

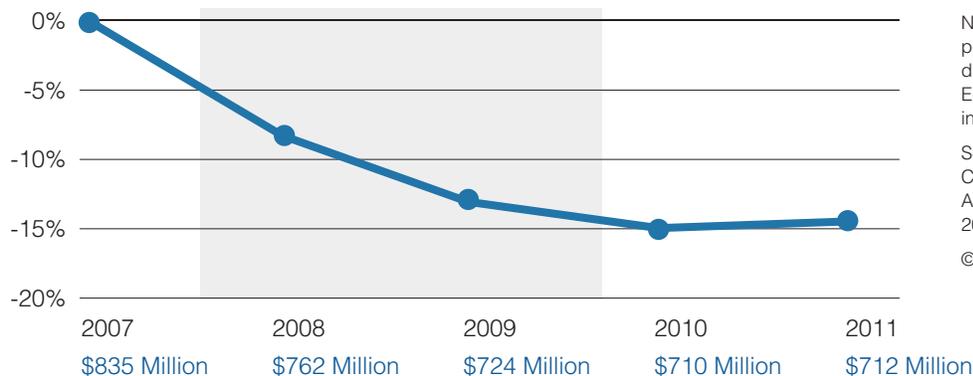
Cleveland

Unanticipated revenue shortfalls precipitated cuts and wiped out reserves in Cleveland

After falling sharply through the Great Recession, Cleveland's revenue remained near the low point in 2011, prolonging the city's financial challenges. (See Figure 1.) Cuts in aid from federal and state governments hit Cleveland hard in 2008. A drop in income tax receipts in 2009, followed by declines in property tax collections, aggravated the fiscal woes. Resulting revenue shortfalls prompted deep spending cuts and temporarily drained reserves. Additional cuts to expenditures helped restore Cleveland's reserves in 2011. But, the city faced significant unfunded retirement obligations.¹

FIGURE 1

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

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Intergovernmental aid and unanticipated drops in income tax led revenue declines

In Cleveland, overall revenue fell \$125 million between the high point in 2007 and the 2010 low. A key driver was a \$70 million loss in intergovernmental aid, which had been the city's largest source of nontax general fund income since 1993.² In particular, the amount of state revenue shared with Cleveland declined beginning in 2000, because of the city's declining population and the state's own fiscal choices.³ Even stimulus funds from the American Recovery and Reinvestment Act were not enough to turn the tide.

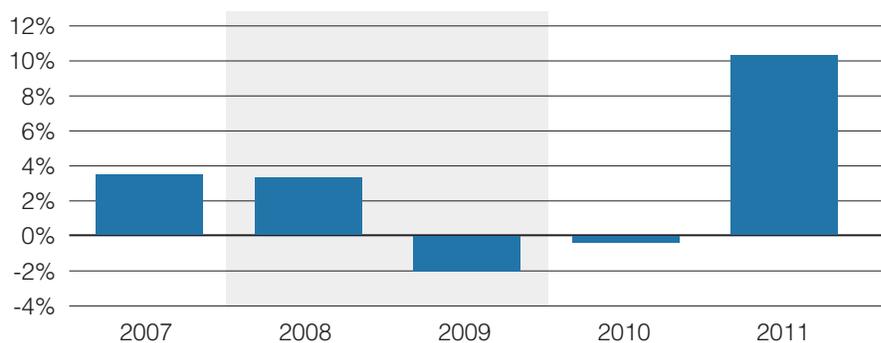
Revenue from Cleveland's income tax, collected from those who live or work in the city, also fell between 2007 and 2010. Nonresident workers contributed as much as 85 percent of the city's income tax receipts, but as the recession's impacts broadened, income tax revenue fell \$31 million in 2009. Nontax revenue, primarily investment earnings, and property taxes also declined considerably between 2007 and 2010.⁴

Revenue losses led to a major reserve drawdown and, eventually, deep spending cuts

Between 2007 and 2010, overall expenditures fell 2 percent. Cuts in public safety (\$16 million) and public works and transportation (\$10 million) were the largest.⁵ Tapping \$27 million in 2009 to offset income tax declines erased the city's reserves. (See Figure 2.) In addition, city officials froze hiring to avoid layoffs.⁶ But a year later, furloughs and employee concessions were required, and with continued shortfalls and no reserves, policymakers transferred money from other funds to plug holes. Spending cuts persisted into 2011 even as overall revenue increased slightly, primarily because of a modest rebound in income tax receipts.

FIGURE 2

Cleveland Reserve Funds as a Percent of Total General Fund Revenue, 2007-11



Note: Reserve funds are represented by the unreserved general fund balance as a percent of total general fund revenues. Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research.

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

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Managing the future: Cleveland set money aside for future bills, but challenges remain

Demand for services, investment decisions, and revenue performance driven by economic activity and demographic changes will shape Cleveland'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 reserve levels.

As a result of the continued belt-tightening, Cleveland was able to restore its reserves to 10 percent of general fund revenue by the end of 2011—double the city's mandated 5 percent benchmark.⁷

Cleveland set aside assets for retiree health care, covering 34 percent of its \$966 million in liabilities in 2010, higher than in many cities studied. The city's pension plans, however, had 75 percent of their liabilities funded in 2010, a drop from three years earlier. These unfunded obligations pose a challenge for the city's future.⁸

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 Cleveland, *Comprehensive Annual Financial Report, for the Fiscal Year Ended December 31, 2007* (2007), 39, <http://webapp.cleveland-oh.gov/aspnet/docs/get.aspx?id=169&file=2007CAFR.pdf>; and City of Cleveland, *Comprehensive Annual Financial Report, for the Fiscal Year Ended December 31, 2008* (2008), 39, <http://webapp.cleveland-oh.gov/aspnet/docs/get.aspx?id=198&file=2008CAFR.pdf>.

3 City of Cleveland, *Comprehensive Annual Financial Report, for the Fiscal Year Ended December 31, 2007*, 39; and City of Cleveland, *Comprehensive Annual Financial Report, for the Fiscal Year Ended December 31, 2008*, 39; "State Local Government Funds and Other Shared Revenues include taxes levied and collected by the State of Ohio or counties and partially redistributed to the City and other political subdivisions." City of Cleveland, *Comprehensive Annual Financial Report, for the Fiscal Year Ended December 31, 2007*, 39; and City of Cleveland, *Comprehensive Annual Financial Report, for the Fiscal Year Ended December 31, 2008*, 39.

4 Moody's Investors Service, "Moody's Assigns A1 Rating and Stable Outlook to City of Cleveland's (OH) \$50.6 Million Various Purpose and Refunding GO Bonds, Series 2012," new issue (2012), https://www.moody.com/research/MOODY-ASSIGNS-A1-RATING-AND-STABLE-OUTLOOK-TO-CITY-OF-PR_244324.

5 Debt service payments increased by \$16 million during this period, much of it interest, offsetting some of the other spending cuts.

6 Moody's Investors Service, "Moody's Assigns A1 Rating and Stable Outlook to City of Cleveland's (OH) \$50.6 Million Various Purpose and Refunding GO Bonds, Series 2012;" and Cleveland Mayor Frank G. Jackson's Fourth Annual State of the City Address (2009), http://www.city.cleveland.oh.us/clnd_images/PDF/Mayor/StateoftheCity2009.pdf.

7 *2012 Budget Book, City of Cleveland*, 27, <http://webapp.cleveland-oh.gov/aspnet/docs/get.aspx?id=988&file=2012Budget.pdf>; and Moody's Investors Service, "Moody's Assigns A1 Rating and Stable Outlook to City of Cleveland's (OH) \$50.6 Million Various Purpose and Refunding GO Bonds, Series 2012."

8 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.