BU Initiative on Cities

Fiscal Leadership and the Modern City

April 27–28, 2015

CITY LEADERSHIP SUMMIT REPORT

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Authors: Katharine Lusk, Aeriel Emig

Editors: Conor LeBlanc, Stephen Chang, Patricia Cahill

At the heart of a thriving city is a healthy balance sheet — critically important, yet rarely a headline-maker. To prosper, cities must continually invest, carefully balancing current needs with past promises and future obligations. The present-day tenuousness of city fiscal health is the result of expanded burdens, from aging infrastructure to employee obligations, and diminished resources from external sources, both state and federal. On April 27–28, 2015, the Initiative on Cities at Boston University hosted Fiscal Leadership and the Modern City — a two-day summit that brought together mayors, chief financial officials, city and town managers, and financial and economic professionals to discuss how cities are tackling contemporary fiscal constraints with 21st century financial tools. This report summarizes the conference's discussions, highlighting the success stories of several public leaders who have steered their cities clear of financial crises and the new tools available to cities seeking long-term fiscal stability.

Disclaimer: *This report reflects the contents of Fiscal Leadership and the Modern City, a City Leadership Summit hosted by the Boston University Initiative on Cities on April 27–28, 2015 in Boston, MA. The facts and supporting data contained in this report were stated by the panelists during the Summit.*

All related presentations and session videos are available here.

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SUMMARY REPORT:

Fiscal Leadership and the Modern City

Thank you for having joined us for *Fiscal Leadership and the Modern City*, our third annual City Leadership Summit. We were thrilled to gather together leading mayors, city and town officials, experts in fiscal management, scholars, and many others to examine a critical question: how are we going to pay for the cities of tomorrow? We greatly appreciate the support Citibank and GOVERNING lent to this convening.

This Conference Report summarizes the important discussions that came out of *Fiscal Leadership and the Modern City*. It provides insight on the key takeaways for municipal leaders, community and corporate partners, academics, and others who work with and shape the fiscal health of today's cities.

Our late co-founder and beloved former Mayor of Boston, Thomas Menino, was instrumental in conceiving this conference. Passionate about sound fiscal management, Mayor Menino was fond of saying, "If your finances work, your city works."

> ***"If your finances work, your city works."***
>
> — Thomas M. Menino, Mayor of Boston, MA 1993–2014

Countless mayors agree with Mayor Menino that fiscal leadership is crucial to the wellbeing of cities. Two years ago, we initiated our flagship research project, a national survey of American mayors, in which we spoke with over 70 mayors from across the country. We asked them about their policy priorities, the most important opportunities facing their cities, and their greatest challenges. City fiscal health emerged as a central concern.

We live in an era when cities are experiencing tremendous growth and urban living is enjoying renewed popularity. However, the challenges for fiscal leaders are still intense. With state and federal support shrinking, how can cities secure new revenue sources? How can they cope with skyrocketing pension and healthcare costs for public servants? How can aging urban infrastructure, the backbone of our cities, be properly funded? What can we learn from cities, like Detroit, which is recovering from the nation's largest municipal bankruptcy?

The Conference Report for *Fiscal Leadership and the Modern City* addresses these issues and more, laying the groundwork for the 21st century municipal business model and preparing for the next generation of urban leaders for one of their greatest challenges.

Thank you again for having joined us for *Fiscal Leadership and the Modern City*. We are delighted to share the valuable lessons learned from conference speakers and guests alike.

Sincerely,

Graham Wilson
Director, Initiative on Cities

Katharine Lusk
Executive Director, Initiative on Cities

EXECUTIVE SUMMARY

City leaders across the U.S. are faced with challenging questions about responsible fiscal leadership. Government officials from mayors to city managers are searching for innovative ways to diversify revenue streams, invest in infrastructure and stimulate new economic growth, while fulfilling past obligations. With growing pension and healthcare liabilities, declining state and federal aid, infrastructure price tags in the billions, and legal limitations hampering revenue diversification and cost management, available tools are limited. Still, many cities have successfully navigated the recent recession and emerged in strong financial positions.

HOW DID WE GET HERE?

Many of the contemporary financial challenges confronting cities today are "sins of the past," the result of accumulated underfunded promises, outdated revenue models, and past political decisions that limit how cities can address current problems. As one speaker noted, cities like Syracuse, NY are hamstrung with 80% of revenues devoted to past obligations, leaving little flexibility with regard to where and how to allocate funds to manage today's financial needs.[1]

The primary concerns for the fiscal vitality of cities include:

Pensions: Many cities are facing pension crises as a result of continuous underfunding, generous cost of living (COLA) increases, along with liberal disability provisions and the ability to collect at any age. Coupled with an increase in fees paid out to asset managers and an increase in risk and exposure of underlying assets, costs and volatility are on the rise.

Healthcare: Nationwide, healthcare costs are increasing at a rate that far outpaces inflation. Additionally, the municipal workforce is a high-risk cohort relative to other employee groups. Municipal workers tend to be older and remain in their employment positions longer than the average employee, tend toward low turnover, and engage in higher risk occupations than other workers. As a result, increasing healthcare costs will have a greater adverse impact on the municipal workforce.

Inadequate Revenue Models: Many cities suffer from dated or limited revenue models and struggle to collect enough funds to support their expenses. The sales tax, sometimes dubbed the "last century's tax," often fails to account for internet sales or services. In spite of outmoded tools, no U.S. city has received expanded revenue authority from its state government since the 2008 recession began. Additionally, many cities are heavily reliant on already high property taxes as their main source of revenue, and the salience of such taxes renders them more politically charged as a prospective revenue source.

Rising Costs of Capital: For some cities, high profile bankruptcies and unfunded liabilities have resulted in markets differentiating in ways they never did before. More investors are "looking under the hood" at unfunded pension liabilities and other legacy costs. Highly differential interest rates for municipal bonds result in greater costs of capital, limiting financing options for some municipalities.

Underfunding of Infrastructure: Federal underinvestment coupled with multiple years of short-term spending packages have left U.S. infrastructure in a woeful state. The U.S. spends just over 2% of GDP on infrastructure, well below the 8% China invested in its infrastructure and the 4% optimal level suggested by the Brookings Institution.

Bad Deals: Some cities have "mortgaged the future" by providing tax breaks in order to maintain or attract corporations, sports franchises, or outside investments. Additionally, some cities, most notably Chicago with its now infamous deal to lease all city-owned parking meters for 75 years, have relied on one-time fixes as revenue sources for their operating deficits.[2]

1 2014-2015 Syracuse NY Budget: 78.65% of the city budget is allocated to Debt Service, Employee Benefits, and Salaries and Wages. *Budget for the City of Syracuse for the Period of July 1 2015-July 30, 2016* http://www.syracuse.ny.us/uploadedFiles/Departments/Budget/Content/Budget_Documents/2015-16%20Budget.pdf

2 Hoffman, David, Inspector General. *Report of Inspector General's Findings and Recommendations: An Analysis of the Lease of the City's Parking Meters.* Chicago: City of Chicago, 2011. http://chicagoinspectorgeneral.org/wp-content/uploads/2011/03/Parking-Meter-Report.pdf

WHAT CAN CITY LEADERS DO NOW?

Over the course of the two-day summit, a number of near and long-term opportunities emerged. The following themes highlight several strategies cities can implement to improve fiscal health.

1. IMPROVE ACTUAL AND PERCEIVED MUNICIPAL EFFICIENCY:

Government efficiency is both a way to stretch limited dollars and a mechanism for improving constituent trust. Higher levels of trust in government yield higher tax compliance and afford politicians more flexibility to make tough choices. Several suggestions for efficiency improvement included:

a. *Improve or expand inventory management systems:* Sometimes efficiency improvements can come from focusing on the fundamentals. In spite of operating expansive municipal fleets, too few cities have a complete fleet inventory or detailed maintenance records, providing inadequate information to allow for proper evaluation.

b. *Address the "low hanging fruit":* Examining back office operations, starting with where the most money is going (police, fire, public works) and conducting inter-city comparisons to identify inefficiencies can provide insight into the most obvious outliers. One city kept a gas attendant on-site 24/7 in case police vehicles needed refueling at odd hours. The city was unaware that this staffing model was both unusual and unnecessary.

c. *Regionalize services and capitalize on economies of scale:* Leaders must be selective when deciding which services to regionalize, but cutting small areas of spending can add up to big savings for city budgets. If Massachusetts consolidated its 268 emergency call centers to 14, it could save 50% on call center spending.

d. *Engender a professional employee culture:* Newly elected Mayor Dan Rivera of Lawrence, MA took on the title of CEO and required staffers to begin wearing business attire as part of a series of efforts to instill a culture of professionalism and accountability. The goal was to improve constituent perception of municipal employees as professional stewards of taxpayer dollars.

2. EXPLORE CREATIVE REVENUE RAISING:

In order to combat municipal financial challenges, many city leaders are turning to innovative and creative means to raise additional revenue.

a. *Initiate or Institutionalize Payments in Lieu of Taxes (PILOTs):* Many cities are testing the idea of PILOTs as a way to engage nonprofits and stakeholders that have not previously made consistent financial contributions to city revenue streams. Exhaustive case studies provide insight into ways to fairly assess PILOTs and increase payment rates for these voluntary contributions. [See Bibliography.]

b. *Introduce new user fees and taxes:* According to the National League of Cities, 43% of cities are planning to increase user fees.[3] New forms of taxes are popping up, including: the bed tax, taxi tax, billboard tax, beverage container tax, and 'pay as you throw' (PAYT), a usage-pricing model for garbage. With new taxes and types of revenue, there are concerns both over collection and enforcement. A number of speakers did caution that user fees can be regressive and must be applied thoughtfully.

c. *Link new tax proposals to salient city improvements:* Voters are willing to support state and local tax increases, particularly when there is a clear link to a tangible benefit. Research demonstrates that transportation and education ballot measures, as well as those linked to parks or other community assets, are very often successful. If voters reject them initially, they pass on subsequent attempts.

3 National League of Cities. City Fiscal Conditions in 2014 Report. Washington, DC: NLC, 2014. http://www.nlc.org/find-city-solutions/city-solutions-and-applied-research/finance/city-fiscal-conditions-report-2014

d. Support modern revenue tools: Sales taxes are one area where state legislatures and Congress have failed to keep pace with changes to the U.S. economy. Federal legislation, such as the Marketplace Fairness Act, and new regulations under consideration in some states would help states and localities capture sales tax revenue for online goods and services, which are not universally collected at present.

3. SEEK INTERGENERATIONAL EQUITY:

a. Invest for the future: U.S. cities have a natural credit worthiness and enjoy a well-regulated marketplace in which to raise investment funds at low cost. Cities must maximize borrowing to invest in infrastructure, so that those assets don't degrade to the point where they become even more costly. The current low interest rate environment makes now an ideal time to double down on infrastructure investments. High project saliency improves the likelihood that voters will support these critical investments. Additionally, continued investment in the capital plan throughout an economic downturn will pay dividends in the future. With continued investments in streets and sidewalks, lighting infrastructure, and roads, a city remains ready to receive private investment when more prosperous times return.

b. Seek sustainable agreements, premised on a need for shared sacrifice: Financial transformation will come as a result of efforts from both citizens and city leaders. Angel Taveras, former Mayor of Providence, RI, designed a "shared sacrifice plan" in his successful attempt to reform pension policy. In addition to cutting Providence's 6% guaranteed compounded raises for retirees, Mayor Taveras also cut the mayor's office budge, closed five schools, and increased resident fees and taxes. Detroit, thanks to supportive court rulings, was able to enlist the business community, nonprofits and foundations, and gain concessions from city employees and retirees. The city's "Grand Bargain" was ultimately a story of shared sacrifice — everybody gave, gaining stability in return.

> ***"A city is in good health if it has sufficient revenues to provide the services promised to residents."***
>
> — Andrew Reschovsky, Fellow at the Lincoln Institute of Land Policy

4. EARN VOTER TRUST THROUGH OPEN AND HONEST COMMUNICATION:

All conference speakers emphasized the need for strong and open communication between city leadership and constituents. Leaders need to set priorities and stick to them, while also being prepared to take the heat for any dissatisfaction exhibited by the public. As Mayor Lisa Wong of Fitchburg, MA observed, sometimes you have to turn the streetlights off to keep other services on track, and voters will rally around the hard choices. Many current and former mayors agreed, calling on urban leaders to respect the integrity and intelligence of the taxpayer, set clear priorities, and operate with transparency.

While each of these strategies can be pursued at the local level, the key to nation-wide success will be to share innovative techniques and practices—both for generating revenues and cutting expenditures—in order to create a reliable toolbox for all cities.

CONFERENCE DAY 1: APRIL 27, 2015

Strong fiscal leaders need to make decisions that improve the quality of life for today's residents without sacrificing the prosperity of future residents or jeopardizing long-term fiscal stability. Cities can underinvest for only so long before the structure or system begins to crumble. Legacy costs, including employee pensions and other post employee benefit (OPEB) obligations, particularly healthcare, are limiting the flexibility of local governments to deliver basic city services today and invest for future growth. The first day of the conference focused chiefly on these legacy costs.

PANEL 1: THE FISCAL HEALTH OF THE AMERICAN CITY

Panelists: *Christiana McFarland, Research Director, Center for City Solutions and Applied Research, National League of Cities; Andrew Reschovsky, Fellow, Lincoln Institute of Land Policy and Professor Emeritus, University of Wisconsin-Madison*
Moderator: *Graham Wilson, Director, Initiative on Cities and Professor of Political Science, Boston University*

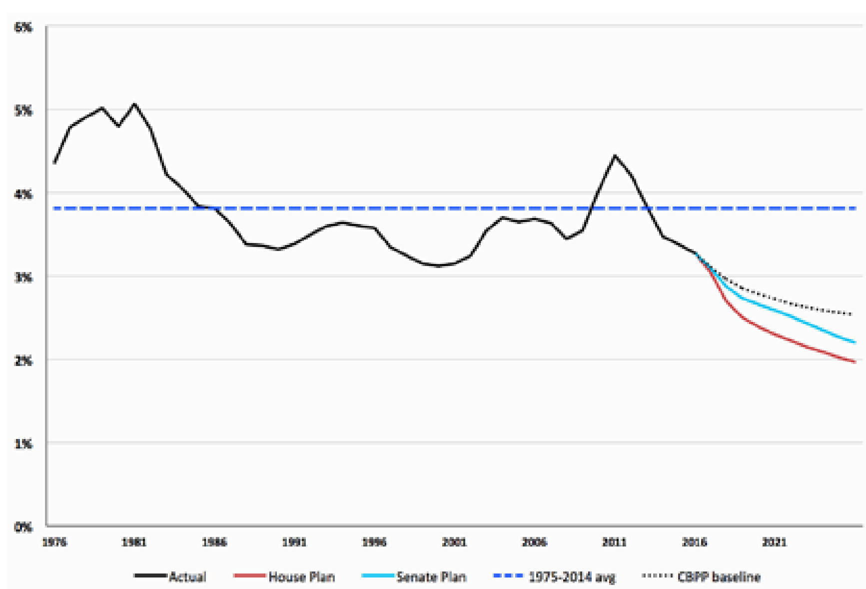
Cities are resilient and beginning to rebound from the financial crisis of 2008. Christiana McFarland, Research Director for the National League of Cities, reported that 80% of city finance officers claim their cities are better able to accommodate needs this year than they were the previous year. General positive trends include rebounding local economies, improving local tax bases and growing populations. However, negative trends endure — most significantly, increasing pension obligations, rising healthcare costs, and underfunded infrastructure needs.

Extreme financial events, such as bankruptcy and insolvency, remain rare. Andrew Reschovsky, Fellow at the Lincoln Institute of Land Policy, observed that while much of the focus has been on avoiding bankruptcy and insolvency, these are in fact rare phenomena. However, even cities that are not in danger of either of these crises may still be at risk or be in very weak fiscal health. Unstable fiscal health can result from all or a combination of the following: weak economic base due to a drastic loss of jobs or population; deteriorating infrastructure; declining housing prices; limited fiscal assistance from federal or state sources; and high expenditure needs, either from a broad list of public service responsibilities or a high concentration of dependent residents.

Future growth will largely depend on cities' ability to diversify their tax revenue portfolio, cut costs, and improve efficiency. Federal aid to cities is projected to steadily diminish over the next decade after hitting a 30-year peak in 2011 as part of the federal stimulus. State aid also continues to trend downward. On average, cities now receive 17% of revenues from the state government and must look for new options to continue supporting their residents and fulfilling past

THE FUTURE OF FEDERAL AID TO CITIES

Non-Defense Discretionary Spennding as a % of GDP
FY 2106 Congressional Budget Plans



Source: Reschovsky, A. "The Fiscal Health of the American City" presentation, Fiscal Leadership and the Modern City Conference, Boston University, April 27, 2015. Based on data provided by the Center on Budget and Policy Priorities, Washington, DC.

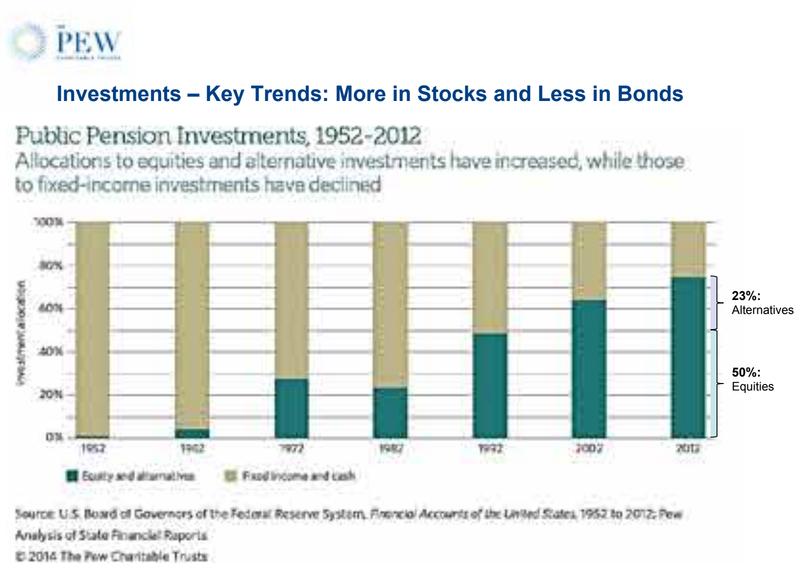
financial promises. According to the 2014 City Fiscal Conditions report, published by the National League of Cities, cities are chiefly looking to raise user fees to generate new revenue. Roughly one in five cities are raising property tax rates.[4]

A strong relationship between city and state is vital to urban fiscal health. In addition to dictating state aid levels, state governments regulate local revenue tools and the degree of local control given to a specific city. Restricting a city's revenue tools, whether by limiting property tax increases, failing to modernize sales taxes or restricting the creation of new taxes, can severely impact whether or not city leaders are able to continue to innovate. As McFarland noted during her remarks, in spite of diminishing state aid, states have not afforded any municipalities new taxing authority since the beginning of the recession.

PANEL 2: WHAT'S NEXT FOR PENSION REFORM?

Panelists: *Mayor Angel Taveras, Former Mayor of Providence, RI and Litigation Shareholder, Greenberg Traurig; Greg Mennis, Director, Public Sector Retirement Systems, Pew Charitable Trusts; Jack Beermann, Professor, Boston University School of Law; Patrick Brett, Managing Director, U.S. Municipal Securities Division, Citi*
Moderator: *Con Hurley, Director, The Center for Finance, Law and Policy, and Senior Provost Fellow, Boston University*

No single factor is driving America's municipal pension crisis. Jack Beermann, Boston University School of Law Professor, highlighted that the pension problem is one that falls at the intersection of policy, law, politics, and management. The public pension crisis stems from cities routinely underfunding pension responsibilities and making unreasonable investment projections based on increased promises. State statutes are also partially to blame. Stricter state balanced budget requirements are correlated to pension underfunding. Because pension deficits are not required to be factored in, there is great incentive to dip into reserves to close other budget gaps. Additionally, state constitutions, such as those of Illinois and New York, dictate that pensions are enforceable contractual obligations, the benefits of which cannot be diminished or impaired. In some states, public employees are entitled to any benefits promised to them at the time of hire, leaving little room to remedy irresponsible "sins of the past."



Source: Mennis, G. "The State of Public Sector Retirement Systems" presentation, Fiscal Leadership and the Modern City Conference, Boston University, April 27, 2015

Changes to underlying pension investments are increasing volatility and fees as fund managers seek greater returns. Greg Mennis, Director of Public Sector Retirement Systems for Pew Charitable Trusts, revealed the shift in allocations from chiefly fixed income and cash throughout the latter half of the twentieth century to chiefly equities and alternatives investments by 2012. In addition to a higher risk premium, this shift introduces another cost — higher fees. Between 2006 and 2012, fees assessed against public pensions have increased by 30%.

4 National League of Cities. City Fiscal Conditions in 2014 Report. Washington, DC: NLC, 2014.

Pension reform requires complex solutions negotiated with multiple stakeholders. How can cities get their balance sheets back on track and reduce the widening gap between assets and unfunded pension liabilities? Mennis argues that there is no panacea to the problem of unfunded pensions. But while there may not be a one size fits all approach, the first step to reform is for cities to simply pay their bills. Mennis suggests using two priorities as a guide: fiscal sustainability and retirement security. Achieving sustainability requires cities to deliver on their funding commitments, manage investment risk and fees, and follow sound investment and reporting practices. To help employees achieve retirement security, cities must set targets for sufficient contributions and savings, invest in professionally managed pooled investments with low fees and sound asset allocations, and provide access to annuitization in retirement.

There is no one size fits all approach to benefit design. Nationally, local governments are opting for a variety of approaches to the underlying plan models, from variations on defined benefits to hybrids that include elements of defined benefit and defined contribution components.

The rewards extend beyond retirement security to lower borrowing costs. With increased investor emphasis on unfunded liabilities, cities that take steps to right the financial ship are being rewarded in the market. Credit ratings and interest rates are both closely tied to fiscal soundness. Woefully underfunded annual required contributions (ARCs) are a "canary in the coal mine" from an investor's perspective, and should be a priority for cities looking to restore their reputations in the market.

PEW

Plan Type Definitions

- **Defined Benefit Plan (DB):** traditional pension plan with a fixed retirement income benefit based on age, years of services, and worker's salary
- **Defined Contribution Plan (DC):** 401(k)-style plans with retirement benefits based on accumulated employer and employee contributions, and returns on those investments
- **Hybrid Plan:** combines elements of DB and DC plans
  - Stacked Hybrid: DB plan is the primary benefit up to specified income level, then DC covers additional higher income for employees above the threshold
  - Side-by-Side Hybrid: All employees get both smaller DB and a DC benefit that each apply to their entire salary
- **Cash Balance Plan (CB):** portable, pooled, professionally-managed pension plan with a guaranteed minimum annual investment return

Source: Mennis, G. "The State of Public Sector Retirement Systems" presentation, Fiscal Leadership and the Modern City Conference, Boston University, April 27, 2015

PROVIDENCE: Lessons on Pension Reform via "Shared Sacrifice"

When **Angel Taveras** took the stage as Mayor of Providence in 2011, he walked into a city that faced a projected structural deficit of $110 million. The result of myriad factors, including drastic cuts in state aid, decreases in city revenues, small increases in tax revenues due to the downturn and housing crisis, a significant proportion of tax-exempt property, and many one-time fixes over the years. Additionally, in 1989, the Providence retirement board approved a 6% guaranteed cost of living adjustment (COLA) and reduced the minimum years of service requirement. Pensioners were also able to collect benefits at any age. As a result, the pension plan was only 32% funded and faced an unfunded liability of more than $900 million.

Solving the Providence Pension Crisis:

- Permanently eliminated 5% and 6% compounded COLAs.
- Suspended all other COLAs for 10 years, after which reinstatement is only available to retirees earning less than a new pension cap. COLAs end once the cap is reached.
- Capped pensions ensuring that a retiree cannot make more than someone of the same rank working in Providence today.
- Adjusted the pension calculation to be based on four highest paid years of service, rather than three.
- Required pension contributions for as long as employees are earning credit.
- Accidental disability calculations based on 66 2/3rd of employees' final salary.
- New carrots included one-time payment of $1,500 in 2017 and again in 2020 for those receiving less than $100,000.

Beyond pension reforms, Taveras asked everyone to give something—taxpayers, nonprofits, current and past workers. This "shared sacrifice" approach involved: cutting the Mayor's office and municipal budgets; closing five schools; renegotiating labor contracts with firefighters, teachers, police and other unions; increasing fees and taxes, including parking rates and enforcement, dumpster fees, residential and commercial property taxes; a vehicle excise tax; and initiating negotiations for PILOTs for tax exempt property.

The result? By seeking wholesale change rather than adjustments around the margins, Taveras reduced unfunded liabilities by $186 million, reduced healthcare costs by 25%, reduced OPEB liability by $180 million, and avoided bankruptcy. But this wasn't without pushback from citizens. "The problem was that things had been promised in the past that can't be delivered," Taveras said. "And people had a right to be angry. This is very personal." But as Taveras relayed to conference attendees and to his constituents, "I could only guarantee that if we do nothing it will be worse."

> ***"Pension reform should not be seen in a vacuum. You need to look at it in terms of what's going overall in cities and in states because its usually part of a bigger problem."***
>
> — Angel Taveras, Mayor of Providence, RI 2011-2015

PANEL 3: MANAGING HEALTH CARE COSTS FOR PAST AND PRESENT PUBLIC SERVANTS

Panelists: *David Sweeney, Chief Financial Officer, City of Boston, MA; David Rosenbloom, Chair and Professor, Health Policy and Management, Boston University School of Public Health; Robert Pozen, Senior Lecturer, Harvard Business School and Senior Fellow, Brookings Institute; Carolyn Ryan, Assistant Director of Policy & Research, Massachusetts Taxpayers Foundation*
Moderator: Randall Ellis, Professor of Economics, Boston University

Health care costs for civil servants continue to soar. David Sweeney, Chief Financial Officer for the City of Boston, reported that health insurance costs are expected to see cumulative increases of 141% between FY 2001 and FY 2016, compared to a 66% increase in other city costs. Health insurance now accounts for 10.4% of the Boston City budget, up from 7.1% in 2001. Why is the growth of health insurance costs far outpacing other city costs, particularly in the past three years? Sweeney believes the reason lies among a combination of factors brought on by the recession of 2008 and the tools cities were given by their respective states.

The municipal workforce looks different than the general workforce. Higher costs are, to some degree, inevitable. David Rosenbloom, Chair and Professor, Health Policy & Management at the Boston University School of Public Health pointed out that municipal employees are, in his words, a terrible risk group. Relative to average American workers, municipal employees tend to be older, have longer employment durations and low turnover rates, work in riskier occupations, be more modestly paid, and have more dependents. Because municipalities are not in control of so many of the variables driving health care costs, there are limits as to what they can do. Although some cities have begun to address the problem, shifting costs to the workers is not the same as cutting the costs of health care.

Rosenbloom suggests that cities have a variety of options, with varying levels of political and moral attractiveness, including:

- Raise deductibles, which raises the premium and shifts the risk to the employee;
- Raise copays, which reduces utilization in the short-term, but not in ways that help the overall population in the long-term;
- Attempt to get into a larger risk pool and reduce risk over a longer period of time, including shifting responsibility to a younger workforce;
- Promote wellness programs, although there is little evidence that this works; and
- Provide incentives to employees to enroll in lower priced networks. However, if these networks do not control utilization, the municipality runs the risk of the total expenses going up despite lower price per units.

Cities are forging ahead with reforms. Boston is taking advantage of the new flexibility provided by the state.

- *Municipal Health Reform Law:* The reform, approved by the Commonwealth of Massachusetts in 2011, increased the flexibility to negotiate health insurance changes with labor unions while also allowing municipalities to join the state's group insurance commission, requiring employees to pay a much larger share of healthcare costs. This reform was in recognition of the 37% unrestricted federal aid cut.

- *Public Employee Committee (PEC) Agreement:* This recent agreement is projected to save $59 million over the next four years, as a result of a 2.5% employee premium share increase as well as copay increases for a variety of medical services.

- *Other savings initiatives:* Cities instated various savings initiatives in an effort to mitigate cost growth, including the elimination of the most expensive medical plan, self-funding for the majority of plans, implementation of limited wellness program, and achieving administrative savings through dependent eligibility audits.

However, despite these positive efforts, health insurance pressure still remains. The City of Boston is trying to be creative by building in provisions that include excising the Cadillac Tax, reducing the number of plans by 50%, and bidding on Medicare plans.

The Cadillac Tax would apply in 2018 to a family of four with premiums that exceed $27,500, and the majority of plans that exceed that amount are public — either city or state. Carolyn Ryan, Assistant Director of Policy and Research at the Massachusetts Taxpayers Foundation, acknowledges disagreement on whether or not the Cadillac Tax will become a reality, but that cities need to plan as though it will. Ryan offered the following additional suggestions on how cities can begin to address healthcare challenges:

- Engage and educate employees on healthcare costs;
- Take action now on the Cadillac Tax;
- Account for the full cost of compensation;
- Increase transparency; and
- Increase cities' reliance on and understanding of healthcare data

"If you want to build something, you need to pay for it. Bottom line."

— Congressman Michael E. Capuano

Some speakers argued that the Cadillac Tax threat is more associated with the health risk of the employees rather than the plan design. Because the tax is based more on total cost rather than actuarial value, changing the plan design may not actually affect the total cost since the risk factors of the group — already noted as higher for municipal employees — remain the same regardless of the tax's plan. And while the Municipal Health Reform Law saved money initially, the costs are coming back.

Last, but no less urgent, unfunded health care liabilities have grown to staggering proportions in recent years. As Robert Pozen, Senior Lecturer at the Harvard Business School explains, unsustainable "pay as you go" funding models and limited transparency into the true scale of unfunded other post-employment benefit (OPEB) liabilities have created a looming crisis. Retiree health care makes up the vast majority of these unfunded liabilities. Unlike pensions, OPEBs are not required to be funded in advance and are not included as liabilities on balance sheets. They tend to be financed from current revenues. There are now proposals to have a standard discount rate and to include them on public balance sheets. Unlike pensions, retiree health care benefits are eligible for future negotiations, rather than treated as contracts. This translates to greater flexibility for cities to alter expensive benefits, but it also suggests greater uncertainty for municipal workers anticipating a certain level of benefit in retirement.

PANEL 4: REVITALIZING AMERICA'S AGING URBAN INFRASTRUCTURE

Panelists: *Mayor Anthony Williams, Former Mayor of Washington, D.C., and CEO and Executive Director, Federal City Council; Patrick Sabol, Senior Policy/Research Assistant, Metropolitan Policy Program, Brookings Institute; Brian Pallasch, Managing Director for Government Relations and Infrastructure Initiatives, American Society of Civil Engineers*
Moderator: *Anthony Flint, Fellow and Director of Public Affairs, Lincoln Institute of Land Policy*

Across the U.S., cities are struggling to maintain crumbling infrastructure and invest in critical upgrades. Every four years, civil engineers throughout the U.S. conduct a comprehensive assessment of the nation's major infrastructure categories and assign grades based on: capacity, condition, operations and maintenance, funding, future need, public safety, resilience, and innovation. In 2013, the U.S. received a D+ on its national infrastructure report card due to underinvestment and delayed maintenance, with inland waterways and levees earning the lowest marks. [Click here for the full report card.][5] In order to achieve a B grade by 2020, the U.S. will have to invest $3.6 trillion across 16 infrastructure sectors from water and wastewater to roads and parks.

Federal funding is unreliable and inadequate, but critical. Infrastructure spending in the U.S. is decreasing relative to other countries, with the severe underfunding of the Federal Highway Trust Fund providing just one illustration of the gross inadequacies of federal support for domestic infrastructure in America. According to the World Economic Forum, the U.S. infrastructure has fallen in rank from 7th to 14th in the world since 2008. According to Patrick Sabol of Brookings, the optimal infrastructure investment totals 4% of a nation's GDP. The U.S. is currently spending just 2% compared to 8% in China. However, as many speakers noted, local financing, no matter how innovative, can never take the place of federal funding.

> ***"If the stagecoach isn't coming, you've got to start walking. Mayors can't wait for the Feds."***
>
> — Anthony Williams, Former Mayor of Washington, D.C

Traditional state and local funding mechanisms remain helpful complements, with a healthy bond market and strong voter support for transportation upgrades. Sabol noted that since 2008, 21 states have approved a gas tax increase and 25 cities have passed transportation ballot measures. In 2014, 69% of transportation-related ballot measures were successful. As he noted, "voters do say yes, regardless of the political environment." Research suggests that constituents are more willing to support tax increases for projects they can both see and conceptually understand.

Cities are experimenting with new financial and investment models, from public private partnerships to infrastructure exchanges. Mayor Rahm Emanuel, Mayor of Chicago, initiated the Chicago Infrastructure Trust as a way to forge smart deals that save the city money and free up bonding capacity for other needs, such as parks. A recent successful project engaged Siemens as a partner in overhauling the energy efficiency of Chicago pools. At the conference, Mayor Williams issued a call to reenergize regionalization, suggesting that with the resurgence and renewed prosperity of cities, "our negotiating position with surrounding suburbs is getting stronger."

But some caution is necessary to avoid creating a new class of legacy costs. As Brian Pallasch of the American Society Civil engineers noted, cities need to be evaluating the total cost of a project, including maintenance costs, resiliency under stress and the total life span of the infrastructure, rather than electing to take the lowest bid. The National Infrastructure Bank may become a cautionary tale, as cities borrow with today's needs in mind without regard to the needs of tomorrow. Contemporary infrastructure projects are being built using future federal funds, and the money that is showing on cities' balance sheets today is for projects that have already been completed.

All cities must weigh the cost of investing in new projects with the cost of maintaining infrastructure that's already in place. As Pallasch noted, the Washington, D.C. Metro, "is investing in expansion while the escalators are broken." An inherent tension exists between expansion and maintenance, and politics is no small part of the problem. Pallasch also noted that, "most members of Congress don't go to ribbon cuttings for a repaving job." After experiencing catastrophic winter storms in 2015, the City of Boston is faced with contention over continuing to extend train lines to underserved neighborhoods or investing in fixing the lines and cars that already service the city.

5 American Society of Civil Engineers, 2013 Report Card for America's Infrastructure, 2013. Retrieved from: http://www.infrastructurereportcard.org/a/ - p/home

CONFERENCE DAY 2: APRIL 28, 2015

Cities are caught between appeasing stakeholders' needs and ensuring a sustainable balance sheet. Cities struggle to find a balancing act between collecting taxes and promoting the city as an attractive place to do business. To fight off fiscal crises, many cities have experimented with creative recurring revenue innovations, from payments in lieu of taxes to a gas tax. The second day of the conference was devoted to examining the political viability and permanency of alternative means of revenue generation.

PANEL 5: CAN CITIES RAISE TAXES?

Panelists: *Mayor Kimberley Driscoll, Mayor of Salem, MA; Vladimir Kogan, Assistant Professor of Political Science, Ohio State University; Enid Slack, Director, Institute on Municipal Finance and Governance, Munk School of Global Affairs, University of Toronto; Justin Balik, Manager of Public Policy and Government Affairs, A Better City*
Moderator: *Alan Feld, Professor, Boston University School of Law*

With year-over-year declines in state and federal financial support, cities are becoming increasingly dependent on local revenue sources. This panel sought to answer a critical question — when and why do voters support local tax increases?

Many cities are limited in their revenue-raising options by state statute. Local tax and expenditure limits, known as TELs, are widespread, with most states enacting some form of limits to mitigate local tax increases. Massachusetts Proposition 2 ½ (Prop 2 ½), which creates a 2.5 percentage point ceiling on local property tax levies and limits annual increases to 2.5%, is just one example. One common feature, used by many cities including those in Massachusetts, is the voter override provision, which permits increases above established limits provided residents vote in support.

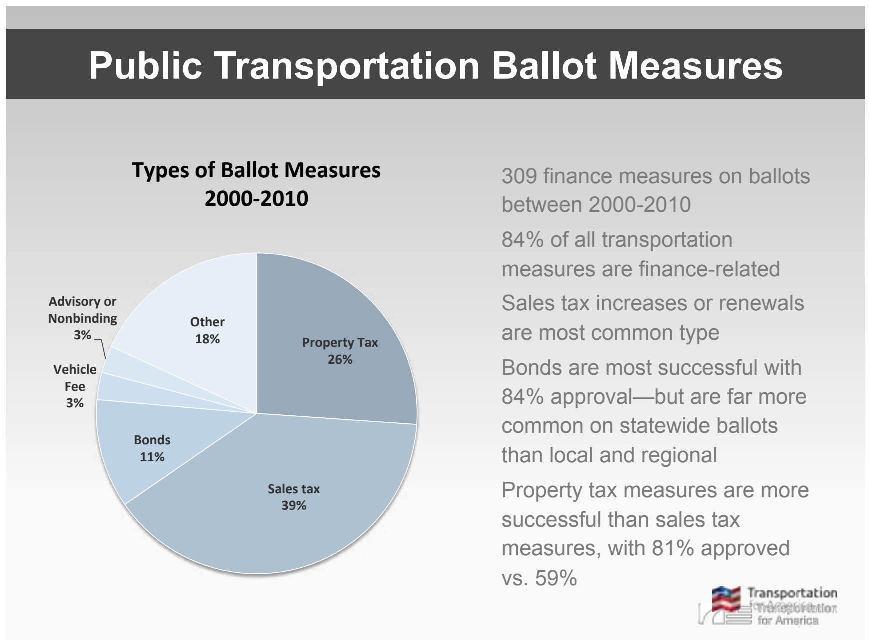
Voters tend to approve tax increases for highly salient services, including education. In his recent research assessing hundreds of local education ballot initiatives and the associated impact on school spending, Ohio State University Assistant Professor Vladimir Kogan determined that voters would reject tax increases even if the rejection results in lower quality services. However, school districts facing shortfalls following rejected ballot initiatives tend to cut highly visible services, deferring necessary maintenance on facilities, cutting bus service, and reducing spending on teachers and student counselors. In contrast, "back office" administrative and staff expenditures — which are less visible to constituents — don't diminish. And once residents experience direct, highly salient impacts to service quality, they ultimately approve the increase taxes the next time they are on the ballot.

Transportation is also a highly salient service where voters are likely to support ballot measures. According to Justin Balik from the transportation advocacy network A Better City, transit funding over the last 15 years has increased from roughly $22 billion to nearly $55 billion, with local funding representing a steady, dominant share of total investment. Constituents continue to see the value of increased transportation investment, and overwhelmingly vote in favor of transportation ballot measures, including those which have a direct impact on their tax liability. Transportation measures garner a 70% approval rate, twice the success rate of all ballot measures, and are generally successful across regions, populations, and party lines.

Income and sales tax increases are generally more politically feasible than property tax increases, but more distortionary and difficult to collect. Enid Slack, Director of the Institute on Municipal Finance and Governance at the University of Toronto, observed that although property taxes are politically difficult to increase, they are the economically favorable option for local governments. The tax is easy to collect and does not alter peoples' behavior in the same way increasing income and sales tax would. However, because residents see the exact amount they pay in property tax in a lump sum (unlike income and sales tax where people either don't know or don't track how much they pay), aversion to property tax is generally high. The general perception of property taxes as regressive and based on presumptive, imposed valuations, adds fuel to the fire. However, as previously noted, when tax increases are linked to impacts that have high-perceived value, voters will embrace them. The challenge for city officials is to link property tax to broader reform and connect tax expenditures to tangible results, as with ballot efforts designed around education, transportation, or parks.

Voters do not make the connection between municipal spending and service quality. Voters generally believe that by eliminating waste and inefficiencies, government can reduce deficits. In a 2009 field poll, 57% of residents believed that the State of California could overcome $20–25 billion in budget shortfalls just through greater efficiency. Kogan explained that voters generally are not adept at understanding how much funding can be cut without harming service levels.

PUBLIC TRANSPORTATION BALLOT MEASURES



Source: Balik, J. "Local Funding for Transportation" presentation, Fiscal Leadership and the Modern City Conference, Boston University, April 27, 2015

> ***"Raising taxes is like plucking the feathers off a goose with the least amount of hissing. How do we help our cities with the least amount of hissing?"***
>
> — Alan Feld, Professor at Boston University School of Law

SALEM: Lessons on Partnership and Creative Revenue

Salem, MA, has a population of 44,000, one state university, a leading museum, a large healthcare institution, and an operating budget of $145 million. At present, 55-60% of revenues come from property taxes, 25% from the state, and 20% from fees and other sources. Property tax increases are limited by Prop 2 ½, so the city needs $1 million in new revenue growth each year to cover rising costs. Where is the money going to come from? New unfunded mandates like storm water regulations and inadequate infrastructure investment also translate to costs that are difficult to anticipate. **Salem Mayor Kimberley Driscoll** suggests that city leaders focus on some key areas:

1. Is the current partnership between city and state fair and equitable? Cities are not without leverage, both in the distribution of federal funds doled out at the state level and the allocation of state funds. Regional partnerships among mayors can also carry more weight, particularly when they translate to alignment among legislative delegates and greater leverage in state lobbying efforts.

2. Are there creative ways to bring in revenue on your own? Salem opted to put a 'Community Preservation Act' surcharge before voters that, if passed, would add $40 to each residents' property tax to support city parks, historic landmarks, and affordable housing. The act failed initially, but passed the second time and Salem now has an addition $750,000 to spend each year. Massachusetts also passed enabling legislation to allow communities to pass meals and hotel taxes, which provide individual communities with autonomy to raise local revenue.

"It takes an awful long time to get the point where we have the tools and the toolbox [we] can use."

— Kimberley Driscoll, Mayor of Salem, MA

DETROIT: Lessons from a Comeback Story

On July 18, 2013, the City of Detroit filed the largest municipal bankruptcy in the history of the U.S. **Stacy Fox, Former Deputy Emergency Manager of Detroit,** summarized the factors that led to the Motor City's downward spiral. Revenues had decreased by 40% over the 50 years leading up to the city's bankruptcy, the result of shifting demographics and economic conditions. Underemployment was at 50%, the crime rate was five times the national average, police department manpower was down by 40%, and the city's infrastructure and services were degrading and in disarray. Legacy costs contributed to a deteriorating financial condition. On a given day, one-third of the buses never even left the station and police response time was five times what it should be. Adding to Detroit's challenges was the history of public corruption between the mayor and council president. Constituents had little to no trust in their municipal government leaders.

Detroit's fall is a well-known story. But, having achieved a sustainable balance sheet, a 98% occupancy ratio in apartments, and outside investment from New York City and Mexico, Detroit has become a model for municipal resiliency. Through a quickly mediated resolution with an aggressive timeline and new, trusted leadership under Mayor Mike Duggan, the city survived its bankruptcy period and actively engaged multiple stakeholders who were eager to realize a Detroit renaissance.

According to Fox, success after the Chapter 9 filing was predicated on a number of critical factors:

- Mediated Resolution: The bankruptcy case was resolved through mediation and was required to adhere to a strict timeline. As a result, the mediators brought everyone to the table quickly and all parties arrived at a resolution much faster than expected.
- Mayoral Election: A historic mayoral election brought Mayor Mike Duggan into office. He won the primary as a write-in candidate and went on to become the first white mayor of Detroit since the early 1970s. An attorney and businessman, Mayor Duggan had recently served as the CEO of the Detroit Medical Center.
- Court Ruling on Pensions: The City of Detroit succeeded with a ruling that bankruptcy trumped the constitutional law on pensions. Because of this over-riding decision, Detroit was able to address the city's pension debt.
- The Grand Bargain: With support in the form of nearly $1 billion from the State of Michigan, foundations and private donors, Detroit was able to avoid parceling off the Detroit Institute of Arts to help pay the city debt. In 1919, the Institute of Arts became a municipal department, tying the museum's assets to the city's unstable finances. Under the terms of the Bargain, it was granted independence from the city, and in return committed to infuse millions in new funds to shore up municipal pensions.
- Pensioner Vote: Individual municipal retirees and workers voted to accept dramatic reductions in their pensions and lower future cost of living increases in exchange for the direct contributions enabled by the Grand Bargain.

But despite the success story, Fox commented that "If it's easy, it's not Detroit," and the city still has its challenges. Detroit remains one of the only cities to still control its public bus system. Some recent efforts to improve tax and fee collection rates, including a controversial plan to turn off water service to delinquent households, have met with resistance. In order to continue to stay on track, the City needs to address its outsourcing, organizational restructuring, and continued population decline, while working to thoughtfully engage with local communities.

PANEL 6: THE SEARCH FOR NEW MONEY

Panelists: *Daphne Kenyon, Fellow, Lincoln Institute of Land Policy; Ron Rakow, Commissioner, Department of Assessing, City of Boston, MA; Katherine Levine Einstein, Assistant Professor of Political Science, Boston University; Andrew Kleine, Budget Director, City of Baltimore, MD*
Moderator: *Sam Tyler, President, Boston Municipal Research Bureau*

Many cities are experimenting with innovative means of generating recurring revenue. From payment in lieu of taxes (PILOTs) programs to new taxes (including: bed tax, taxi tax, beverage container tax, and billboard tax) cities are experimenting with new options and looking to share best practices in the search for viable and long-term revenue innovations. Katherine Levine Einstein, Assistant Professor of Political Science at Boston University, spoke of the Initiative on Cities research report which she co-authored, "Mayoral Policy-Making: Results from the 21st Century Mayors Survey,"[6] that surveyed mayors from cities of all sizes and compiled policy ideas for city leaders to use as best practice case studies. As cities continue to experiment with revenue innovations, sharing best practices and successful models will become increasingly important.

PILOTs offer an attractive prospective revenue source for cities with considerable tax-exempt properties, but require buy-in from key stakeholders given their voluntary nature. In an attempt to capture some lost revenue and reduce the burden on taxpayers, many cities have been experimenting with PILOTs. These voluntary payments are made to municipal governments by tax-exempt nonprofit organizations, chiefly medical and educational institutions, or "eds and meds," as a substitute for property taxes. Daphne Kenyon, Fellow at the Lincoln Institute of Land Policy, reported that 218 localities in 28 states have received PILOT payments since 2000 and that all payments are collectively worth more than $92 million per year. It remains a regional remedy that hasn't taken hold nationwide, as 80% of localities that collect PILOTs are in the Northeast. Advocates for PILOTs argue that they represent a significant revenue source for cities and that nonprofits ought to pay for the public services they consume, including snow plowing, police, and fire. Opponents worry that this revenue innovation may cause nonprofits to raise fees or cut services. Another concern is that PILOTs provide a limited and potentially unreliable revenue source, one that lacks an established system to ensure that organizations are fairly assessed and pay equitably. Some states also preclude municipalities from collecting voluntary payments from tax-exempt institutions.

> ***"Boston University views its participation [in PILOTs] as enlightened self interest toward a vibrant, thriving city."***
>
> — Dr. Robert Brown, President of Boston University

PILOTs are just one way in which cities are modernizing their revenue structures. Andrew Kleine, Budget Director for the City of Baltimore, shared their efforts to create new reliable, recurring revenue streams and highlighted some of the political, legal, and enforcement limitations that can hinder such efforts. As Kleine noted, the city tax structure remains predicated on a local (rather than regional) economy and industries that no longer exist, with heavy reliance on property and resident income tax. "Eds and meds" drive today's economy, while tourism, entertainment, sports, and professional jobs are chiefly held by commuters. Meanwhile, the state precludes the city from instituting new sales taxes or taxing the income of commuters, and nonprofits like "eds and meds" are tax exempt, limiting traditional revenue streams and forcing cities to look for innovative mechanisms to generate new recurring revenue. In an effort to capture new contributions from its tax-exempt institutions, Baltimore proposed a $1 per day bed tax in 2010. The proposed tax was used as the foundation for negotiations with its 16 "eds and meds" institutions, which resulted in a six-year voluntary payment agreement. The city is currently in negotiations to renew the agreement, using a more systematic approach akin to Boston's. The city reintroduced a beverage container tax, with community support, and recently raised it from two to five cents to

6 Einstein, K. Levine, D. Glick, K. Lusk. (2014, October). Mayoral Policy Making: Results from the 21st Century Mayors Leadership Survey. Boston University Initiative on Cities. Retrieved from: http://www.bu.edu/ioc/files/2015/01/BUIOC_Mayors-Leadership-Survey_2014.pdf

support a new bond issue dedicated to modernizing city schools. They also instituted a taxi tax of 25 cents per passenger, but collections and enforcement remain low. In 2013, the City of Baltimore imposed a tax on billboard advertisements that were installed within city limits. However, the leading owner of billboards claimed the tax was a violation of the First Amendment and has sued the city. While the jury is still out on which tax ideas will become long-term solutions, the need for innovative policy initiatives is clear. Kleine also advises that before cities raise taxes, local governments should work harder to track existing tax collections and ensure that all money that is owed to a city is accurately gathered from residents.

Regressivity remains a key concern and some cities are taking efforts to design more progressive structures. In the interest of progressivity, Boston introduced differential tax rates for business (3%) and residents (1.5%). The city also provides a residential exemption for anyone who owns and occupies their property, offered as a 30% reduction off of the average assessed value. This also allows Boston to have a highly competitive tax rate relative to its surrounding communities. Maryland doesn't permit municipalities to have differential tax rates for business and residential properties, but Baltimore felt such an approach would encourage population growth. In lieu of that flexibility, they instituted a homeowner tax credit that lowers the effective cost of homeownership within city limits. As part of their 10 year plan, Baltimore is also anticipating a shift to a "pay as you throw" model for trash collection, offset by reductions in property taxes.

BOSTON: Lessons on Building a Successful PILOT Program

Boston is an educational and medical hub, with 30 colleges and universities and 25 nonprofits hospitals. Eight of Boston's 10 largest employers are not-for-profits. According to Ron Rakow, Commissioner of Assessing for the City of Boston, 52% of organizations in Boston are tax-exempt. If these institutions were taxed, they would owe $348 million, representing half of the city's commercial tax base. Not only does Boston not receive over half of its potential commercial tax revenue, but the costs of providing municipal services to these tax exempt entities falls on the shoulders of Boston taxpayers. The city is heavily reliant on property tax revenue, with two-thirds of its recurring revenue derived from taxes assessed on residential and commercial property owners.

Prior to 2012, Boston did have a voluntary system for PILOT payments, but saw a considerable imbalance in participation rates and contributions. PILOT agreements were signed when a nonprofit entity sought to expand its footprint through acquisitions or redevelopment, which led to dramatic inconsistencies. In 2010, then-Mayor Tom Menino convened a task force of key stakeholders, including nonprofit, business, and community leaders, to undertake an exhaustive two-year planning process. Together, they agreed on a threshold for PILOT participation and set assessment rates.

Under the new agreement, nonprofits owning tax-exempt land valued in excess of $15 million are asked to make voluntary contributions benchmarked to 25% of what the property would generate if it were taxable. The 25% threshold is based on the portion of the city's budget allocated to essential city services, including snow removal, trash, police, and fire. In an effort to engage more organizations and realizing that many nonprofits prefer to contribute services rather than cash, Boston allows institutions to receive credit for up to 50% of PILOT payments for the provision of services that benefit the community. This aspect of the program remains an inexact science, and the City is now working toward a matching model that seeks to marry specific city needs with specific services that are compatible with the mission and capacities of the respective institutions. As an example, Rakow noted that Boston is in discussions with the Berklee School of Music to determine how they might fill gaps in music education in Boston Public Schools.

By many standards, the new system has been a success. Total "payments" inclusive of community credits, increased from $14.6 million in FY '10 to $70.2 million in FY '14. However, between FY '12 and FY '14, total participation rates for cash contributions fell from just over 90% to just under 75%. Nevertheless, as a voluntary program that generates considerable revenue for the city's operating expenses, it is a participation rate many would envy. Additional changes may be forthcoming, as the city works to accommodate the differential economic models of institutions like museums relative to hospitals.

PANEL 7: THE EFFICIENT CITY

Panelists: *Michael Ward, Director of Municipal Services, Edward J. Collins, Jr. Center for Public Management at the University of Massachusetts–Boston; Dean Kaplan, Managing Director, Public Financial Management; Yolanda K. Kodrzycki, Vice President and Director, New England Public Policy Center, Federal Reserve Bank of Boston; Shelley Metzenbaum, President, The Volcker Alliance*

Moderator: *Kristen McCormack, Assistant Dean, Sector Initiatives and Faculty Director of the Institute for Nonprofit Management and Leadership, Boston University Questrom School of Business*

Many opportunities to improve operational efficiency do not require expensive technological innovations, but rather come from focusing on the fundamentals such as inventory management, payroll processing, and staffing. Michael Ward, Director of Municipal Services at the Edward J. Collins, Jr. Center for Public Management, works with 31 cities and towns throughout Massachusetts. He encourages cities to institute inventory management systems that detail investments in maintenance, identify when inspections are needed, and match inventory to insurance payments. One community started with a simple spreadsheet, tracking VIN numbers, vehicle age and inspections, and swiftly discovered that the vast majority of their vehicles hadn't been inspected in years and they were paying insurance for some that had long been retired. Tracking maintenance hours and dollars also helps cities to determine when vehicles have reached the tipping point where maintenance exceeds the cost of a new vehicle. Payroll processing is another arena where a new system can help minimize waste and reduce human error. Many smaller cities and towns continue to rely on paper and people, rather than enlisting an outside vendor or instituting a modern payroll system.

Cross-department and cross-municipality comparisons also afford opportunities to identify waste. Focusing on the largest staff and vehicle expenditures, such as police, fire, and public works are optimal starting points. Shelley Metzenbaum, President of The Volcker Alliance, recommends close examination of where the people and the money are going, and searching for patterns and anomalies. To highlight the value of this approach, Ward relayed a story about an unusual staffing model in one mid-sized Massachusetts city. Through collective bargaining, police officers were relieved of any obligations to pump their own gas, so the public works department provided a staff member 24 hours per day, seven days per week, 365 days per year in the event that a police officer would need to refuel a vehicle. It was only by comparing their staffing practices to those of neighboring communities that the mayor learned of this costly anomaly. Many cities report overtime and sick time as two places where they find anomalies or abuse. With the proper systems and data tracking in place, these become easier to unearth. Efficiencies need not exclusively focus on government services, but also on government process. As one attendee noted, it's important for cities to examine, for example, how many days it takes to permit a new business. Business permitting ultimately generates new revenue for cities and makes them more attractive places in which to operate.

Regionalization of services can provide efficiencies, but may only be politically feasible in select circumstances. Many speakers noted the opportunity to explore regionalization of municipal services. Yolanda Kodrzycki, Vice President and Director of New England Public Policy Center, shared her analysis that if Massachusetts consolidated its 268 emergency call centers and backroom operations to just 14, they would net 50% savings on call center spending. A similar analysis for the State of Connecticut reached the same conclusion. Similar instances, where there are clear economies of scale and the services are more back-office in nature, might make consolidation more politically palatable. Many southern cities already benefit from the costs efficiencies of regionalized services, as they operate under strong county government systems.

Efficiencies will only be achieved when there is the political will to ask critical questions, the data necessary for well-informed answers, and a shared commitment among multiple stakeholders. Ultimately, local leaders need to be willing to take the heat for tough decisions. They can minimize fallout for hard fiscal decisions by capitalizing on crises and by enlisting key stakeholders in the process. As Andrew Kleine of Baltimore noted, rather than vilifying individual departments, they have successfully implemented the LEAN government approach. It enlists department staff to help map processes and identify inefficiencies. In Baltimore's case, it has been successful at identifying waste while improving morale and customer service. Speakers also noted that crises often present opportunities to explore new avenues for efficiencies, as they may stimulate a greater willingness to compromise. But as Dean Kaplan of Public Financial Management suggested, not all cities seized the opportunity presented by the recent financial crisis, instead wasting the chance to revisit agreements issued in flush times. With or without a crisis, municipal leaders can't expect to win every negotiation. Nevertheless, having the data and a sense of where inefficiencies lie ensures they know what to fight for.

PANEL 8: FINANCING THE MODERN CITY

Panelists: *Mayor Stephen Benjamin, Mayor of Columbia, SC and Chair, Municipal Bonds for America; Meredith Weenick, Former Chief Financial Officer, City of Boston and Vice President, Harvard University; June Matte, Managing Director, Public Financial Management; Thomas H. Green, Managing Director and Head, Infrastructure Group, Citi U.S. Public Finance*
Moderator: *Mark Funkhouser, Publisher, GOVERNING Magazine and Former Mayor of Kansas City, MO*

Fiscal decisions must be undergirded by the principle of intergenerational equity. Meredith Weenick, Former Chief Financial Officer for the City of Boston, reflected on the key priorities of her boss, former Boston Mayor Tom Menino, who often said that he refused to "mortgage the city's future." Weenick believes that cities ought to be guided by that core principle, making sound financial decisions and reaching sustainable agreements that are in the best interest of both current and future residents. As she and fellow speakers reinforced, every city leader needs to begin by asking a series of key questions:

- What are we in the business of doing and what businesses should we get out of?
- How do we maximize the tools available to support and provide for those services?
- How can we maximize investment in the city's future?
- How do we leave room for innovation to drive effectiveness?

What are the core, critical functions of municipal governments? As many speakers noted, constituents take many municipal services for granted. They expect their garbage to be picked up, snow cleared swiftly, and streets kept safe. Municipal pensions, retiree health benefits and infrastructure are costly and ultimately not core services that fulfill on constituent expectations, but are still key enabling costs that make everything else possible. As a speaker from an earlier panel quipped — if you've got a municipal golf course, get rid of it.

How do we maximize the tools available and mitigate costs associated with financing those services? Capital markets want to invest in well-run cities, and cities and city leaders have a responsibility to taxpayers to render themselves an attractive investment. In order to be a good leader, a mayor cannot simply hand ideas to the city finance department, but instead needs to partner and collaborate with the CFO in order to ensure a sustainable operating budget and achievable capital investments. Responsible employee obligations are also requisite for responsible leaders. OPEB is a bellwether

"To be an effective leader, you can't just think up good ideas and hand the bill to your CFO. You have to work in partnership."

— Meredith Weenick, Former Chief Financial Officer, City of Boston for investors — if cities do not have a plan to fulfill on those obligations, they will be penalized in the bond market.

How can we maximize investment in the city's future? U.S. cities have a natural credit worthiness and enjoy a well-regulated marketplace in which to raise investment funds at low cost. Many speakers noted how critically important it is for cities to maximize borrowing to invest in infrastructure, so that those assets don't degrade to the point where they become even more costly. As one speaker noted, continued investment in the capital plan throughout an economic downturn will pay dividends in the future. If cities fall behind in infrastructure and capital investments, they will be poorly positioned when the market rebounds.

With continued investments in streets and sidewalks, lighting infrastructure, and roads, a city remains ready to receive private investment when the boom times come again. City officials and public finance employees should look at the entire toolbox available—public private partnerships, local bank loans, public bond markets, and crowdsourcing—in order to make strategic, long-term financial decisions. A number of speakers also noted that banks have been the largest net purchasers of municipal bonds and that there are particular incentives to motivate those purchases. By looking locally, many cities find local, smaller banks that have a lot of cash and are looking to put it to work in a credit-worthy investment. Receiving public financing from local banks not only helps further the city's growth, but can also be a great tool, as long as banks continue to be as cash-flush as they have been in recent years.

In addition to traditional avenues, cities must embrace innovation and experimentation. The more cities are able to be smart about executing within the means of available resources, the more latitude they will retain for innovation. Innovations can come in the form of PILOTs or public private partnerships, or from crowdsourcing technology services. Thomas Green, Managing Director and Head of the Infrastructure Group at Citi U.S. Public Finance, told the story of the $20 million capital investment that was needed for the Massachusetts Bay Transit Authority (MBTA) to leverage GPS locators on its trains. In the absence of available resources, the MBTA chose to make its data publically accessible in the hopes of crowdsourcing user applications that would improve customer service and transparency.

MAYORS: ON FISCAL LEADERSHIP

Strong leadership plays a critical role in cities' ability to manage financial responsibilities. Mayor Paul Soglin, now serving his eighth term in office as the Mayor of Madison, WI, commented that we are in an era of political opportunism, where there often exists a disconnect between reelection pressure and the long-term vision necessary to manage and finance a city. Mayor Soglin noted that voting often focuses on the hot topics of abortion, gun control, and gay marriage, rather than a city's fiscal responsibilities. However, turnarounds are possible when there is a focus on the wise expenditure of funds, faith in city leadership, and a mandate to bring about change.

Cities are the closest connection the government has to residents and, consequently, city leaders must be open communicators with the public. Voters do follow cues of political elites — voters who vote for a particular mayor will vote for something they defined and communicated as a key priority. Mayor Lisa Wong, Mayor of Fitchburg, MA, recommended that the best way to build strong leadership is by simply speaking with local residents and gaining an understanding of their challenges and needs. Mayor Wong explained that from her experiences, people want strong leadership and someone who is also willing stand up and take criticism for decisions made.

Trust is critical, particularly with regard to municipal finance; taxpayers need to feel their tax dollars are well managed and coming back to them in kind. When Mayor Dan Rivera, Mayor of Lawrence, MA, assumed office in 2009, his chief priority was to restore voter trust.[7] Mayor Rivera recognized the distance that existed between public officials and constituents, and worked hard to close the gap dedicating more time to constituent engagement and open communication of city priorities. Mayor Rivera also looked internally to enforce professionalism within the government and increase confidence in public officials. He sought to instill the notion that government needed to operate with the professional and service orientation of a business. He took on the title of CEO, enforced a more formal dress code, banned eating at meetings, and requested that municipal staff park farther away so that constituents had easier access to city offices.

> ***"Our role was to create an invitation to those who wanted to engage and improve their city."***
>
> — Mayor Lisa Wong, Mayor of Fitchburg, MA

Voters will support hard choices when they are made openly and honestly. In an attempt to reduce crime, Mayor Wong initially looked to increase the police force, but ultimately chose to reallocate funding to schools and wraparound services, along with mentorship and afterschool programs for youth. By cutting the police and fire departments by one-third, reducing library services by 75%, and turning off 75% of the streetlights, Mayor Wong was able to redistribute significant funding to educational services and youth investment. Mayor Wong presented the math: with $40,000, she could either fund half of the annual salary for another police staff member or reinstall three sports programs to four schools for four years. In choosing to reallocate funds, all while actively engaging her community in the decision process, Fitchburg saw crime rates go down and school test scores go up. And this is not a story Mayor Wong is looking to tell just in Fitchburg, but rather she hopes to take these frameworks and scale them up for larger cities to implement.

7 When campaigning, then-candidate Dan Rivera often heard the refrain that he had someone's vote because anyone was better than his predecessor. One-term Mayor William Lantigua faced a federal investigation while in office and two key allies were indicted on corruption charges during his term.

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The Initiative on Cities researches, promotes, and advances the adaptive urban leadership strategies and policies necessary to support cities as dynamic centers of growth and positive development in the 21st century. Founded by a proven urban leader, Former Mayor of Boston Thomas Menino, and a highly regarded academic, Professor Graham Wilson, the Initiative serves as a bridge between academic research and the real-life practice of city governance.

Initiative on Cities
Boston University
75 Bay State Road
Boston, MA 02215

www.bu.edu/ioc
@BUonCities
Initiative on Cities
617-358-8080
IOC@bu.edu

Graham Wilson,
Director

Katharine Lusk,
Executive Director

Conor LeBlanc,
Marketing and Communications Specialist

Patricia Cahill,
Administrative Assistant

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