



Downtown Idea Exchange

Essential Information for Downtown Revitalization

August 2010

Perspectives

How deep will municipal services be cut? How can downtowns be spared?

By David Feehan

Many downtown organizations have created special assessment districts, commonly known as BIDs, to augment municipal services. Most of these districts entail a negotiated agreement with the city not to reduce services as a result of the augmented services provided by the BID. This agreement is called a Level of Service or LOS agreement. Property owners consider these agreements essential, because they prevent the municipality from unilaterally cutting services, in effect transferring city-provided services to the BID without compensation. However, many of these agreements also provide that the city can reduce services equitably throughout the city, if municipal budgets require service cuts.

Today, in cities big and small, and with or without BIDs, we are seeing mayors and city councils announcing deep cuts and outright elimination of services, not just in downtown but in neighborhoods as well. Cities are cutting maintenance of parks and landscaping, reducing police patrols, and cutting capital improvement projects. Many downtowns are currently feeling the impact of these cuts.

Compounding this problem is the proverbial elephant in the closet — municipal pension funds. Cities and states throughout the

U.S. with defined benefit retirement programs — and this includes most of these governmental entities — are finding they are woefully under-funded and are struggling with how to cope. In Pittsburgh, the mayor has proposed leasing the city's municipal parking system to a private company in order to fill a \$200 million gap in that city's pension fund.

According to a study by the Pew Charitable Trusts, "Every city for which figures were available reported a marked deterioration in its pension assets. In most cases, *that means cities have to shift money away from city services and into pension funds.* The cities' proportions of pension assets relative to obligations fell to a median of 64 percent in 2009 from a median 79 percent in 2008. (Actuaries generally consider 80 percent a safe minimum.) Seattle had the biggest decline, down 22 points to 64 percent. Pittsburgh's pension was in the worst shape with a 34 percent funded ratio. Los Angeles' was in the best shape at 90 percent. Philadelphia's ratio fell from 55 percent to 45 percent."

Downtowns throughout the U.S. have made remarkable progress in the past two

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This article was reprinted from the August 2010 issue of *Downtown Idea Exchange*.

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decades, after years of failed efforts and false starts in previous decades. This progress is now in jeopardy, as downtowns have to cope with a tough economy that is taking a toll on retail, restaurants, and office tenants. If city governments allow downtowns to once again deteriorate, they risk losing the one major revenue generator that sustains our cities. One obvious but painful answer is for municipalities and state governments to shift from defined benefit pension programs to 401(k) and 457 retirement programs. We can no longer afford the generous pension programs municipal workers have grown accustomed to.

Years ago, a Drake University economist studying municipal taxes and services in Des Moines, Iowa, found that the downtown generated \$19 in municipal tax revenues for

every \$1 in services downtown consumed. Most city managers and city finance directors I have asked have confirmed the thrust of this study — that downtowns are the economic engines that pull the city's train, providing surplus tax revenues that support good neighborhood services — good schools, police and fire protection, good parks and streets. Without healthy downtowns, cities simply will not be able to afford good services citywide.

Cities must find creative ways to maintain downtown services. Without healthy and vibrant downtowns, city governments will not have the funds, now and in the future, to take advantage of the recovery to come — and downtown organizations are not in a position to fill the gap.

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