

How it Plays in Peoria:

The Impact of the Fiscal Crisis on Local Governments

Introduction

The economic crisis has enveloped every level of government in the United States and across the world. While coverage of federal deficits and state budget crises have received the lion's share of the media's attention, local governments have toiled in comparative obscurity. These localities, however, offer an unparalleled range of stories about how the economic crisis has directly affected residents and provide many of the most innovative examples of how effective governance operates during an economic downturn.

As the "on- the-ground" leaders at the helm of local governments, the members of ICMA, the International City/County Management Association, provide a unique and valuable perspective about the difficulties they've encountered and strategies they've employed to endure the crisis. The core members of ICMA are the city, town, and county managers and administrators hired by elected officials to oversee the provision of essential community services. The decisions made by ICMA's 9,000+ members affect 185 million people living in thousands of communities, from small villages and towns to large metropolitan areas.

Through analysis of the preliminary results of nearly 1,500 local governments collected through ICMA's recent *State of the Profession* survey and one-on-one interviews with city, town, and county managers from a diverse cross-section of U.S. communities, the following pages offer a snapshot of how local government leaders and communities throughout the nation are weathering the economic storm and positioning themselves for growth in the future.

Among the findings:

- The financial crisis has had a massive impact on the operations of local governments;
- Budget shortfalls have been worse than imagined in the majority of communities;
- City and county managers have employed a range of strategies to weather the economic crisis; and
- The recession has ushered in permanent changes to governing at the local level.

Background

In early 2009, ICMA and the Alliance for Innovation issued a white paper, *Navigating the Fiscal Crisis: Tested Strategies for Local Leaders; Introduction to Elected Officials*,ⁱ which captured some of the challenges that local officials face in light of the economy, for example:

“The decrease in purchasing produces a decrease in sales tax revenues. In some localities, small businesses have closed because they could not sustain the loss in sales. The tightening of credit due to the crisis in the financial markets has made it much more costly and difficult for local governments to borrow money typically used to finance capital projects. Unless cities and counties have an exceptional credit rating, which is difficult with budget shortfalls, they may have trouble borrowing through traditional methods. Because the stock market has sustained major losses and pensions are funded in large part by stocks, the cost of local government obligations to pay pensions could have a substantial effect on local governments.”ⁱⁱ

The paper also noted that, “the recession is spreading beyond housing, automobiles, manufacturing, and financial services to affect all areas of the economy, and it is global in scope. This fiscal crisis is the first in the postwar period in which local, state, and federal governments have reported shortfalls in all major revenues—sales, income tax, and capital property—at the same time.”ⁱⁱⁱ

Now, as 2009 nears a close, ICMA has turned to its membership to determine just how communities have dealt with these unprecedented economic challenges.

SNAPSHOT OF LOCAL GOVERNMENTS DURING THE DOWNTURN

A Survey of Local Governments

Approximately 1,500 local governments offered their perspectives on how the fiscal crisis has affected their communities and how they execute their jobs. Listed below are relevant sections and results from ICMA's 2009 *State of the Profession Survey*. We found that

The financial crisis has had a massive impact on the operations of local governments

When asked, "To what extent is your local government affected by the financial crisis in the U.S. economy?"

- 80% of respondents reported that the financial crisis had either "moderately" (44%), "significantly" (30%), or "severely" (6%) affected their local government vs. only 20% who answered "minimally" (19%) or "not at all" (1%).

Budget shortfalls have been worse than imagined

When asked, "How does the anticipated shortfall compare to cuts made in the FY2009 budget?"

- 52% of respondents reported that the anticipated shortfall is "greater" than cuts made in the FY09 budget.
- An additional 38% of respondents said the anticipated shortfall is the "same" as the enacted budget cuts, while only 10% reported that the shortfall is "less" than the budget cuts.

City, town, and county managers have employed a range of strategies to weather the economic crisis

When asked, "Which of the following measures has your local government implemented to address the fiscal crisis?"

1. Left vacant positions unfilled (12%)
2. Deferred capital projects (11%)
3. Implemented targeted cuts in expenditures (10%)
4. Increased existing fees for services (9%)
5. Eliminated or significantly reduced travel (8%)
6. Frozen salaries (8%)

The recession has ushered in permanent changes to governing at the local level

- *When asked, "Do you think that any of the changes you implemented represent a new way of doing business and will continue beyond the fiscal crisis?"* – 67% of respondents said "yes"
- *When asked if the local government's strategic or long-range plan had been revised since the recession started,* -- 52% said "yes"

STORIES FROM ON THE GROUND

Interviews with Local Government Leaders

Effective management during a downturn can actually help local leaders identify opportunities for improved governance, with benefits that will pay off long after the recession subsides.

As discussed in *Navigating the Fiscal Crisis*, proactive efforts aim to “create longer-term effectiveness, efficiency, and stability. The result is a positive difference for the organization compared to conditions that existed before the fiscal crisis began or that would have resulted from arbitrary actions. In contrast, reactive efforts respond to events and aim to maintain the status quo until it is possible to restore the organization as it was before the fiscal crisis began. The reactive approach often involves across-the-board cuts, ignoring differences in importance and priority, failure to deal with the fundamental sources of inefficiency and instability, denial of fiscal sustainability problems, and an organization-wide sense that simply weathering the storm is appropriate.”^{iv}

City, town, and county managers representing a demographic and geographic cross-section of the U.S. recently shared their stories with ICMA about local governance during the recession. Leaders from the following communities provided their thoughts about how the recession has affected their community, as well as their strategies for coping and thoughts about the future:

- Peoria County, Illinois
- Salina, Kansas
- Washoe County, Nevada
- State College, Pennsylvania
- Richardson, Texas

Though each community has faced varying levels of economic crisis and no two communities' experiences are the same, all managers have demonstrated proactive leadership that promises to benefit their community post-recession.

Peoria County, Illinois

Peoria County is a Central Illinois county of approximately 185,000 persons. The phrase “will it play in Peoria?” helped make famous the fact that this area is a proxy for mainstream America. To see how the recession is “playing in Peoria,” we spoke with Patrick Urich, the County Administrator of Peoria.”^v

What's Happened

“We’ve seen a sizable, significant drop in economic based revenues in Peoria County. The community is very tied to Caterpillar and there were no plans for downsizing. However, since fall 2008, the company’s downsizing has significantly affected the community. Unemployment, which was at 5-6% going into fall 2008, has jumped to 12%. This year-to-year jump in unemployment is the largest in the State of Illinois. Income tax and sales tax have dropped...home sales have dropped.

How They’ve Coped

We’ve run the gamut of every potential option to address the fiscal crisis. We’re looking at what are our core services and sticking to that, and paring back where needed. As a result, we’ve cut capital projects, cut spending, and reallocated resources to need areas. We’re currently in the midst of budget preparation and targeted layoffs, implementing voluntary separation initiatives, holding positions vacant, cancelling salary increases, and increasing the number of furlough days.

Looking Toward the Future

The plan going forward is for a logical progression to curtail capital, expand furlough days, extending into next year. As the effects of stimulus dollars will be less, 2010 and 2011 will be a challenge. The big question is, “how do we get structural balance in line with revenue?”

If you look at the external pressures of county organizations, much of the expenditure base will continue to grow (i.e, health, pensions, etc), so it’s incumbent on managers to keep a structure and balance. We still have to continue to drive productivity, and cut costs, while managing the growth in expenditures. For areas lacking new residents and facing new growth, that puts tremendous pressure on taxpayers and public administration. Long term, we have to be rethinking how to provide all basic county services ranging from criminal justice to health care to pensions to road crews. We need a consistent focus on performance measurement in our decision-making. We need to ask, “How can these same services be provided with less?”

Lessons and Takeaways

A major challenge in Illinois and around the country is that so many department heads are elected officials and so there is a mode of entitlement to budget funds and an unwillingness to give them up. The county vs. city dynamic is also something to manage and try to see where cooperation of shared initiatives can be created or fostered – not only among these two entities, but also to be looking for areas of collaboration with local businesses to ensure directed growth.

Someone recently said to me that “we are living in interesting times.” A Chinese proverb also says, ‘may you live in interesting times.’ There has been much speculation that this might actually be a curse!”

Salina, Kansas

A city of approximately 45,000 in Central Kansas, Salina has managed to avoid some of the worst-case scenarios that have plagued other communities throughout the nation. The following is an interview with Jason Gage, Salina City Manager.^{vi}

What's Happened

Our revenues are primarily stagnant with no growth, no sales and no increase in property taxes, all on top of a state legislative initiative put in place a couple of years ago to repeal personal property tax on equipment, with the result being a very thin but workable budget...We are not experiencing the effects some other locations are, but the potential impact is apparent and the awareness of this has affected the exploration of what might be necessary in the future. Our unemployment is currently 6.5% vs. 3.5-4 % normally. We are very fortunate that this figure is still lower than state and country figures.

How They've Coped

For FY2009, we planned to reduce staff by 15 positions, but have only cut 12 so far. We are trying to ensure that additional cuts do not affect services, which is something we're trying to avoid. The current year does have merit based pay increases and pay plan adjustment (based on cost of living adjustments). We'll also save about \$600,000 due to changes in use of overtime and vacation. Notably, we have not raised property taxes.

We also have not deferred capital projects and have been able to complete many, as we were able to obtain very good interest rates and contractor costs due to the recession. Waiting on projects would cost more, in costs, interest rates, and bonding. Equipment purchases have been thoughtful and particular to pricing. We have also retained our bond rating, at a very low interest rate – even though this might go up in the future, it was better to capitalize on this now.

We have actually set a record for capital improvements, in part due to timing of an electorate sales tax increase. Thanks to this and other measures, we have built an outdoor water park, had a major road project, built a major solid waste landfill. We actually have 2.5 times more expenditures for FY2009 than normal. As a result of taking advantage of capital projects with lower costs and interest rates, it may help to offset the impact of the recession on the local economy with regard to construction and employment.

Looking Toward the Future

We just approved a budget for 2010 and a shortfall is anticipated and budgeted. We would like to see some growth in 2011, but it's still too early to assess this, though we will have a better sense in 6 months. For FY2010, we've scanned every line item to skim easier options. If the economy gets worse, and revenue impacts will be greater, and we will have to make more decisions on potential cuts.

Some of the changes we've implemented will continue once the recession ends. We will continue to emphasize performance, explore ways to restrict staffing, and this has been a wake up call to pay close attention to our daily expenditures. We've also reduced some police expenditures by approximately 40%, which our Police Department feels is significant since this has been done without compromising services.

We try to focus on performance measurement, taking a closer look at everything we do, and trying to determine capacity by reducing operational cost. I don't think we can tax our way into meeting needs. We have to create margins in other ways. We've also tried to not compromise services if at all possible

Lessons and Takeaways

For city managers, it is fairly easy to put value on services, we all know that we have to provide basic services. If a community gets to a point of having to compromise services, there is a political impact. Communities don't really want to trade off anything, but since budget has been sustainable, they haven't had to alter this aspect of the community. If things do get worse, and prioritization becomes a reality, they will have to modify citizen input processes so as to best understand the needs and constraints of the community. Generally, our community has been pretty satisfied with budgeting and the current situation, largely because we have managed to not compromise any community services.

Washoe County, Nevada

Washoe County is a large county in Northern Nevada with a population of nearly 400,000. David Childs, the Assistant County Manager in Washoe County, provided ICMA with his thoughts on the recession and how Washoe County has fared.^{vii}

What's Happened

Washoe County and all of the local governments in Northern Nevada have been significantly impacted by the current crisis. Sales tax receipts account for about 1/3 of the County's general fund revenues. Those revenues have declined on a monthly basis (versus the same month in the previous year) in 33 of the last 36 months. Those percentage declines have been in double digits for the last 13 consecutive months.

How They've Coped

To respond to this crisis, the County made cuts in the 07-08 budget and also to the midyear budget. These included position freezes, reduced programs, and other actions. Then, for the 2009-10 budget, the County implemented a \$47 million budget reduction strategy with a tiered set of cuts: 6% for the sheriff and jails; 12% for courts and social services; 28% for finance, HR, IT, administration, Community Development and Public

Works; and a 36% cut for Libraries and Parks. This meant a total of 53% cut to Parks and Libraries over the past 24 months. All of this translated to a reduction in 500 county staff positions (from 3100 to 2600). 250 were from position freezes, 150 from separation incentives and the remaining 100 were layoffs. Just in the Building Enterprise Fund, total staffing has gone from 36 to a current staff level of 11.

We've tried everything. We've either implemented or proposed closing golf courses and swimming pools. We've undergone layoffs, position freezes, separation incentives, negotiated a 2.5% pay cut with employee associations, no COLAs for the past two years, deferred capital projects, even changed temperature settings in public buildings. We've also got out of lease space and tightened up the space used by staff; reduced and/or eliminated paid security in main county buildings; reduced our fleet size; reduced library hours; eliminated travel and reduced training for public sector employees, cut road and building maintenance budgets, relied on an aggressive use of volunteers, and the list goes on!

Looking Toward the Future

We anticipate budget shortfalls in the coming two years, but we are hopeful that the aggressive cuts made in 2009-10 will minimize the need for draconian cuts in 2010-11. However, it is expected that there will be more cutting that needs to be done.

Property taxes have thus far been flat, but because of an approximately 50 percent reduction in average sales prices in the County, we expect to see significant property tax declines in FY 2010-11 and beyond. In addition, because of the tax caps in place in Nevada, any future recovery in taxes will be limited to 3% per year. So the county could see a significant decline in property tax revenues that could take over a decade before revenues recover to anything near pre-recession levels.

Lessons and Takeaways

We've tried to involve the local citizens. A citizen survey was completed in January with its main purpose to find out what the community priorities were for program and departmental cuts. Citizens were very clear about what they would pay to keep and what the lower priorities were.

There was also a special Budget Policy Committee that included County Commission members, appointed and elected department heads, bargaining unit representatives and citizen representatives. This group met to create the recommended principles to be used in making the key budget cutting decisions.

We're still trying to fully implement all of our changes, but the County will be smaller for a long time and many of the departments are rethinking their mission statement. Parks, for example is using the tag line "clean, safe and open" to describe the work they do. With over 50% of their budget gone, they are scrambling to do even that. Typically they hire

150 summer seasonal staff. This year the number was zero. Maintenance efforts are almost nonexistent. Libraries are in the same situation.

State College, Pennsylvania

Best known as the home of Penn State University, State College, PA is a borough of nearly 40,000 in Central Valley of Pennsylvania. Tom Fountaine, State College's Borough Manager, shared his thoughts with ICMA about how the community has fared during the recession.^{viii}

What's Happened

State College has for the most part been insulated from the financial crisis mainly due to the makeup of the local economy and the presence of Penn State University.

Unemployment is up slightly but is still much lower than other MSA's and the lowest in Pennsylvania. The Borough's two main revenue sources are earned income and real estate taxes. Earned income taxes are down slightly but not significantly, mirroring the increases in local unemployment. By and large, Pennsylvania real estate values were not overinflated and have therefore remained a stable tax base through the economic crisis. Since the Borough is, for the most part, a fully developed core community, the slowdown in new housing starts has had no negative effect.

How They've Coped

Even with consideration to all of the above, there has still been a strong visceral reaction to the crisis in the organization and community. The Borough had been exhibiting signs of fiscal stress prior to the economic crisis mainly in the form of stagnant tax base and lack of revenue diversity. Absent meaningful state legislation addressing these specific issues, the Borough's fiscal stress will continue in 2010 and worsen in years beyond requiring further reductions in services.

To balance the budget, we've left vacant positions unfilled, reduced levels of service, deferred capital projects, and used cash balance and other one-time revenues.

Looking Toward the Future

The outlook for 2010 indicates that expenditures will exceed revenues by \$750,000 equaling approximately 4.1%. In 2011, that gap is anticipated to grow to \$1,000,000 equaling 5.3%. Both projected budget shortfalls are projections based upon the adopted FY2009 Budget and consequently would contain the same service-level reductions. The projected 2010 shortfall is less than the shortfall in 2009 of \$1.4 million.

Lessons and Takeaways

The crisis has drawn further attention to the Borough's fiscal stress factors. Elected officials seem more focused on confronting the stagnant tax base and revenue diversity issues which should result in more meaningful, long-term change.

Richardson, Texas

The City of Richardson, TX is a city of over 100,000 in the Dallas-Fort Worth metropolitan area. Bill Keffler, the City Manager in the City of Richardson, provided ICMA with his perspective on how the recession has affected his community.^{ix}

What's Happened

Like many of the cities within the Dallas-Fort Worth area, the City of Richardson has faced challenges as a result of the nation's struggling economy. We have been proactive in our response, drawing on the lessons learned from the economic slowdown at the beginning of this decade, and have been able to make budgetary adjustments without a significant adverse effect on the services we are able to deliver Richardson citizens and businesses. Due to our strong high-tech economic base, the current economic climate has not had as large of a financial impact on us as the post September 11, 2001 and downturn in telecom industry in 2001 and 2002. We are still operating at staffing levels that are 10% less than they were prior to that period of time. While there will be some increases in user fees, changes to City services and a reduction in the number of special events during this next fiscal year, we are fortunate – as a result of our now strategically diversified economic development activity and conservative budgeting practices over previous years – not to have been as dramatically affected during the current downturn as many of our neighboring cities. The North Texas economy is also relatively stronger than the economy in most areas of the country, so that also has been a significant factor in helping to cushion the impact of the economic downturn.

How They've Coped

In order to address the financial challenges faced as a result of a declining economy, the City of Richardson has taken some proactive measures to help to conserve costs, including freezing vacant positions and employee pay increases citywide, eliminating take home vehicles for on-call service personnel, reducing the replacement of supplies and equipment, reducing the number and scope of community festivals and events, reducing the frequency of mowing, street sweeping and street power washing activities, as well as using alternative revenue funds to cover non-recurring maintenance items that would normally be used by the city's General Fund. The City of Richardson has been acknowledged by the rating agencies for using conservative budget estimating techniques, actively maintaining fund balances and budget management vigilance.

Looking Toward the Future

While we obviously can't say for certain to what degree we will see further declines in sales tax and property tax we are bracing for the possibility. We are optimistic, however, that we will be less dramatically impacted than many cities. Property values decreased this year after four years of increase, which preceded three years of decline in overall assessed valuation in ten years. And we are operating with a larger dependency on property tax than previously as a result of Sales Tax levels that remain less than levels experienced as far back as 11 years ago. But we are confident that we will be well-positioned to react quickly and decisively to any future shortfalls, due to our existing efficiencies in staffing and experience in smartly deploying limited resources.

Lessons and Takeaways

The City of Richardson is always looking for new ways to create more efficient practices that still provide the same level of high quality services for our residents, while smartly deploying the available resources. When our budget is impacted because of changes within the economy, we respond by re-evaluating and adjusting certain city services and activities that produce higher costs, in order to help reduce those expenditures. As a result, we produce a better business model that ultimately benefits our citizens, and we will consider adopting those new practices as a standard moving forward.

ⁱ Evelina Moulder and James Svara, *Navigating the Fiscal Crisis: Tested Strategies for Local Leaders (An Introduction for Elected Officials)*, p. 1, ICMA and the Alliance for Innovation: 2009. <http://icma.org/main/ld.asp?ldid=20911&hsid=10&tpid=16&stid=151>.

ⁱⁱ *Navigating the Fiscal Crisis: Tested Strategies for Local Leaders*, p. 9, The Alliance for Innovation for ICMA, Gerald J. Miller and James H. Svara, Editors, Arizona State University. <http://icma.org/upload/library/2009-02/%7B4F1E279C-6026-4B91-B4CA-647BE9670889%7D.pdf>

ⁱⁱⁱ *Navigating the Fiscal Crisis: Tested Strategies for Local Leaders* at pg. 21. The Alliance for Innovation for ICMA, Gerald J. Miller and James H. Svara, Editors, Arizona State University. 2009. <http://icma.org/upload/library/2009-02/%7B4F1E279C-6026-4B91-B4CA-647BE9670889%7D.pdf>

^{iv} *Navigating the Fiscal Crisis: Tested Strategies for Local Leaders* at pg. 21. The Alliance for Innovation for ICMA, Gerald J. Miller and James H. Svara, Editors, Arizona State University. 2009. <http://icma.org/upload/library/2009-02/%7B4F1E279C-6026-4B91-B4CA-647BE9670889%7D.pdf>

^v Phone interview with Patrick Urlich of Peoria County, IL, conducted by ICMA staff, August 31, 2009.

^{vi} Phone interview with Jason Gage of Salina, KS, conducted by ICMA staff, August 31, 2009.

^{vii} Interview with David Childs of Washoe County, NV, conducted via email correspondence with ICMA staff, September 11, 2009.

^{viii} Interview with Tom Fountaine of State College, PA, conducted via email correspondence with ICMA staff, September 8, 2009.

^{ix} Interview with Bill Keffler of Richardson, TX, conducted via email correspondence with ICMA staff, September 11, 2009.