
CHARLOTTE
BUDGET & EVALUATION

Surviving the Great Recession – Approaches
Used to Balance Local Government Budgets

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Overview

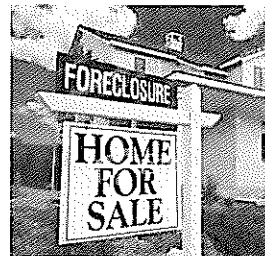
- Economic climate
- Example budget balancing approaches in local government
- Budget balancing activity:
 - How would your group balance the budget?

Economic Climate

- What is a recession?
 - Two or more consecutive quarters of economic contraction
 - Official determination made by Natl. Bureau of Economic Research (private, non-partisan research organization)
- Great Recession
 - Started: December 2007
 - Ended: June 2009
 - 18 months (longest and deepest since 1929-32)
- Recession is over, right!?!...Doesn't feel like it!

Economic Climate

- Causes of the Great Recession:
 - Housing market bubble (foreclosures)
 - Easy credit
 - Financial institution instability



Economic Climate

- Challenges to getting out of current "recession":
 - High unemployment
 - Slow to nonexistent consumer rebound
 - Continued high rate of home foreclosures

Economic Climate

- Wells Fargo Securities *Annual Economic Outlook 2011* (12/08/10)
 - Inflation will remain moderate
 - Moderate economic growth
 - Increases in personal income
 - Commercial and residential real estate will turn positive for first time since the beginning of the recession
 - "...the most arduous portion of our [economic recovery] journey [is] behind us."

Economic Climate

- Wells Fargo Securities *Annual Economic Outlook 2011* (12/08/10)
 - State and local government spending is expected to remain a drag on economic expansion throughout 2011
 - Federal assistance to state and local government has helped during past two years; however, less assistance is likely in future
 - Public pension retirement programs are one of the largest culprits of state and local structural budget problems

Economic Climate

- Wells Fargo Securities *Annual Economic Outlook 2011* (12/08/10)
 - Declining valuations for residential and commercial real estate will impact property tax revenue
 - 23% of homes are underwater in U.S.
 - High unemployment will constrain the improvement in property fundamentals for the next 12-18 months. In particular, office and retail properties are extremely oversupplied.

Economic Climate

- Mark Vitner and Anika Khan, Wells Fargo Securities,
Housing Data Wrap Up: December 2010
 - Expectations for 2011 increased due to:
 - Extension of Bush era tax cuts for two years
 - Extension of unemployment benefits
 - Temporary reduction in "payroll taxes"
 - Home sales still sluggish:
 - Controversy around foreclosure processing
 - Mortgage rates on the rise
 - Home prices will continue to fall through middle of 2011
 - Believes that stronger job growth in 2011 will lead to a genuine housing recovery in second half of 2011

Economic Climate

- Meredith Whitney on CBS News' *60 Minutes*
(12/19/10)
 - Predicts between 50 to 200 sizable defaults among municipal and state governments in 2011
 - U.S. Government will be faced with potentially bailing out debt ridden states
 - Believes the fragile state of municipal governments is the most pressing financial issue facing the country and the biggest threat to the national economy
 - Drastic cuts to reduce deficits may hamper economic recovery

Economic Climate: Natl. League of Cities / Natl. Assoc. of Counties

- 87% of finance officers report their cities are worse off financially in 2010 than in 2009 (NLC)
- Recessionary effects likely to continue for another two years; budget cuts likely again in 2011 (NLC)
- Economic downturn continues to be widespread with counties of all sizes feeling the crunch (NACo)

Sources: www.nlc.org City Fiscal Conditions in 2010 (NLC), October 2010;
www.naco.org; How are Counties Doing? An Economic Status Survey, June 2010

Economic Climate

- NC General Assembly Fiscal Research Division (12/15/10)
 - Double digit, year-over-year losses have ended
 - NC on par with collections in FY06
 - Overall economic activity continues to improve
 - Modest economic improvement means employment picture remains weak
 - May take up to 3 years to recover employment losses

Source: <http://www.ncga.state.nc.us/fiscalresearch/index.shtml>, *General Fund Revenue and Budget Outlook FY2011-12*, Barry Boardman, Ph.D and Richard Bostic

Economic Climate

- NC General Assembly Fiscal Research Division (12/15/10)
 - National Perspective
 - States facing 3rd or 4th consecutive year of budget gaps
 - 35 states project budget gaps for FY2011-12¹
 - 21 states project gaps \geq 10%, including NC¹
 - ARRA stimulus funds are almost gone²

Source: <http://www.ncga.state.nc.us/fiscalresearch/index.shtml>, *General Fund Revenue and Budget Outlook FY2011-12*, Barry Boardman, Ph.D and Richard Bostic

¹ National Conference of State Legislatures, State Budget Update: Nov. 2010

² Federal Funds Information for States

Economic Climate Summary

- Key areas to watch: unemployment, housing, and consumer spending
- Will housing finally “bottom out” by mid-2011?
- 2011 should experience economic growth
- Inflation relatively tame in short term
- Another tough year for government budgets
- Temper economic forecasts to what’s occurring in your jurisdiction/region

Example Budget Balancing Approaches

Example Budget Balancing Approaches

- Examples derived from *Budget-Balancing Tactics in Local Government*
 - Authors: David N. Ammons & Trevor A Fleck, University of North Carolina at Chapel Hill School of Government
 - Review of Cities and Counties across North Carolina and the nation
 - Published February 2010

Example Budget Balancing
Approaches – Cost Cutting Moves

- Hiring freeze
 - “Hard” freezes
 - “Soft” freezes
- Delay in capital improvements, infrastructure / facility maintenance
- Department budget cuts
 - Across the board
 - Selective
- Cancellation of contracts or contracting plans

Example Budget Balancing
Approaches – Cost Cutting Moves

- Contracting out
 - Use of private firms to deliver public services
- Contracting in
 - Cancel private contracts and use “in house” capacity to perform service or activity
- Energy and Water saving tactics
- Purchasing restrictions
- Equipment cutbacks
 - Size / type
 - Usage policy
 - Energy consumption

Example Budget Balancing
Approaches – Cost Cutting Moves

- Memberships in professional organizations
- Travel restrictions
- Training restrictions
- Position cutbacks
 - Layoffs
 - Position eliminations
 - Frozen, unfunded FTEs
- Employees reassigned to other departments

Example Budget Balancing
Approaches – Cost Cutting Moves

- Service cutbacks – hours of service
- Service cutbacks – other
 - Downgraded service quality
 - Operation scale back
 - Cut services / programs
- Support to outside groups
- Revised staffing protocol/target
- Four-day workweek
- Furloughs

Example Budget Balancing
Approaches – Cost Cutting Moves

- Reduction of work hours
- Salaries / wages / compensation
- Overtime
- Reduced employee benefits
- Health benefits
- Intergovernmental collaboration / coordination – purchasing
- Intergovernmental collaboration / coordination – other

Example Budget Balancing
Approaches – Cost Cutting Moves

- Information technology (IT) remedies
- Retirement incentives
- Volunteerism
- Work rules / policies
- Mayor / Chair / Council / Commission budget
- Modifications of the budget process

Example Budget Balancing
Approaches – Cost Cutting Moves

- Misc. budget balancing tactics
 - Split payments across fiscal years
 - Non-traditional work (e.g. firefighters cut grass at station)
- Eliminated “token” compensation for planning commission and advisory boards
- Carry forward departmental savings
- Increased use of collection agencies

Example Budget Balancing Approaches
– Revenue Enhancing Moves

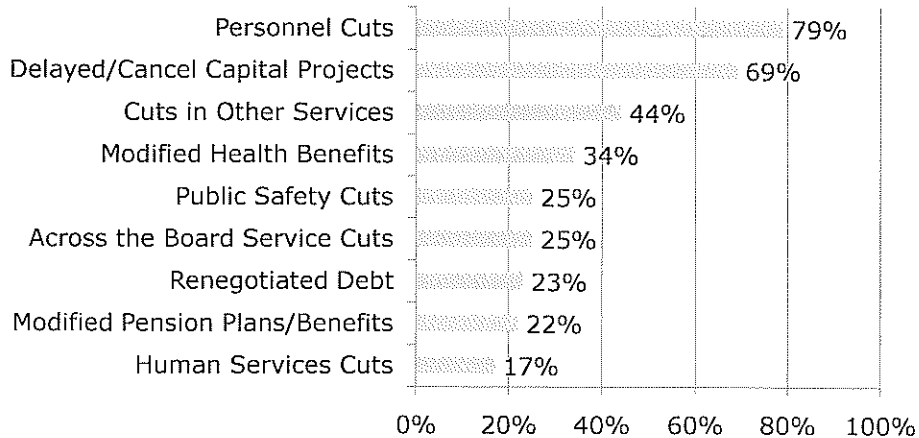
- Tax increase
- New taxes
- Fee increases and expanded fee services
- New Fees
- Reduction of fee subsidies
- Tactics to increase receipt of existing taxes / fees
- Cash management practices / investment strategies

Example Budget Balancing Approaches – Revenue Enhancing Moves

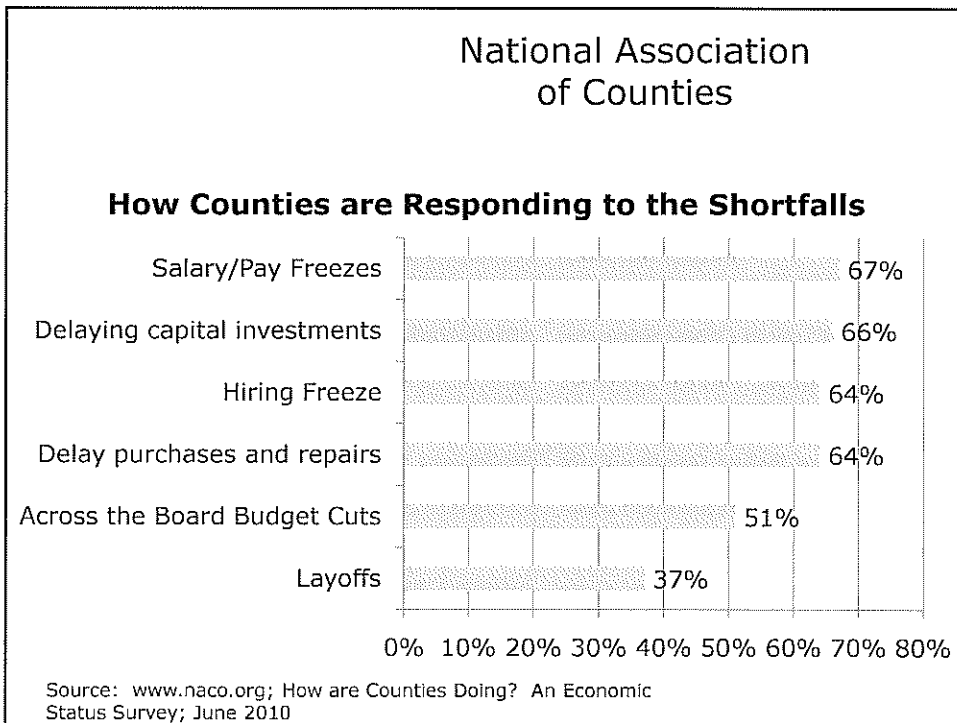
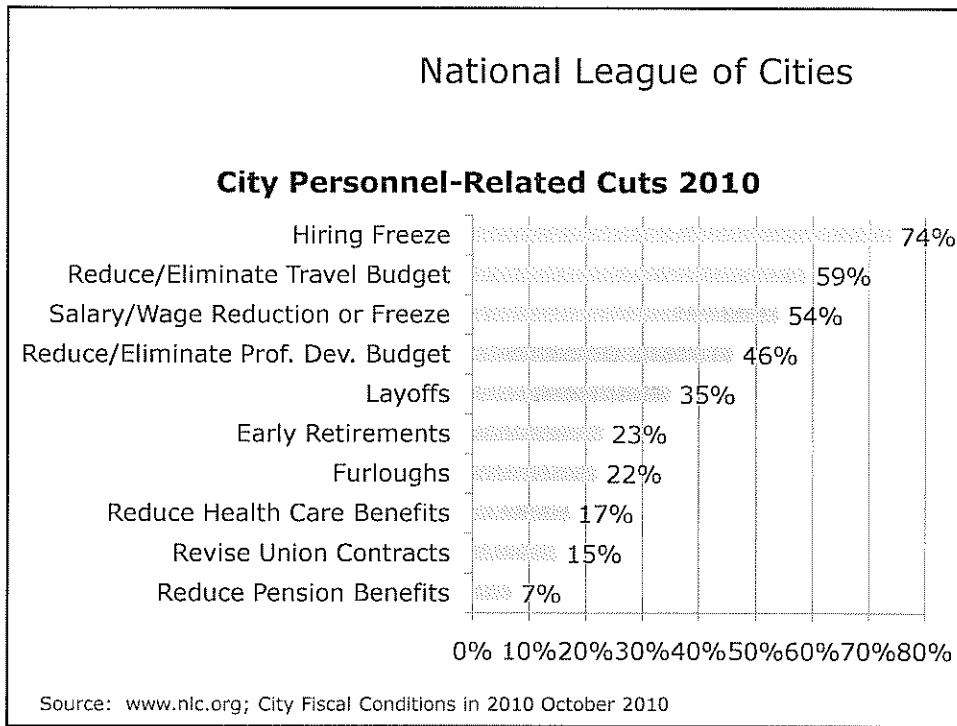
- Asset sales
- Receipts from utilities
- Leasing of government assets to outside parties
- Drawing on reserve funds
- New state / federal grants

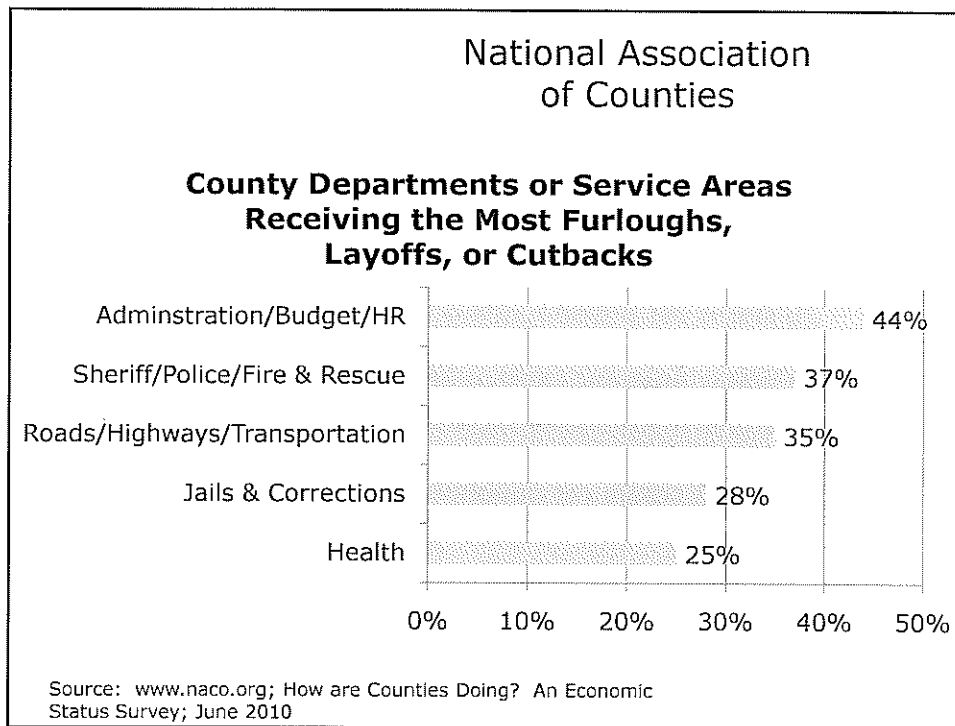
National League of Cities

NLC Survey Spending Cuts From 2010



Source: www.nlc.org; City Fiscal Conditions in 2010 October 2010





- ### State Budget Solutions Used to Address Budget Gaps
- Federal ARRA funds
 - Other cash balances
 - Borrowing
 - Accounting changes
 - Budget reductions
 - Revenue adjustments
 - Rainy Day Funds
- Source: <http://www.ncga.state.nc.us/fiscalresearch/index.shtml>, *General Fund Revenue and Budget Outlook FY2011-12*, Barry Boardman, Ph.D and Richard Bostic, 12/15/10

State Budget Solutions Used to Address Budget Gaps

- 2009 Budget Actions:
 - 30 states enacted tax increases¹
 - 35 states cut higher education²
 - 26 states cut prison funding, including seven that closed prisons²
 - 17 states instituted furloughs or unpaid leave²
 - 14 states instituted or increased Medicaid provider assessments³
 - At least 8 states cut optional Medicaid services and at least 4 states increased co-pays²

Source: <http://www.ncga.state.nc.us/fiscalresearch/index.shtml>, *General Fund Revenue and Budget Outlook FY2011-12*, Barry Boardman, Ph.D and Richard Bostic , 12/15/10

¹ National Conference of State Legislatures, State Budget Update: Nov. 2010

² The Pew Center for the States, 2009 Legislative Review

³ National Conference of State Legislatures, October 2010

State Budget Solutions Used to Address Budget Gaps

- 2010 Budget Actions:
 - 15 states have new budget gaps since beginning of FY11¹
 - 43 states cut higher education²
 - 34 states reduced spending on K-12 education²
 - 29 states cut services to the elderly and disabled²
 - 11 instituted or increased Medicaid provider assessments

Source: <http://www.ncga.state.nc.us/fiscalresearch/index.shtml>, *General Fund Revenue and Budget Outlook FY2011-12*, Barry Boardman, Ph.D and Richard Bostic

¹ National Conference of State Legislatures, State Budget Update: Nov. 2010

² Center on Budget and Policy Priorities, An Update on State Budget Cuts, November 2010

Budget Balancing Activity

- Work in groups of 6-9 people
- Objective: Prepare a recommended General Fund operating budget for the governing body.
- 30 minutes
- Report recommendations and reasoning for choices

Questions & Comments

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