moodys-cites-new-concerns-broadened.html>.