

# MEMORANDUM

April 9, 2010

TO: County Council

FROM: Sarah Downie, Research Associate  
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SUBJECT: **Examples of State/Local Government Actions to Close Budget Gaps: FY09-FY11**

Across the country, state and local government finances began to deteriorate in FY09, with conditions worsening in FY10 and FY11. Recent forecasts indicate that revenues are unlikely to return to pre-recession levels for some time, even though some jurisdictions will see modest increases in tax revenues in 2010 and 2011.<sup>1</sup>

This memorandum packages examples of the ways state and local governments are balancing their current budgets. The examples are not intended to be an exhaustive survey of all strategies used by jurisdictions, but rather to provide a sampling and perspective on the various budget solutions being adopted in other places.

The first section of the memo provides a summary overview of actions taken by state and local governments to reduce expenditures, increase revenues, and/or use reserve or other special funds to close budget gaps. The second section summarizes the specific budget actions taken by nine local governments:

**Section I, A Sampling of Expenditure Reductions, Revenue Increases, and Use of Reserve Funds** adopted by state and local governments to balance current budgets.

**Section II, Case Studies of Local Jurisdictions**, summarizes actions taken by nine local governments to address their respective budget gaps:

- Atlanta, Georgia
- Clark County, Nevada
- Fairfax County, Virginia
- Mecklenburg County, North Carolina
- Mesa, Arizona
- Milwaukee County, Wisconsin
- Philadelphia, Pennsylvania
- Phoenix, Arizona
- Prince George's County, Maryland

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<sup>1</sup> Nelson A. Rockefeller Institute of Government, "State Revenue Flash Report," February 23, 2010.

## I. A SAMPLING OF EXPENDITURE REDUCTIONS, REVENUE INCREASES, AND USE OF RESERVE FUNDS

### A. Actions to Reduce Expenditures

States' general fund expenditures decreased by 3.4 percent from FY08 to FY09 and by 5.4 percent from FY09 to FY10.<sup>2</sup> Most budget savings strategies fall under the areas of program cuts or compensation reduction.

#### 1. Reducing Employee Compensation Costs

Employee salaries and benefits represent the largest component of state and local government budgets. As a result, state and local government officials are finding themselves unable to close large budget gaps without reducing compensation costs. The case studies summarized later in this memorandum (see page 8) provide examples of how jurisdictions across the country are reducing the amount spent on employee pay and benefits.

In addition to employing fewer people (through hiring freezes, layoffs, and retirement incentives), the most common strategies for reducing compensation costs for active employees include:

- Eliminating cost-of-living increases;
- Eliminating other types of employee salary increases (e.g., steps/increments, longevity pay, performance pay); and
- Furloughs.

A furlough is the placement of an employee in a temporary non-duty, not-pay status to achieve budget savings. In FY09, 15 states implemented furloughs to reduce or eliminate a budget gap and in FY10, 16 states did the same.<sup>3</sup> **For more information on different structures of furloughs and specific examples, see OLO's 2009 memorandum report and addendum on furloughs.**<sup>4</sup>

In addition to furloughs, several states are reducing salaries. For example, in FY11, the salaries of state employees in *Arizona* will be reduced by five percent. Part of this reduction will come from eliminating performance pay increases that employees received several years ago, and the rest from six fixed furlough days.

In *Hawaii*, State Hospital, Prison and Hawaii Youth Correctional Facility guards will experience a 5.45 percent pay cut, effective January 1, 2010 through June 30, 2011. Governor Lingle also submitted a 6-year financial plan that included 5.5 percent salary cuts for all state employees. However, because the Governor is in the final year of her term, the next administration will have to negotiate these pay cuts with state employees unions.<sup>5</sup>

#### 2. Program Reductions – eliminating staff and/or lowering operating expenses

State and local governments have cut expenditures either through across-the-board cuts of a certain percentage of each department or by targeting specific programs or departments for reductions. These cuts could involve reductions of operating expenses and/or the elimination of positions (filled or unfilled).

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<sup>2</sup> National Governors Association and National Association of State Budget Officers, "The Fiscal Survey of the States," December 2009.

<sup>3</sup> NGA and NASBO, "The Fiscal Survey of the States," December 2009.

<sup>4</sup> Office of Legislative Oversight Memorandum Report Number 2009-9, *A Research Brief on Furloughs and Buyouts* (April 2009) and Addendum to OLO Report 2009-9, *Office of Legislative Oversight Memorandum on Public Sector Furloughs: Additional Information* (September 2009).

<sup>5</sup> Honolulu Advertiser, "Hawaii Workers Face More Pay Cuts Under 6-year plan," March 10, 2010.

**Public Safety.** Most state and local governments have tried to minimize cuts to public safety. However, states and local jurisdictions have found some strategies to reduce the cost of public safety services. *Santa Barbara, California* and *Reno, Nevada* are each considering the closure of a fire station to reduce costs in FY11. In Santa Barbara, the Fire Chief estimates that closing the fire station would save the City \$1.4 million per year.<sup>6</sup>

*California* is trying to reduce the number of inmates in overcrowded state prisons. With an average cost of \$47,000 per year to house a prisoner, approximately 11 percent of the state budget goes to the penal system.<sup>7</sup> As part of a new law, California will allow some low-level offenders to undergo less parole supervision upon release so that parole officers can focus on closely monitoring more serious offenders. The new law also allows prisoners to reduce their sentences by completing certain rehabilitation programs.<sup>8</sup>

*Oregon, Illinois, Colorado, and Michigan* already implemented similar early release programs, which raised concerns from prosecutors and/or the public about whether the prisoners being released would re-offend. Oregon and Illinois have temporarily suspended their programs, while Colorado has scaled back its program. In Michigan, local prosecutors are challenging at least 20 of the parole decisions.<sup>9</sup>

**Education.** Many school districts throughout the country have had to respond to reduced funding from state and local governments by cutting costs. For example, in *Illinois*, the Governor has recommended \$1.3 billion in education cuts for FY11 to help close a \$13 billion deficit.<sup>10</sup>

Many school districts have reduced the number of teacher positions, leading to increased class sizes. Many school districts are finding recent efforts to reduce class sizes unsustainable given current funding reductions. *California* increased class size targets in 2009 and class sizes increased in 74% of the state's public elementary schools this school year.<sup>11</sup> This year, officials in *Florida, Georgia, Oklahoma, and Nevada* have proposed relaxing or eliminating class size limits.<sup>12</sup>

Some school districts are also eliminating non-classroom positions, such as assistant principals and custodial staff. School districts in states such as *New Jersey* and *Tennessee* are considering outsourcing all custodial work to private companies.<sup>13</sup>

Some schools districts are moving to a four-day school week to reduce costs. Currently, 100 school districts in 17 states have a four-day school week. Typically, some of the hours of instruction lost from the fifth day are made up in longer school hours for the remaining four days. This strategy is most commonly used by rural school districts with high transportation costs. For example, *Peach County, Georgia* reported \$200,000 in savings during one semester from reduced transportation expenses and utilities and reduced hours for custodial and cafeteria workers and bus drivers.<sup>14</sup>

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<sup>6</sup> Noozhawk.com, "City's Budget Woes May Lead to Closure of Fire Station No. 3," February 2, 2010.

<sup>7</sup> *The New York Times*, "California in Fiscal Crisis, Opens Prison Doors," March 23, 2010.

<sup>8</sup> California Department of Corrections and Rehabilitation, Press Release, January 21, 2010.

<sup>9</sup> *The New York Times*, "Safety Is Issue as Budget Cuts Free Prisoners," March 4, 2010.

<sup>10</sup> Associated Press (on BusinessWeek.com), "In Ill., Choice is Higher Taxes or Education Cuts," March 11, 2010.

<sup>11</sup> UCLA's Institute for Democracy, Education, and Access; "California Educational Opportunity Report"; January 2010.

<sup>12</sup> *The Wall Street Journal*, "Fiscal Woes Push Up Class Size," February 13, 2010.

<sup>13</sup> NPR.org, "Cash-Strapped Schools Cutting Custodial Workers," April 5, 2010.

<sup>14</sup> *The Wall Street Journal*, "Schools' New Math: the Four-day Week," March 8, 2010; and NPR.org, "States Weigh Four-Day School Week to Cut Costs," March 9, 2010. Data for both articles came from the Education Commission of the States.

Some school districts have chosen to eliminate or reduce non-academic programs. School District U-46 in *Elgin, Illinois* has proposed eliminating middle school football and kindergarten art, music, and physical education. *Fulton County, Georgia* plans to cut a \$4 million band and orchestra program from elementary schools that serves over 8,000 students.<sup>15</sup>

**Health and Human Services.** *New Hampshire* reduced nursing home reimbursement rates and funding for mental health providers. *Arizona's* approved FY11 budget eliminates the State's Children's Health Insurance Program (which provides healthcare to 47,000 low-income children) and eliminates Medicaid coverage for 310,000 adults, saving the State \$385 million.<sup>16</sup>

The Governor of *Minnesota* has proposed \$347 million in reductions from the State's health and human services budget, which would affect 20,000 people in state health care programs and 20,000 people in human services programs. A large part of the savings would be achieved by reducing MinnesotaCare eligibility for adults without children. Another large cut was a 2.5 percent reduction in long-term care payments. The State is facing a \$1.2 billion deficit in FY11.<sup>17</sup>

**Parks and Recreation.** To reduce park and recreation expenditures, some local governments have reduced the number of recreation classes they offer or reduced mowing and other maintenance on public land. For example, the Department of Parks and Recreation in *Virginia Beach* plans to reduce the average mowing frequency for divided roadways from 18 days in FY10 to 23 days in FY11, and reduce the replacement of plant materials and flowering annuals in their resort area by 72%.<sup>18</sup> *Kansas City* may reduce park and boulevard mowing cycles for a savings of \$245,000.<sup>19</sup>

Following steep cuts in park funding over the last few years, *Arizona* has closed 5 out of 30 state parks, with 6 more scheduled to close by June 2010. Arizona currently is the only state that has closed parks, but other states have plans to do the same.<sup>20</sup>

## **B. Actions to Increase Revenues**

Many state and local governments have increased taxes or fees to help close budget gaps. In some cases, revenue from increased taxes or fees is used for specific program expenditures; in other cases, the funds go into a localities' General Fund. This section provides examples of state and local jurisdictions that have recently raised taxes or fees to close budget gaps.

### **1. Tax Increases**

Over the last couple of years, state and local governments have implemented a variety of tax increases, with more proposed for FY11. In 2008 and 2009, 13 states raised new revenue from personal income taxes, 17 increased sales taxes, 22 increased excise taxes on tobacco, alcohol, or motor fuel, and 17 increased business taxes. Tax changes mostly involved increasing tax rates; expanding the coverage of an existing tax to include more items; or eliminating certain tax credits, deductions, and exemptions.<sup>21</sup>

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<sup>15</sup> 11Alive.com, "Fulton County School Board Starts Massive Budget Cutting Thursday Night," March 18, 2010.

<sup>16</sup> American Medical News, "Health Reform Law, Arizona Medicaid Cuts at Odds," April 5, 2010.

<sup>17</sup> Minnesota Public Radio, "Pawlenty Proposes Cuts to Local Governments, Health and Welfare," February 15, 2010.

<sup>18</sup> Virginia Beach, Virginia, Fiscal Year 2010-11 Proposed Operating Budget.

<sup>19</sup> *The Kansas City Star*, "KC Passes Budget, Trims Millions," March 25, 2010.

<sup>20</sup> *Los Angeles Times*, "Arizona Towns Pitch in to Save State Parks," March 29, 2010.

<sup>21</sup> Center on Budget and Policy Priorities, "State Tax Changes In Response to the Recession," March 8, 2010

**Sales Tax Increases.** Some states are increasing their sales tax rates. For example, voters in *Arizona* will vote in a May special election on whether to temporarily increase the sales tax by 1 percentage point. The sales tax increase would expire on May 31, 2013. Revenue from the sales tax would be used to fund K-12 education, health and human services, and public safety.<sup>22</sup>

Other states are expanding the sales tax base to cover goods and services that currently are not taxed in those places.<sup>23</sup> For example, the *State of Washington* is considering extending the sales tax to cover bottled water, candy, and gum.<sup>24</sup> In 2009, *Maine*'s legislature passed a law that would extend the sales tax to services such as car repairs and dry cleaning. The law will be subject to a voter referendum in June.<sup>25</sup>

**Excise Tax Increases.** Sixteen states increased their cigarette tax last year, including *Connecticut*, *Kentucky*, and *North Carolina*. In *New York*, the Governor's 2010-11 Executive Budget proposed an increase in the cigarette tax and a new tax on sugared beverages.

**Property Tax Increases.** Most jurisdictions are seeing declines in property tax revenue due to recent declines in property values. As a result, some jurisdictions are raising property tax rates to recoup some of this revenue. In *Arlington County, Virginia*, the County Manager's proposed FY11 budget includes a 6.7 cent increase in the property tax rate; raising the rate from \$0.875 per \$100 of assessed value to \$0.942 per \$100 of assessed value.

**Income Tax Increases.** *Illinois*' Governor has proposed increasing the income tax rate by 1 percent. A few states are increasing enforcement of laws that allow them to collect taxes on income earned by visitors while in the state on business. In the past, the effort to enforce these laws has generally not been worth the potential revenue, but advances in technology may make these laws easier to enforce.<sup>26</sup>

**Reconsidering Tax Exemptions.** Some states and localities are considering whether to tax nonprofit entities, such as universities and nonprofit hospitals through sales, income, and/or property taxes. For example, in March 2010, the Governor of *Georgia* proposed taking away nonprofit hospitals' state sales tax exemption.<sup>27</sup> Lawmakers in *Connecticut* are also reconsidering a wide range of tax exemptions and credits, such as exemptions from the state sales tax and admissions tax.<sup>28</sup>

## 2. Fee Increases

Many jurisdictions have increased fees or fines as a way to generate revenue. In October 2009, *California* passed a law that increased or eliminated the maximum for various fees charged by counties, cities, or courts, such as a vital records fee and recording fees.<sup>29</sup> As a result, *Alameda County, California* increased its title recording fee and *Solana County, California* is considering increasing recording fees.

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<sup>22</sup> Arizona Education Network, February 25, 2010; Senate of Arizona, Concurrent Resolution 1001.

<sup>23</sup> According to the Federation of Tax Administrators, the sales tax in most states covers tangible goods and some services, but rarely covers a wide range of services such as personal and professional services. (Survey of Services Taxation – 2007 Update, July 2008).

<sup>24</sup> Associated Press (on Google.com), "Wash. Lawmakers Eye Higher Beer Tax to Help Budget," April 5, 2010.

<sup>25</sup> *The Wall Street Journal*, "States Try to Tax More Services as Coasters Deflate," February 7, 2010.

<sup>26</sup> *The New York Times*, "States Look Beyond Borders to Collect Owed Taxes," March 21, 2010.

<sup>27</sup> Governing.com, "Taxing Away an Exemption," March 17, 2010.

<sup>28</sup> *The Connecticut Mirror*, "Connecticut Pays a High Price for Tax Breaks," April 5, 2010.

<sup>29</sup> California State Senate Bill 676, chaptered on October 11, 2009.

*Toledo, Ohio* is going to impose a new \$15 monthly trash-collection fee<sup>30</sup> and in *Washington, D.C.*, the mayor's proposed FY11 budget includes a variety of fee increases or new revenue sources:

- A \$0.25 increase in parking fees (from \$0.75 to \$1) with projected revenue of \$3.6 million;
- Increases in fines on 71 types of traffic violations;
- Increases in 13 Department of Health practitioner renewal fees for chiropractors, acupuncturists, and other practitioners; and
- Selling advertising on the back of parking meters and parking meter receipts.

*Louisiana* plans to increase the fee for entrance to historic sites from \$2 to \$4 and increase the cost of using a group campsite at state parks by \$100 per night. The new fees are expected to generate an additional \$2.6 million for the budget for operating and maintaining state parks.<sup>31</sup>

Lawmakers in *Arizona, California, Idaho, and Washington* have recently considered or implemented extra vehicle fees to fund state parks. The model for this type of fee was *Montana*, which added a \$4 vehicle registration fee in 2004 that gives residents free access to parks. Residents can opt out of the fee but then cannot visit state parks for free. Between 80 to 85 percent of the state's drivers pay the fee.<sup>32</sup>

### 3. Selling Assets

Some jurisdictions are selling property, which allows them to earn money and avoid future maintenance costs or, in the case of older buildings, avoid major renovations. In September 2009, *Arizona* passed a law allowing the sale of state buildings. *California* has put several properties on the market, such as the Orange County Fairgrounds. While states will make money from such sales, in some cases, states will continue to use the properties and have to pay to lease the property. In other cases, the property would be converted for private use. *Pennsylvania* sold office buildings in Philadelphia and Pittsburgh that are slated for conversion to condominiums.<sup>33</sup>

Due to budgetary constraints, the *Colorado Springs* Police Department could no longer afford to fly its two helicopters. In October 2009, the Department took the helicopters out of service and sold them for a total of \$350,000.<sup>34</sup>

### C. Spending Money from Reserves or Other Types of Funds

In order to fill budget gaps, state and local jurisdictions have drawn on money from reserve funds and other types of special funds. In FY09, 26 states used money from "rainy day" reserve funds to reduce budget gaps and in FY10, 17 states used this strategy.<sup>35</sup> Several states are considering whether to raise or eliminate existing caps on how much money can accumulate in their rainy day funds to prepare for future fiscal challenges.<sup>36</sup>

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<sup>30</sup> The Wall Street Journal, "Toledo's Fiscal Reckoning," March 31, 2010.

<sup>31</sup> *The Times-Picayune*, "Fees for state's parks will take a hike," March 5, 2010.

<sup>32</sup> Stateline.org, "Register your car, save a state park," March 24, 2010.

<sup>33</sup> The Christian Science Monitor, "To Cut Deficit, Arizona May Sell its Capitol," September 8, 2009.

<sup>34</sup> Colorado Springs Police Department; www.KKTV.com, "Colorado Springs Sells 2<sup>nd</sup> Police Chopper," March 23, 2010.

<sup>35</sup> NGA and NASBO, "The Fiscal Survey of the States," December 2009.

<sup>36</sup> Stateline.org, "Is it 'raining' hard enough?" February 22, 2010.

In order to balance its FY10 budget, *Chicago* tapped the entirety of a \$51.9 million special reserve fund established through the lease of parking meters to private companies.<sup>37</sup> To help balance the General Fund budget, *Seattle* used \$20.1 million of the City's \$30.6 million Revenue Stabilization Account in 2009 and 2010.<sup>38</sup>

Other states are using money from other types of special funds to balance their budgets. In addition to dipping into the State's rainy day fund, the *Washington* State House of Representatives has proposed taking money from the capital budgets of state universities, which are funded by student fees. The proposal would transfer \$35 million from four year colleges' capital budgets and \$3 million from community and technical colleges' capital budgets to the State's general fund. The University of Washington has threatened a lawsuit if the State proceeds with the plan.<sup>39</sup>

*New Hampshire* took \$110 million from a medical malpractice insurance pool, with plans to use \$65 million to balance its two-year FY08-09 budget and \$45 million to balance the current FY10-11 budget. However, in July 2009, the State Supreme Court ordered the State to return the money.<sup>40</sup>

A related strategy for closing budget gaps is to defer scheduled payments to employee pension funds and retiree health benefit funds. As part of the two-year budget that the Virginia General Assembly passed in March 2010, *Virginia* will defer payment of \$620 million to the Virginia Retirement System, which funds Virginia state employee and teacher pensions. Beginning in 2013, Virginia will have to repay the money over 10 years with 7.5 percent interest.<sup>41</sup>

To help close a \$500 million deficit for the rest of FY10, the Governor of *Connecticut* proposed deferring a \$100 million payment to the employee pension fund after reaching an agreement with state employee unions. The Governor also proposed using \$219.2 million from the State's emergency reserve fund to balance the FY10 budget, even though this money was scheduled for use next year to help balance the FY11 budget.<sup>42</sup>

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<sup>37</sup> Chicago Sun Times, "Daley rules out property tax increase to close budget gap," October 14, 2009.

<sup>38</sup> City of Seattle, Washington, 2010 Adopted Budget.

<sup>39</sup> Olympia Newswire, "House Proposes Raiding College Student Fees to Fill Budget Deficit, Singles out University of Washington for Extra Cuts," March 10, 2010.

<sup>40</sup> *The New York Times*, "State Debt Woes Grow Too Big to Camouflage," March 29, 2010; *Insurance Journal*, "New Hampshire Judge Rejects State's Claim on Malpractice Fund," July 31, 2009.

<sup>41</sup> *Richmond Times-Dispatch*. "State Will Dip into Pension Fund, Repay with 7.5% Interest," March 15, 2010.

<sup>42</sup> Governor Jodi M. Rell, "Deficit Mitigation Plan for Fiscal Year 2010," March 1, 2010.

## II. CASE STUDIES OF LOCAL JURISDICTIONS

This section describes the actions taken by nine local governments throughout the U.S. to close their budget gaps by reducing expenditures and/or increasing taxes or fees. All population estimates in this section are from the U.S. Census Bureau's Population Estimates Program; the estimates for cities are as of July 1, 2008, while the estimates for counties are as of July 1, 2009.

### Atlanta, Georgia

<b>Time Period</b>	FY09 and FY10
<b>FY10 Budget Gap</b>	\$56 million
<b>Approved FY10 Operating Budget</b>	\$1.5 billion
<b>Strategies Used to Balance Budget</b>	Furloughs, Property tax increase of \$0.3 per \$100 of assessed value (average increase of 7.2% for property owners)

Atlanta has a population of approximately 538,000. In mid-FY09, Atlanta instituted furloughs, requiring nearly all of its general fund employees—including police officers, firefighters and prison guards—to work four fewer hours every week (i.e., a 36-hour week). The resulting 10 percent reduction in pay saved the City approximately \$11.5 million. Many city agencies began closing on Fridays, shifting to nine-hour days, four days a week. Some fire stations, engine companies, and ladder companies were closed on a rolling basis during the furloughs, rather than all on the same day.

Furloughs ended when the City Council approved an increase in the property tax rate of \$0.312 per \$100 of assessed value in the FY10 budget, for an average increase of 7.2 percent in property tax bills. The City also eliminated a voluntary one percent contribution to employee pensions.<sup>43</sup>

On February 1, 2010, the Atlanta City Council approved a resolution that would present a “municipal option sales tax” to voters in a referendum. First, the Georgia General Assembly would have to approve the measure. Revenue from the sales tax would fund public safety and infrastructure in the City.<sup>44</sup>

<sup>43</sup> Pew Charitable Trusts, *Layoffs, Furloughs and Union Concessions: The Prolonged and Painful Process of Balancing City Budgets*, September 22, 2009; City of Atlanta, FY10 Adopted Budget

<sup>44</sup> Atlanta City Council Press Release, February 1, 2010; Atlanta City Council Resolution 10-R-0218



## Clark County, Nevada

<b>Time Period</b>	FY11 (begins July 1)
<b>FY11 Budget Gap</b>	\$200 million (approximate)
<b>Approved FY10 Budget</b>	\$4.9 billion
<b>Proposed Strategies to Balance Budget</b>	Salary and benefit reductions

Clark County, Nevada has a population of approximately 1.9 million and an approved FY10 budget of \$4.9 billion. In previous budgets, the County has made cuts such as voluntary furloughs, layoffs, hiring freezes, cuts to shuttle bus service, and leaving 950 positions unfilled in the University Medical center and other county departments.<sup>45</sup>

In FY11, which begins July 1, 2010, the County faces a budget gap of approximately \$200 million. One strategy that the County Commissioners have taken to develop the FY11 budget is to convene a Committee on Community Priorities to provide recommendations on budget priorities. The County Commission selected the 15 members of the Committee, which include representatives from the public, private, and nonprofit sectors.

The Committee's final report presented approximately 200 proposals to the County Commission.<sup>46</sup> According to the report, "the Committee was not tasked with reaching consensus in its decision making. Instead the final results are a collective representation of individual responses."<sup>47</sup> Among the committee's most significant proposals are cuts to the County's fire department budget, including cuts to overtime compensation and eliminating its paramedic service.

Clark County commissioners have proposed the elimination of the County's longevity pay, an annual bonus for employees with at least eight years of service with the County. Longevity pay bonuses in FY09 totaled \$34.6 million — \$9.1 million to University Medical Center employees and \$25.5 million to other county employees. The longevity pay also results in increased payments to those employees' retirement funds, totaling \$7.5 million in FY09.<sup>48</sup>

<sup>45</sup> *Las Vegas Sun*, "Horrible County Budget Outlook Worsens, Tough Decisions Loom," January 20, 2010.

<sup>46</sup> *Las Vegas Sun*, "County Takes No Action On Priority Panel's Suggestions," January 19, 2010

<sup>47</sup> Committee on Community Priorities, Final Report, January 2010.

<sup>48</sup> *Las Vegas Sun*, "Longevity Pay Costs Millions in County," December 10, 2009.

## Fairfax County, Virginia

<b>Time Period</b>	FY11 (begins July 1, 2010)
<b>FY11 Budget Gap</b>	\$257.2 million
<b>Proposed FY11 Budget</b>	General Fund Budget of \$3.2 billion
<b>Proposed Strategies to Balance Budget</b>	Pay freeze, County Government expenditure reductions, School funding reduction, and Property tax rate increase

Fairfax County has approximately one million residents and an FY10 General Fund budget of \$3.3 billion. For FY11, Fairfax County identified a budget gap of \$257.2 million (8 percent of the FY10 General Fund budget). The County Executive’s proposed FY11 budget states, “the essence of the proposed actions in this budget focus on cuts and reductions, efficiencies and reorganizations rather than closures or wholesale elimination of programs.”<sup>49</sup>

For the second consecutive year, the budget does not include increases in employee compensation; however, the Executive has proposed 1.5 additional holiday days in FY11. The Executive has proposed that the County reduce expenditures by \$119.6 million. The budget would reduce County Government expenditures by \$103.3 million (reducing staff by a net of 284 positions) and reduce the operating transfer to Fairfax County public schools by \$16.3 million, or 1 percent less than the FY10 transfer. Examples of proposed expenditure reductions include:

- Reducing the Park Authority by \$2.4 million and 41 positions, which will affect park programs, maintenance, planning and administration (e.g., decreased mowing and grounds maintenance).
- Reducing the Fairfax County Public Library by \$3.4 million and 81 positions. Impacts include fewer hours of service, fewer youth and adult programs, and a shorter summer reading program.
- Reducing the Police Department budget by \$11.7 million by reducing overtime, positions and associated salary costs, and operating expenses.
- Reducing the Fire and Rescue Department budget by \$10.7 million through reduced overtime and operating expenses and management of position vacancies.
- Reducing the Department of Family Services budget by \$4.2 million.<sup>50</sup>

To increase revenue by \$121.4 million, Fairfax County has proposed the following:

- Increasing the property tax by \$0.05 per \$100 in assessed value, from \$1.04 to \$1.09 (\$93.4 million increase in revenue).
- Increasing the sewer availability charge and the sewer service charge.
- Increasing the stormwater services district levy.
- Vehicle registration License Fee of \$33 (\$1.0 million).

The Executive’s plan also proposes using \$31.9 million from fund balances. Together, these measures would close the budget gap and result in a surplus of \$21.7 million, in anticipation of additional state cuts.

<sup>49</sup> Fairfax County FY2011 Advertised Budget Executive Summary, page 8.

<sup>50</sup> FY2011 Advertised Budget Plan, Overview; Agency Reductions (General Fund Impact)

**Mecklenburg County, North Carolina**

<b>Time Period</b>	FY10 and FY11
<b>Budget Gap</b>	\$34.6 million in FY10 and \$85 million in FY11
<b>Approved FY10 Budget</b>	\$1.4 billion
<b>Proposed Strategies to Balance Budget</b>	Elimination of positions, Budget reductions for most departments, School funding reduction

Mecklenburg County, North Carolina has a population of about 914,000 and an FY10 budget of \$1.4 billion. Charlotte, the largest city in North Carolina, is the seat of the County.

Mecklenburg County has had declines in nearly every revenue source; sales tax receipts, in particular, were lower than expected.<sup>51</sup> As a result, the County has proposed \$20 million in mid-year reductions for FY10, including:

- \$6.3 million from Charlotte-Mecklenburg Schools;
- \$13.2 million from the County Government; and
- Approximately \$500,000 from the Central Piedmont Community College.

The library system’s Board of Trustees decided to lay off 148 employees and close 12 branches by April 3, 2010. Under the plan, 45 code enforcement positions would be eliminated.<sup>52</sup>

The County has also projected an \$85 million budget gap in FY11, which begins in July. The County Manager does not prepare a recommended FY11 budget until May, but identified budget targets indicate potential cuts for FY11. The budget targets include total cuts of \$95 million. All county departments would be cut (by 16% on average), but the largest reductions would come from:

- Reduce Library budget by \$17 million (a 50% reduction from FY10);
- Reduce Park and Recreation Department budget by \$19 million (a 50% reduction from FY10);
- Reduce Sheriff’s Office budget by \$9 million (an 11% reduction from FY10).

The County would also cut funding for Charlotte-Mecklenburg Schools by 6.5 percent from FY10, or \$20.7 million (\$19.7 million from the operating budget and \$1 million in the capital replacement budget). The district receives about a third of its operating funding from the County. Because Charlotte-Mecklenburg Schools are also expecting large cuts from the State, the Superintendent has developed a preliminary plan to cut \$63 million and eliminate 842 positions, including approximately 600 teachers.<sup>53</sup>

<sup>51</sup> County Manager’s Office, Board Bulletin, March 19, 2010.

<sup>52</sup> County Manager’s Office, Management and Budget, Documents accessed April 1, 2010: <http://www.charmeck.org/Departments/County+Managers+Office/Business+Management/home.htm>

<sup>53</sup> *Charlotte Observer*, “CMS Layoff Alternatives Hard to Find,” March 18, 2010.

## Mesa, Arizona

<b>Time Period</b>	FY10 and FY11
<b>FY11 Budget Gap</b>	\$19.6 million
<b>Approved FY10 Budget</b>	\$1.1 billion
<b>Strategies Used to Balance Budget</b>	Elimination of positions, Addition of a property tax of \$0.3 per \$100 of assessed value

The City of Mesa, Arizona is located 16 miles east of Phoenix within the County of Maricopa and has a population of about 464,000. Beginning in FY09, the City had to reduce expenditures by \$29 million mid-year and reduce anticipated FY10 expenditures by \$60 million. Between the FY09 and FY10 reductions, the City eliminated over 300 full-time positions.<sup>54</sup>

From FY09 to FY10, the budget for the Recreation Operations program was reduced by 18 percent (\$3.6 million) and the Libraries budget was reduced by 30% (\$3.2 million).<sup>55</sup> The police department was reduced by approximately 50 sworn officers. As a result, the City hired nine lower-paid civilians to do investigative work for minor nonviolent crimes. The civilian investigators go through less training than police officers and earn about \$37,000 per year compared to officers' salaries of \$49,000.<sup>56</sup>

In FY10 for the first time, the City assessed a property tax of \$0.2977 per \$100 of assessed value to raise an additional \$14.1 million. This property tax is estimated to cost the average homeowner about \$53 in FY10.<sup>57</sup>

Beginning on March 2, 2009 many city employees began working four 10-hour workdays per week. Fire stations, parks, and libraries remain open five days per week, but the City Hall is closed on Fridays.

The City currently has a projected budget gap of \$19.6 million in FY11, which begins July 1, 2010. The City Manager has not yet submitted a proposed budget to the City Council.<sup>58</sup>

<sup>54</sup> Executive Budget Plan, Fiscal Year 2009/2010, City of Mesa, Arizona.

<sup>55</sup> Mesa, Arizona, Adopted Budget 2009/10.

<sup>56</sup> *The Wall Street Journal*, "As Slump Hits Home, Cities Downsize Their Ambitions," December 26, 2009.

<sup>57</sup> City of Mesa, Arizona, Resolution 9534 – Secondary Property Tax.

<sup>58</sup> City of Mesa, Arizona, Budget Research Office, Budget Presentation to Council, March 4, 2010.

**Milwaukee County, Wisconsin**

<b>Time Period</b>	FY10 (ends December 31, 2010)
<b>FY10 Budget Gap</b>	\$14.9 million
<b>Approved FY10 Budget</b>	\$1.46 billion
<b>Strategies Used to Balance Budget</b>	Furloughs, Pay freezes, Modifications to pension benefits, Increase in employee share of health care premiums

Milwaukee has a population of approximately 960,000. Beginning in FY10, Milwaukee County has made modifications to salaries, benefits, and retirement-related calculations for non-union employees, including:

- A doubling of monthly premiums paid by employees for health care;
- A 200 percent increase in co-pays;
- An across-the-board wage freeze;
- An increase in the retirement age to 60 for new workers; and
- A 20 percent reduction in pension credit.

The Milwaukee County Executive proposed 12 furlough days (4 fixed and 8 floating) for all employees for a projected savings of \$7.2 million. The County Council added an additional 10 furlough days for 1,500 union employees, for an additional savings of \$2 million. The County would eliminate the additional furlough days if the union agreed to the modifications described above for non-union employees.<sup>59</sup>

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<sup>59</sup>Milwaukee Journal Sentinel, "Milwaukee County Board Approves Budget Cuts, Furloughs," February 4, 2010.

## Philadelphia, Pennsylvania

<b>Time Period</b>	FY10 and FY11
<b>Budget Gap</b>	\$1.4 billion in FY10-14; \$150 million in FY11
<b>Proposed FY11 Budget</b>	\$3.87 billion
<b>Proposed/Implemented Strategies to Balance Budget</b>	Sales tax increase, Deferral of pension contributions, \$0.02 per ounce sugary drink tax, \$300 trash fee

Philadelphia has a population of approximately 1.4 million. In May 2009, the City Council adopted an FY10 budget and, as required by state law, the City prepared a five-year fiscal plan to close a projected budget gap of \$1.4 billion.<sup>60</sup> The plan included a \$0.01, five-year increase in the sales tax; a deferral of \$235 million in contributions to the City’s pension fund; and a lengthening of the schedule for the City to make up the unfunded liabilities of the system’s pension fund by ten years. These three measures required the approval of the state legislature.

When the state legislature delayed approval, the Mayor prepared an alternative plan that included closing all branch libraries, health centers, and recreation centers; reducing trash collection from once a week to every other week; and laying off 3,000 city employees including police and firefighters. The state legislature approved the City’s original proposals hours before the alternative was to take effect.<sup>61</sup>

To address the City’s FY11 budget gap of \$150 million, the Mayor proposed two major revenue generating initiatives: an annual garbage fee and a tax on soda and sugary drinks. The \$300 annual garbage fee is projected to raise approximately \$108 million. The proposed \$0.02 per ounce tax on soda and sugary drinks is the highest tax of this kind currently proposed in the country.<sup>62</sup>

Members of the City Council recently proposed amending the Business Privilege Tax (BPT), which currently includes a net-income tax of 6.45 percent of reported business profits *and* a 0.14 percent tax on gross receipts, or total sales; regardless of whether a business makes a profit. The proposed changes would eliminate the net-income portion of the tax and significantly increase the gross receipts portion. The change is designed to target corporations based outside of Philadelphia, while minimizing the impact on local small businesses.<sup>63</sup>

<sup>60</sup> City of Philadelphia, Five-Year Financial and Strategic Plan for Fiscal Years 2010-2014, presented to City Council March 19, 2009.

<sup>61</sup> Pew Charitable Trusts, *Layoffs, Furloughs and Union Concessions: The Prolonged and Painful Process of Balancing City Budgets*, September 22, 2009.

<sup>62</sup> Philadelphia Enquirer, “Nutter Presents 2011 Budget with Soda Tax, Trash Fee,” March 4, 2010.

<sup>63</sup> Philadelphia Enquirer, “Phila. Tackling Taxing Options,” April 4, 2010.

## Phoenix, Arizona

<b>Time Period</b>	End of FY10 and FY11
<b>Budget Gap</b>	\$241.4 million
<b>Approved FY10 Budget</b>	\$3.7 billion
<b>Strategies Used to Balance Budget</b>	Salary and benefit reductions, Elimination of positions, 2% food tax, Program reductions

The City of Phoenix has a population of approximately 1.6 million. In FY10, Phoenix has had large declines in sales and income tax revenue and in February 2010, the Phoenix City Manager reported a general fund deficit of \$241.4 million for the rest of FY10 and for FY11. To reduce the shortfall, the City undertook \$90.9 million in financial transactions (mostly one-time savings), \$10 million in assumed innovation and efficiency savings, and \$1.3 million in reductions to management salaries. These initial strategies left the City with a gap of \$139.2 million, which the City Manager estimated would be equivalent to eliminating 1,310 general fund positions.<sup>64</sup>

To avoid reducing so many positions, the Mayor and City Council enacted a 2 percent food tax, which they expect to raise \$62.5 million in revenue from April 2010 through June 2011. Phoenix is using the additional revenue to avoid cutting positions in the police and fire departments and to avoid cuts in other areas such as community enrichment and services for seniors.

In addition, all labor groups agreed to 3.2 percent wage and benefit decreases over the next two fiscal years, for an estimated FY11 savings of \$46.9 million and an equivalent savings in FY12. Management salaries will decrease by 6.9 percent, for a two-year savings of \$10.6 million.

Phoenix will also reduce general fund expenditures by \$64 million by eliminating 550 positions and reducing operating expenses throughout the government, including \$6.5 million in cuts to parks and recreations, \$9.0 million to the Fire Department, \$19.6 million to the Police Department, \$4.1 million to the Public Transit Department, and \$2.5 million to Street Transportation Department. The City anticipates that 85-95 employees will retire earlier than planned, creating some vacancies for staff whose positions are eliminated.

<sup>64</sup> City of Phoenix budget documents: <http://phoenix.gov/BUDGET/index.html>

**Prince George's County, Maryland**

<b>Time Period</b>	FY11 (begins July 1, 2010)
<b>FY11 Budget Gap</b>	\$85 million
<b>Proposed FY11 Budget</b>	\$3.11 billion
<b>Proposed Strategies to Balance Budget</b>	Furloughs, Hiring freeze, Elimination of funding for vacant positions, Program reductions

Prince George's County has a population of about 835,000 and an FY10 budget of \$3.14 billion (\$2.60 billion general fund). In January 2010, the County projected a budget gap of \$85 million for FY11.

The County Executive's proposed FY11 budget is \$3.11 billion, (general fund expenditures of \$2.59 billion), which is 1 percent lower than the FY10 approved budget. The budget includes reductions to most departments from FY10 levels, including:

- A \$3.7 million reduction in Health Department staffing due to state funding cuts.
- An 8% reduction in the County's General Fund contribution to the Community College and a 20% increase in total tuition and fees (for an overall increase in the Community College budget of 2%).
- A total reduction in the schools' budget of \$20 million, including a \$21 million reduction in the County contribution to the Board of Education, \$15 million below the Maintenance of Effort level. State aid will decrease by \$80 million while federal aid will increase by \$86 million.

In addition to program cuts, the Executive's budget proposes continuing a hiring freeze instituted in January 2008, eliminating funding for vacant positions (expected saving of \$7.4 million), and a furlough program for the third consecutive year (expected savings of \$12 million). The proposed FY11 furlough plan includes 8 days, compared to 10 furlough days in each of FY09 and FY10.

The Executive's proposed budget maintains a Charter-mandated "contingency reserve" of 5 percent of the General Fund, maintains a 2 percent operating reserve, and includes \$12.7 million in pay-go capital projects.<sup>65</sup>

<sup>65</sup> Prince George's County, Maryland, Proposed Operating Budget Fiscal Year 2011.