

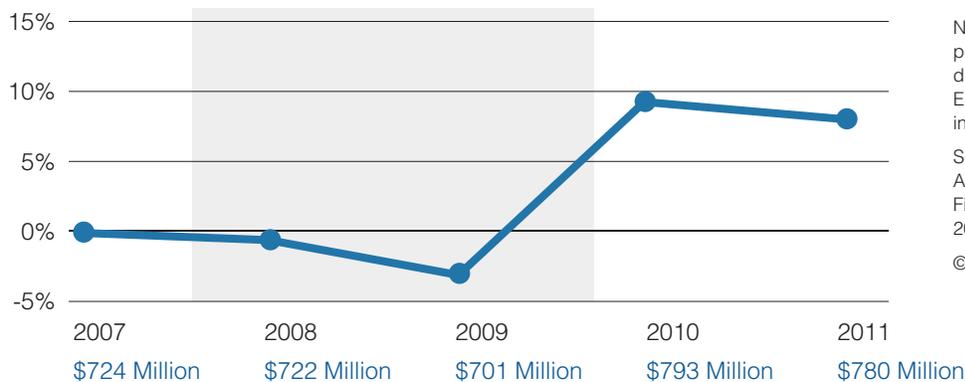
Atlanta

After revenue losses and deep cuts, Atlanta's property tax increase helped create a postrecession rebound

After bottoming out in 2009, Atlanta's revenue bounced back strongly in 2010, then dipped somewhat in 2011, a signal that problems remained two years after the end of the Great Recession. (See Figure 1.) An increase in property tax rates and growth in intergovernmental aid drove revenue to that 2010 high point; yet even as revenue grew, it was aggressive spending cuts that most helped the city cope with its fiscal woes and rebuild depleted reserves. Still, underfunded pension obligations and retiree health care promises pose continuing challenges, though a reform deal was reached with unions in 2011.¹

FIGURE 1

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

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Stark revenue declines between 2007 and 2009 drained reserves and led to deep cuts in public safety and services for residents

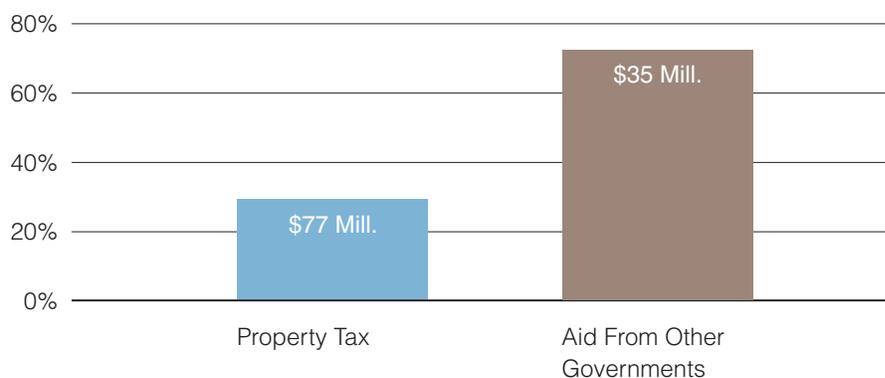
Between 2007 and 2009, Atlanta's total revenue declined \$24 million to its low point of \$701 million. Decreases in sales tax receipts, investment income, and license and permit fees offset gains in property tax collections. In response, the city drew down most of its \$99 million reserve fund—leaving just \$4 million, after adjusting for inflation—and cut spending. The city closed community centers and reduced public safety expenditures 14 percent.² In late 2008 and early 2009, police officers, firefighters, and other public workers endured furloughs that amounted to 10 percent pay cuts.³ In 2009, city officials continued to sharply reduce operating expenditures, and, faced with depleted reserves, increased property tax rates and fees.⁴

Property tax and intergovernmental aid were key drivers in a sharp revenue rebound, but concerns remain

In 2009, the City Council passed a 36 percent increase in the property tax rate,⁵ which led to revenue growth of \$77 million in 2010 despite declining property values and loss of productive properties because of foreclosures.⁶ (See Figure 2.) In addition, intergovernmental aid to the city, including funds from the American Recovery and Reinvestment Act, increased substantially between 2009 and 2010, from \$47 million to \$82 million, supplementing the rise in property tax revenue.⁷

FIGURE 2

Key Drivers of Change in Atlanta's Revenue, 2009-10



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

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In 2011, however, Atlanta's revenue growth waned, presenting another challenge for the city. Intergovernmental aid dipped \$21 million, and property tax revenue dropped \$14 million because of further declines in assessed values.⁸ Spending reductions, which began in 2009, continued in 2010 and 2011, with further cuts to general governmental services and public safety. Those decreases contributed to the city's ability to rebuild its reserves to \$81 million in 2011.⁹

Managing the future: Atlanta implemented pension changes to strengthen its long-term fiscal position

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

Atlanta's four defined-benefit pension plans had just 53 percent of the amount needed to cover \$4.1 billion in long-term commitments. In 2011, the city struck a deal with its unions that officials say will save

\$277 million over 10 years.¹⁰ The agreement requires current employees to pay a share of their contributions and creates a hybrid pension plan for new hires, among other changes. Atlanta also was one of 16 among the 30 studied that, as of 2010, had no funds set aside to pay for future retiree health care obligations.¹¹

The City Council also adopted an ordinance requiring five-year budgeting designed to stabilize the economy and improve long-term viability.¹²

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 Atlanta, *Comprehensive Annual Financial Report, for the Year Ended June 30, 2011* (2011), 165, <http://www.atlantaga.gov/modules/showdocument.aspx?documentid=2341>.

3 Scott Henry, "Atlanta Tax Hike Proposed to End Police Furloughs," *Creative Loafing Atlanta* (April 30, 2009), <http://clatl.com/freshloaf/archives/2009/04/30/atlanta-tax-hike-proposed-to-end-police-furloughs>; and Shaila Dewan, "A Slowdown That May Slow Us Down," *New York Times* (Feb. 28, 2009), <http://www.nytimes.com/2009/03/01/weekinreview/01dewan.html>.

4 Henry, "Atlanta Tax Hike Proposed to End Police Furloughs."

5 The property tax rate increased from \$8.80 per \$1,000 of valuation in 2009 to \$11.94 a year later.

6 The property tax rate is composed of the city's General Levy, Parks Levy, and City Bond Levy. Other components of Atlanta's Total Direct Tax Rate (School Levy and School Bond Levy) were not included and remained constant from 2009 to 2010. City of Atlanta, *Comprehensive Annual Financial Report, for the Year Ended June 30, 2011*, 148-149; and RealtyTrac, "More Than 1.2 Million Foreclosure Filings Reported in 2006" (Jan. 25, 2007), <http://www.realtytrac.com/content/press-releases/more-than-12-million-foreclosure-filings-reported-in-2006-2234>. The Atlanta property tax increase was enacted by the City Council in June 2009 by an 8-7 vote. There was no state involvement, and the matter did not go to the voters. Henry Unger, "Your Turn on Atlanta's Property-tax Increase," *Atlanta Journal-Constitution* (June 29, 2009), <http://blogs.ajc.com/business-beat/2009/06/29/your-turn-on-atlantas-property-tax-increase>.

7 City of Atlanta, *Comprehensive Annual Financial Report, for the Year Ended June 30, 2011*, 8, 145.

8 City of Atlanta, *Comprehensive Annual Financial Report, for the Year Ended June 30, 2011*, 7.

9 The Pew Charitable Trusts, American cities project, analysis of *Comprehensive Annual Financial Report, for the Year Ended June 30, 2011*.

10 Moody's Investors Service, "Moody's Affirms Aa2 Rating on the City of Atlanta's (GA) Outstanding General Obligation Debt; Outlook Revised to Stable from Negative" (2012), rating update, 4; and Jim Galloway, "The Deal Is Struck: Atlanta Pension Overhaul Agreement Reached," *Atlanta Journal-Constitution* (2011), <http://blogs.ajc.com/political-insider-jim-galloway/2011/06/23/the-deal-is-struck-atlanta-pension-overhaul-agreement-reached>.

11 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*, issue brief (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.

12 City of Atlanta, *Five Year Financial Plan* (Oct. 14, 2009), 10, <http://www.atlantaga.gov/modules/showdocument.aspx?documentid=3438>.