

Keeping Local Govts Running When the Economy Has Stalled Out



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National Assoc. of Community
Development Extension Professionals, April 2010

"AMERICAN government is waist deep in its worst fiscal crisis since World War II."

- ▶ A recent headline? ... Food for thought
- ▶ Osborne and Hutchinson say government leaders focus too much on what to cut and too little on what to keep. They should budget for outcomes rather than managing crises. The book's title refers to setting a price for government — basically, how much people are willing to pay — then setting priorities, pricing each and developing a purchasing plan for them and negotiating with providers, including government workers.
- ▶ "The Price of Government: Getting the Results We Need in an Age of Permanent Fiscal Crisis." [David Osborne](#) and [Peter Hutchinson, 2004.](#)

Fuel Supply and Requirements

▶ Revenue Supply

- Local, State, & Federal
 - Local Sales and Property Tax
 - Local Fees for Services, including utilities
 - Gasoline, Diesel, Motor Vehicle, & Gross Product
 - Federal (including BIA) Matches, Grants, FEMA

▶ Expenditure Requirements

- Preserve the peace – police, sheriff & judicial
- Educate the children – schools
- Streets, highways, roads – transportation routes
- Repository of Records – city, county & court clerks
- Utilities – Water, Electricity, Waste
- Govt. administration – manager(s), assessor, treasurer, election board, etc



Summary

- ▶ Something choked down the flow of fuel but we can't seem to park the Suburban in the garage and drive the Prius.
- ▶ What can we do about it?
- ▶ Do local government officials understand the whole scenario?

- ▶ Objectives
 1. What do the **challenges** look like?
 2. What can we do about **revenue**?
 3. What can we do about **expenditures**?
 4. What can we do to get more bang for the buck?
(Can we **change** “the way we've always done it.”)

Current Circumstances / Challenges

- ▶ What comes to mind?
 - 1.
 - 2.
 - 3.
 - 4.
 - 5.
 - 6.
 - 7.



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STATE REVENUE FLASH REPORT

WWW.ROCKINST.ORG

FEBRUARY 23, 2010

Final Quarter of 2009 Brought Still More Declines in State Tax Revenue

Lucy Dadayan

Preliminary tax collection data for the October-December quarter of 2009 show continued declines in most states for all three major sources of tax revenue, as well as for overall tax collections. We expect more states to begin seeing year-over-year growth in some revenue sources over the next few months, particularly the sales tax as a result of stabilizing retail sales and consumption. However, even with growth, tax revenue is likely to remain below its prerecession peak for quite some time. We will provide a full report on the October-December quarter, and further analysis of the 2010 outlook for the states, after Census Bureau data for the quarter are available.

The Rockefeller Institute's compilation of data from individual states shows collections from major tax sources were \$134.5 billion in the fourth quarter of 2009, compared to \$140.2 billion for the same states during the comparable quarter of 2008. Overall, tax revenue declined by 4.1 percent in nominal terms. After adjusting

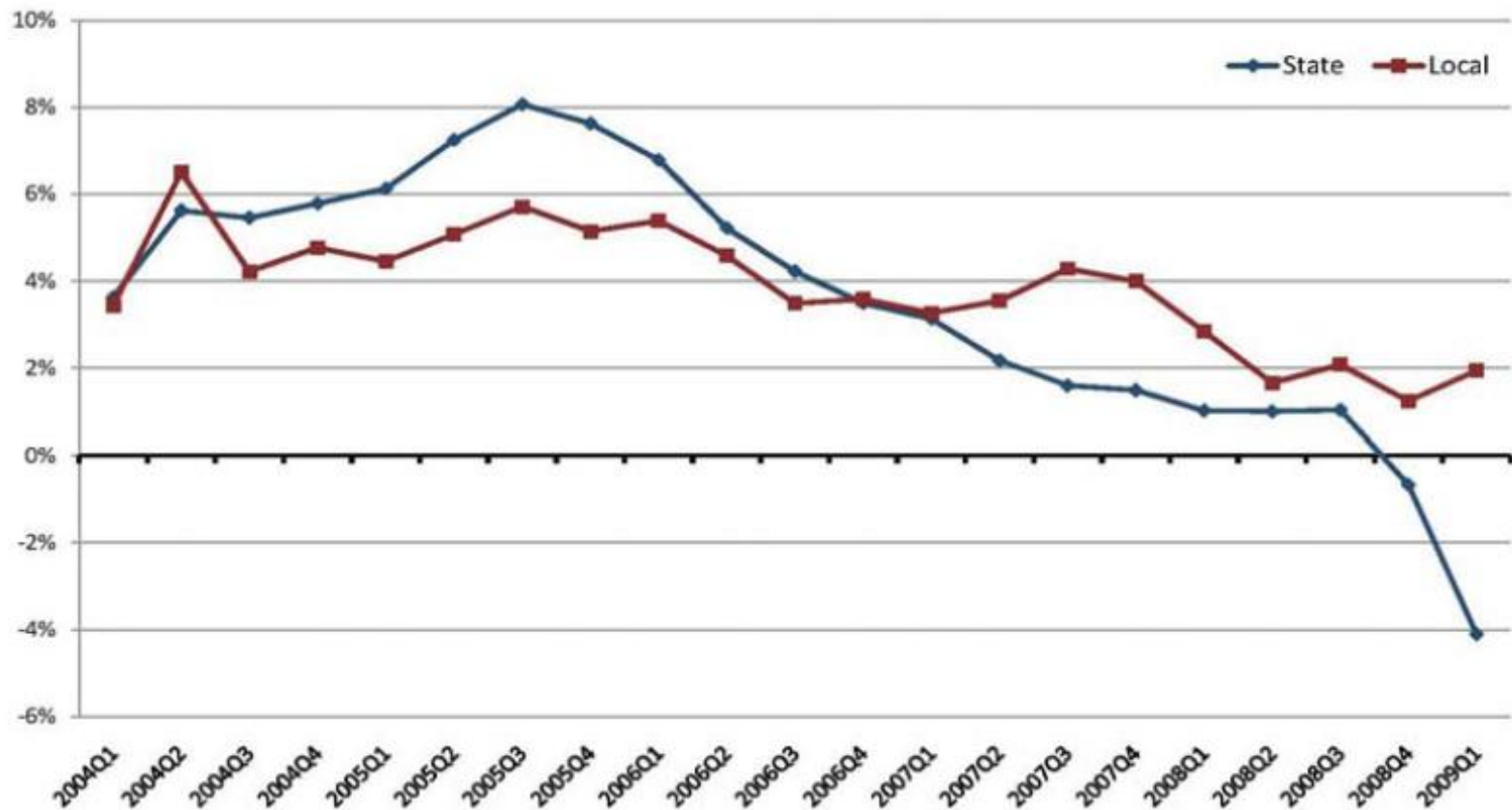
HIGHLIGHTS

- Overall state tax revenues fell by 4.1 percent in the fourth quarter of 2009, compared to the same quarter a year earlier, based on preliminary data. Thirty-nine of 46 early reporting states saw declines in collections.
- Personal income tax revenue continued to decline, with a 4.5

Challenges

Figure 1. State Taxes Are Faring Worse Than Local Taxes

Year-Over-Year Percent Change in Real State Taxes and Local Taxes
Four-Quarter Average of Percent Change



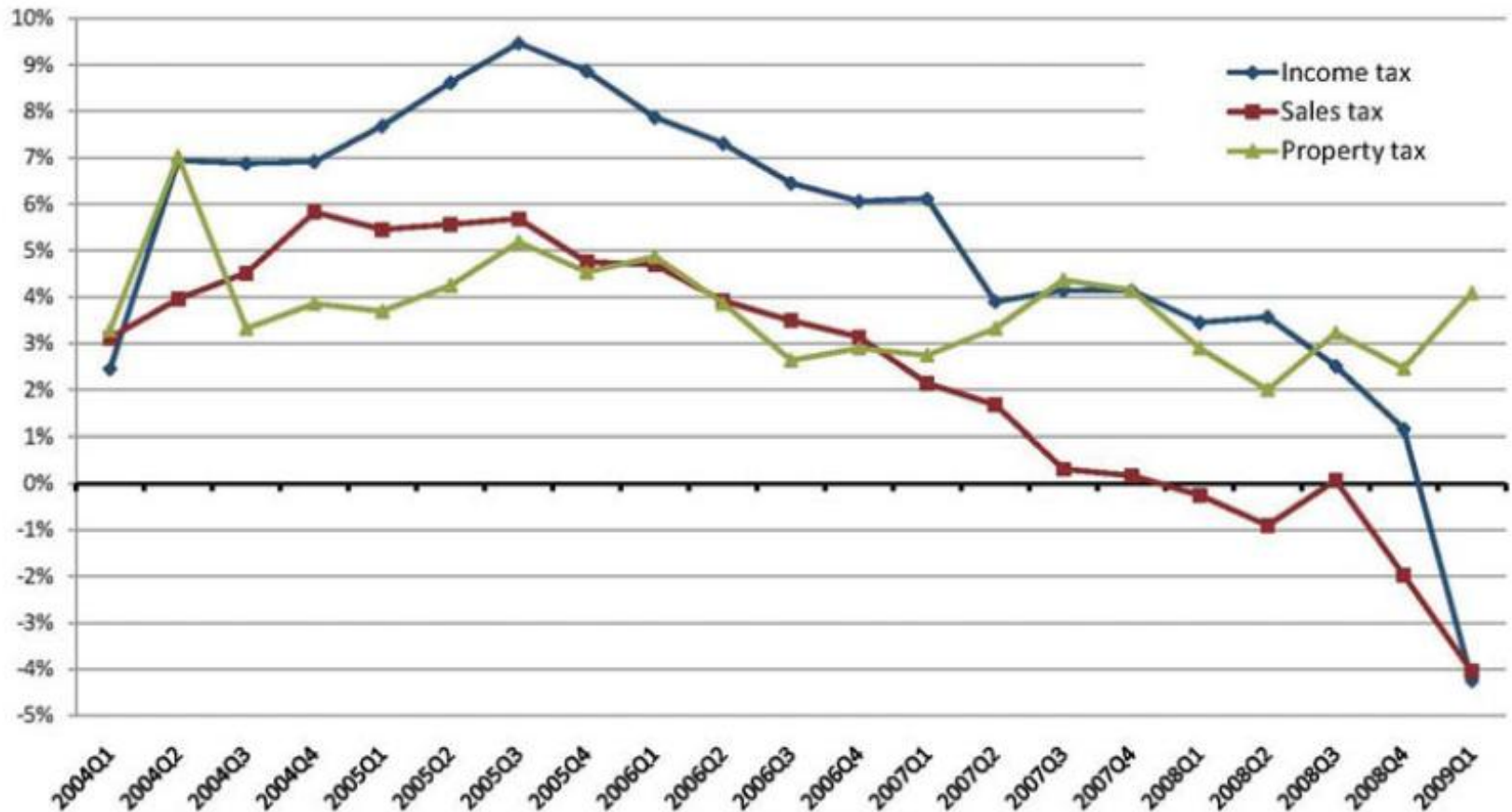
Sources: U.S. Census Bureau (tax revenue) and Bureau of Economic Analysis (GDP price index).

Notes: (1) 4-quarter average of percent change in real tax revenue; (2) No adjustments for legislative changes.

Challenges

Figure 2. Both Income Tax and Sales Tax Declined Sharply

Year-Over-Year Percent Real Change in Major Taxes
Four-Quarter Average of Percent Change



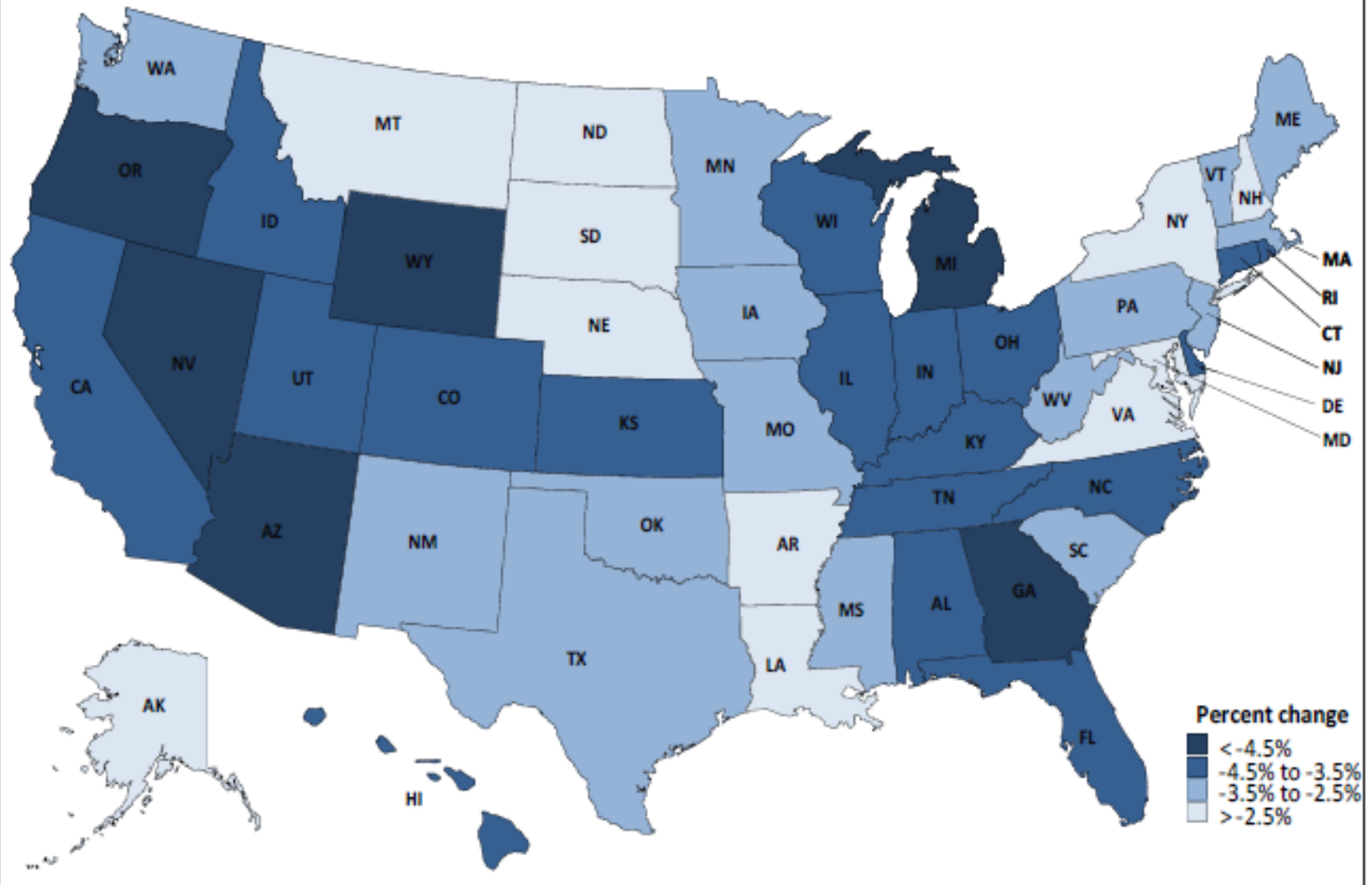
Sources: U.S. Census Bureau (tax revenue) and Bureau of Economic Analysis (GDP price index).

Notes: (1) 4-quarter average of percent change in real tax revenue; (2) No adjustments for legislative changes.

Challenges

Figure 3. Employment Declined in All 50 States in the Fourth Quarter of 2009

October-December 2008 to 2009



March 26, 2010

City, State Budgets Crippled Nationwide

Cities and States Face Tough Cuts, Including Laying Off Cops, Firefighters and Teachers, as Recession Rolls On



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Tough Choices for States

At least 41 states are now running into mid-year budget gaps, as D...

(CBS) Five fires broke out in Flint, Mich., this week on the same day the city began laying off 20 of its 94 firemen. Running an \$8 million deficit, Flint has no money to pay these 20 firefighters, or 46 of its 193 police officers who are also receiving pink slips. It's a tough thing for the city with the second highest crime rate in the state.

"They didn't just trim a little bit," says Flint Police Officers Association president Keith Speer. "They cut our throats."

CBS News correspondent Dean Reynolds reports Flint is hardly alone. Some much bigger towns are deeply in the red and facing painful choices. Los Angeles and San Francisco have \$400 million shortfalls; Dallas \$190 million; Boston \$130 million, and Baltimore \$120 million. Over all, at least 41 states have mid-year budget gaps.

"It's ironic because as people's needs are rising dramatically, the resources available to the state to meet those needs have collapsed," says Jon Shure of the Center on Budget and Policy Priorities.

No bottom yet

Big revenue source down 12th straight month



STEPHEN PINGRY / Tulsa World

By BRIAN BARBER World Staff Writer

Published: 3/9/2010 2:23 AM

Last Modified: 3/9/2010 10:15 AM

Tulsa's sales-tax revenue this month dropped 11.6 percent or about \$2 million from March 2009, capping off 12 straight months of negative numbers.

That's actually \$122,000 above the revised budget projections for the month, Finance Director Mike Kier said.

Tulsa sales tax receipts: 12-month comparison to previous year Figures shown in millions of dollars



OK Case, Selected Taxes, FY 2010


| OKLAHOMA | | | | |
|---------------------------|----------------------------|-------------------------------|-------------------------|-------------|
| As of Sept. 4, 2009. | | | | |
| Division | This Year to Date FY 10 | Last Year to Date 09/05/08 | Increase or Decrease | % Change |
| DIESEL FUEL TAX | 18,828,635 | 20,746,455 | -1,917,820 | -9 |
| GASOLINE TAX | 54,308,443 | 50,434,953 | 3,873,490 | 7 |
| GROSS PRODUCTION TAX | 118,404,312 | 327,545,036 | -209,140,724 | -63 |
| INCOME TAX WITHHOLDING | 422,667,598 | 463,186,261 | -40,518,662 | -8 |
| MOTOR VEHICLE COLLECTIONS | 103,456,053 | 119,765,268 | -16,309,215 | -13 |
| SALES TAX | 580,897,029 | 648,557,953 | -67,660,924 | -10 |
| USE TAX | 48,821,491 | 58,304,451 | -9,482,960 | -16 |
| TOTAL | 1,525,920,257 | 1,887,947,533 | -362,027,276 | -19 |

Source: <http://www.oktax.onenet.net/rpt/p/rpd2415/rpdc420a/summaryr/2009090420090904193940.txt>

Local Govt Revenues

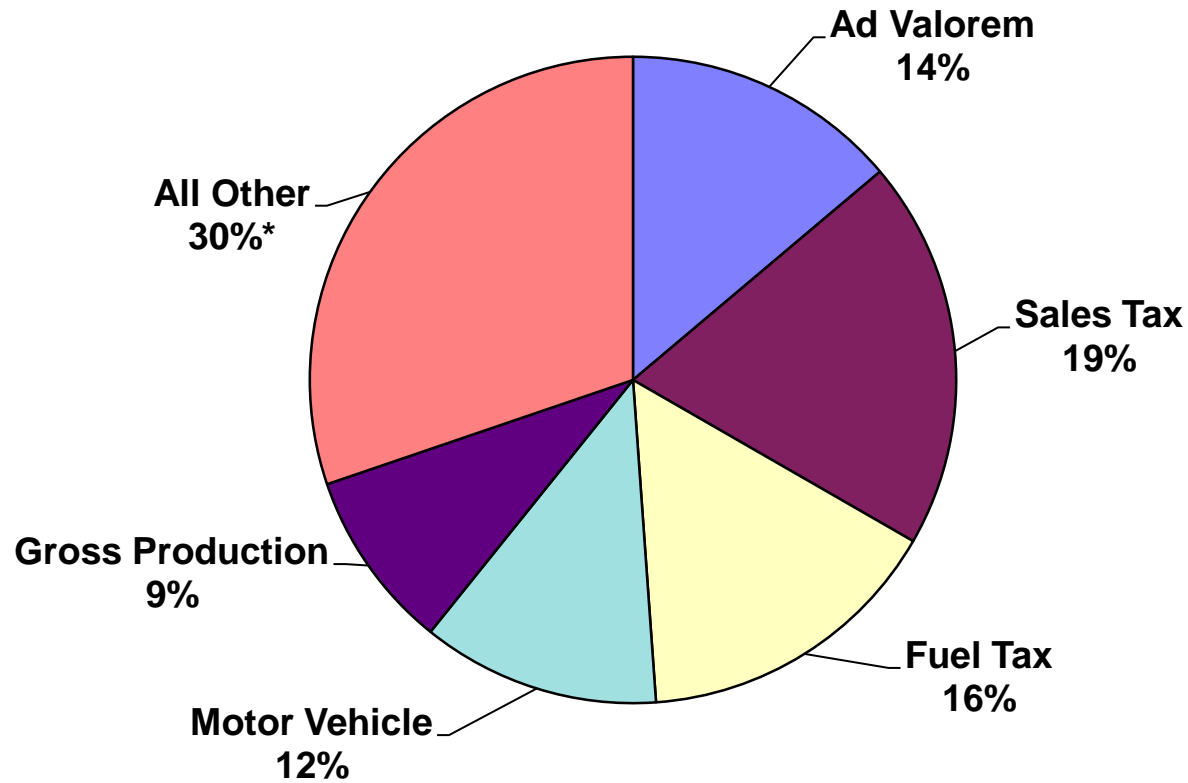
- ▶ Know your local govt revenue sources
 - Property tax, sales tax, fees, state transfers, ...
- ▶ Know the relative size of each
 - Varies among types of local govt
- ▶ Know the relative volatility of each
 - What are your historic trends
- ▶ Know basic economic factors affecting each
 - e.g. employment > personal income > ...
- ▶ Know the available options
 - Legal limits, vote of the people, council/board authority

Local Govt Revenues

- ▶ General Fund – primary concern today
 - Property Tax
 - Sales Tax
 - Interest Earnings
 - Intergovernmental, e.g. formula driven education funding
 - ▶ Special Revenue Funds–
 - Intergovernmental, e.g. formula driven county road
 - Fees for services
 - Sales Tax
 - Grants
 - ▶ Proprietary Funds
 - Utilities
 - Fees for services
 - ▶ These may impact each other
- 

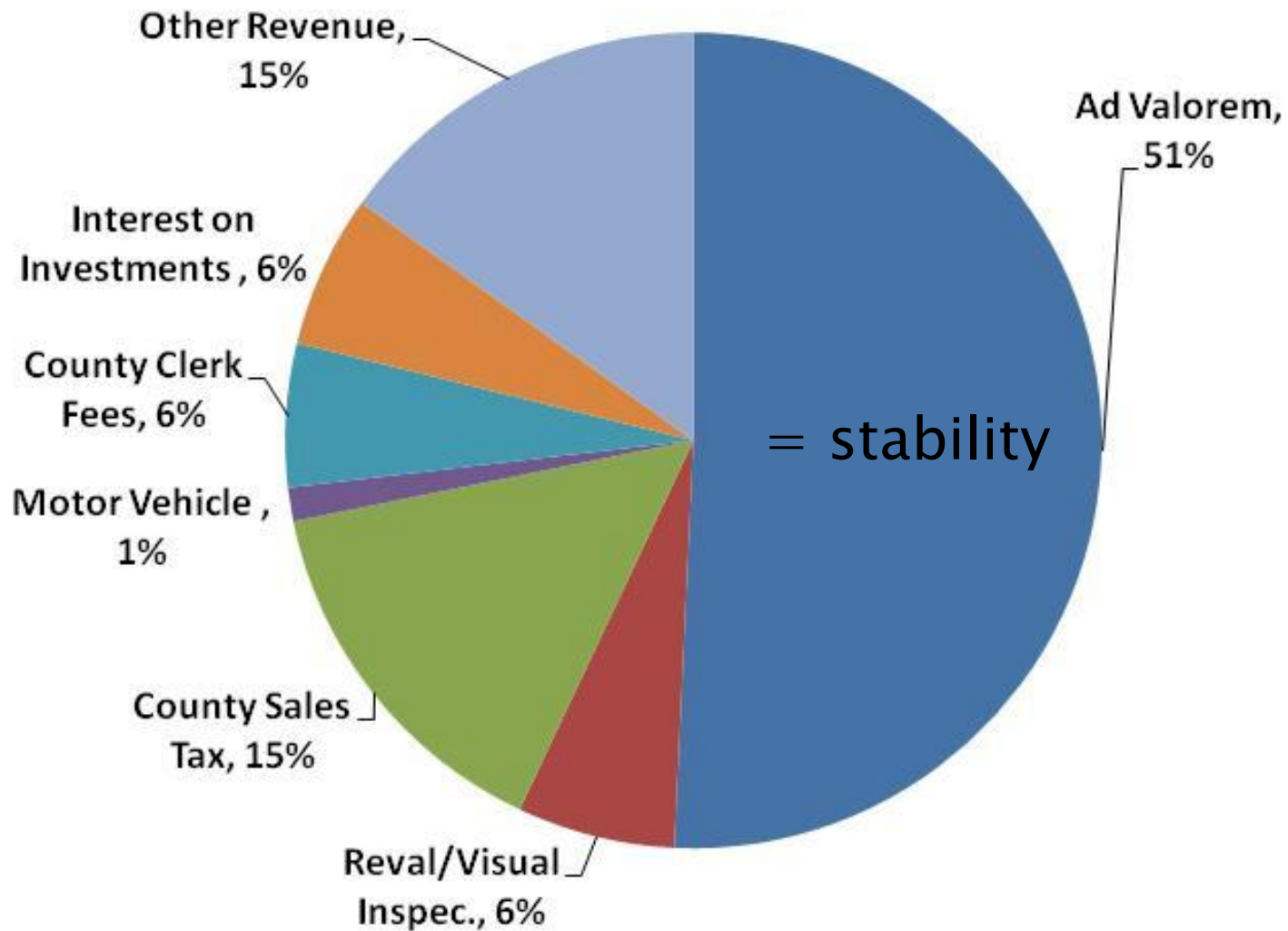
County Government Revenue Sources for All Oklahoma Counties, FY 2007

- General, Highway, and Special Revenue Funds



"All Other" includes fees for services, interest earnings, state and local government reimbursements, jail bed rental, state and federal grants, etc.

Average County General Fund Revenue Source, FY 08



Ad Valorem Value

- ▶ The average cost of a home in Oklahoma has decreased by 3.7 percent Year end 2008 to 2009.

Oklahoma Assoc. of Realtors, <http://oklahomarealtors.com/mlsstatistics/>

Median Home Prices

- ▶ Spokane, WA down 8.5%, 4th Q '08 to 4th Q '09
- ▶ San Jose, CA up 11.4%
- ▶ Sioux Falls, SD down 3.8%
- ▶ Dallas/Ft. Worth up 3.0%
- ▶ Charleston, WV down 1.2%
- ▶ Atlanta, GA down 3.4%

National Association of Realtors,

http://www.realtor.org/rmonews_and_commentary/articles/2008/nar_research_maps_msa?LID=RONav0022

What is happening to Property Tax Revenues?

| FY 2003 to FY 2008 | Counties of Oklahoma |
|--------------------|----------------------|
| Average % Growth | 31% |
| Maximum % Growth | 86% |
| Minimum % Growth | 3% |

How does your city, county, or school district compare?

Fees

- ▶ **County Clerk Fees**
 - Fixed Fees for Filing Deeds, Leases, Mortgages, Liens, Etc.
 - Amount of fees depends upon economic activity
 - Number of real estate transactions
 - Number of Oil and Gas Leases
 - Number of Wind Energy Leases
- ▶ **City electric, water, sewer, trash fees**
 - Fee structures may be “green”
 - Fee structures may subsidize other city services
 - Fee / rate may be driven by input costs

Change in County Clerk Fees (General Fund)

| FY 03 to FY 08, All Counties | % Change in Fess |
|------------------------------|------------------|
| Median | 14% |
| Maximum | 201% |
| Minimum | -27% |

How does your county compare to other counties?

Pontotoc County 3%

Grant County 37%

How did document filings of deeds, mortgages, leases, etc. impact your county clerk fees collected for the General Fund?

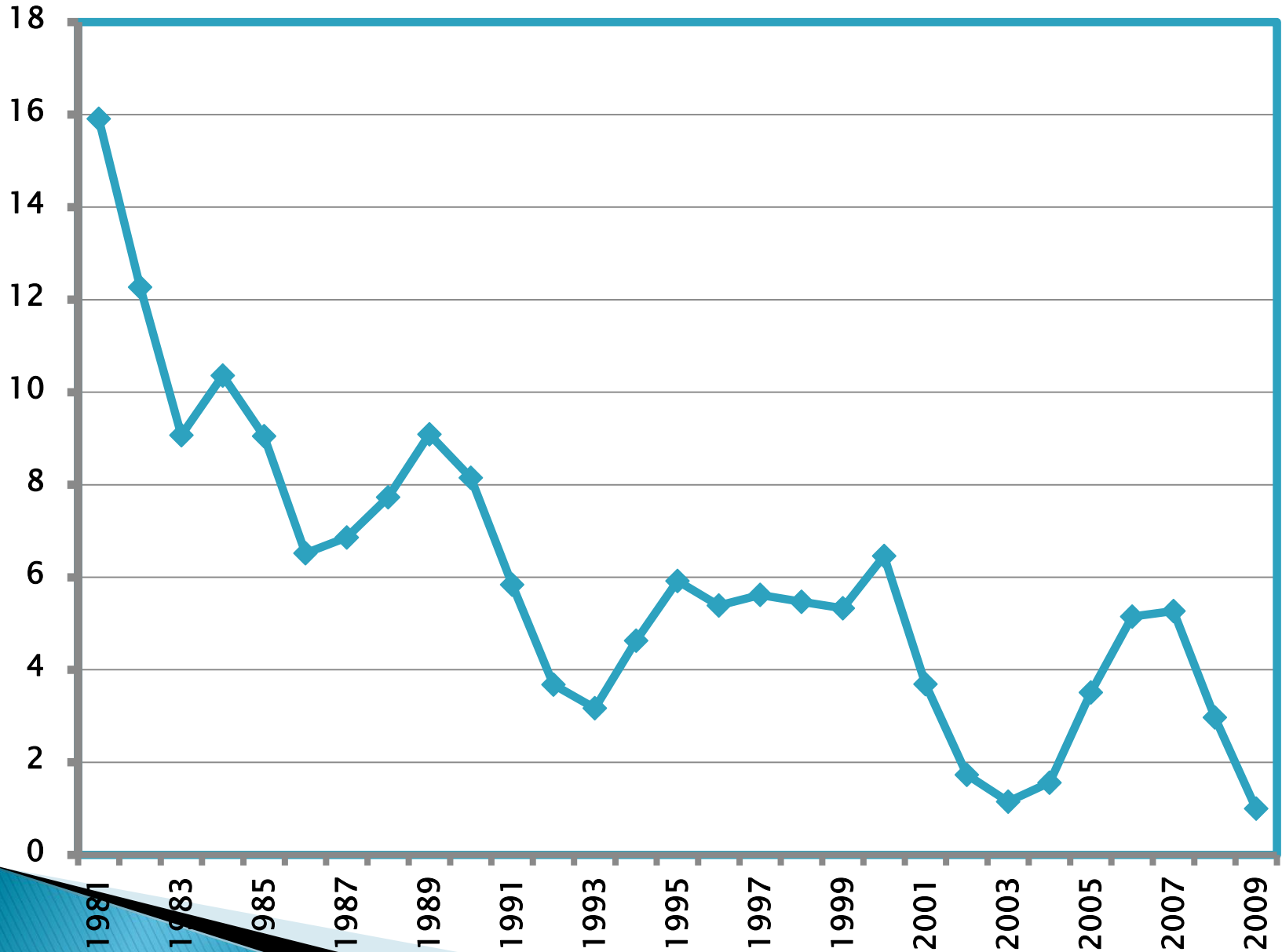
Change in General Fund Interest on Investments

| FY 03 to FY 08, All Counties | % Change in Interest Earned |
|------------------------------|-----------------------------|
| Median | 114% |
| Maximum | 685% |
| Minimum | -71% |

How does your county compare to other counties?

| | |
|--------------|------|
| Texas County | 74% |
| Atoka County | 221% |

Interest Rates, 3 Month CD, 1982 - 2009

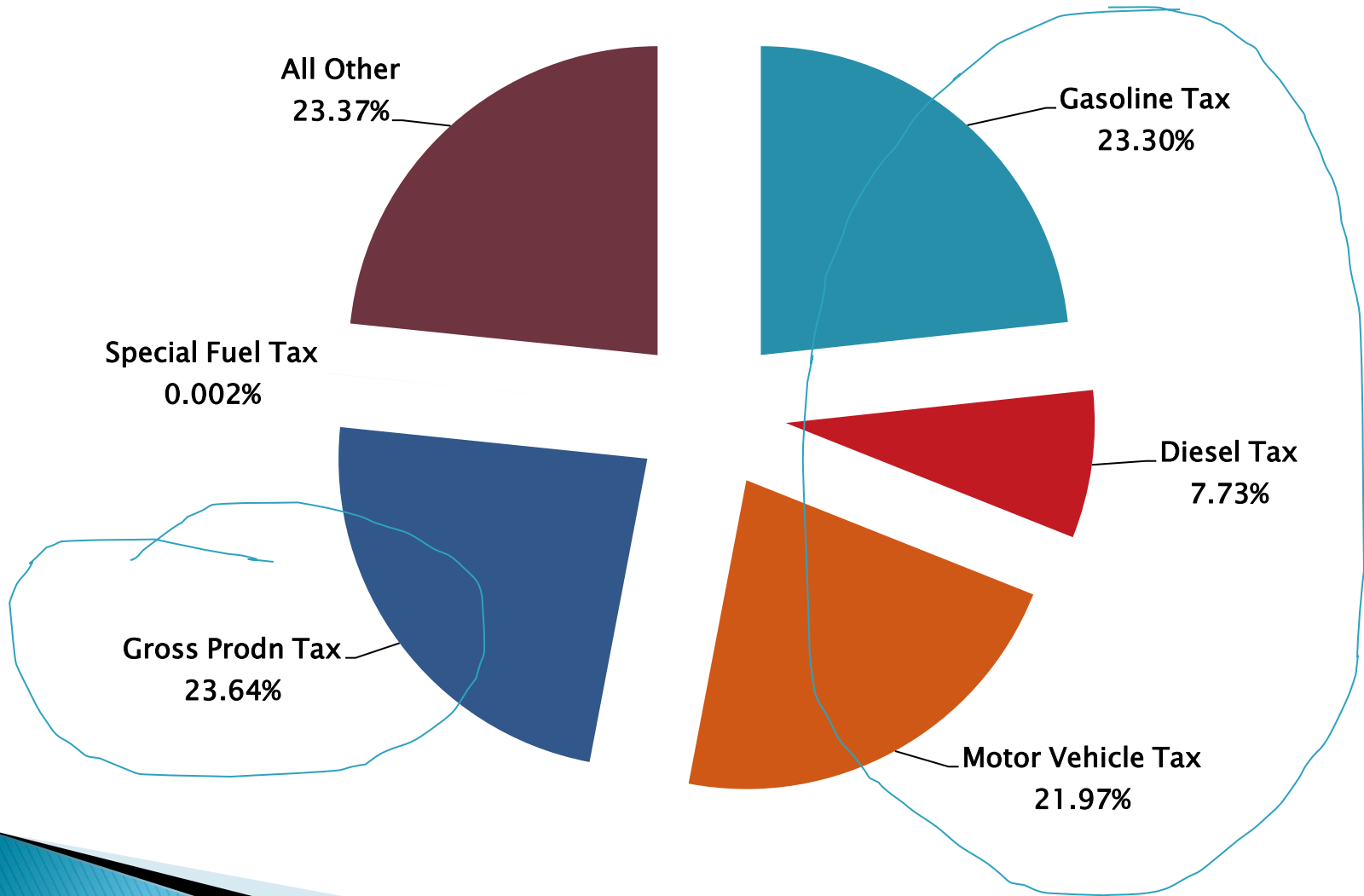


Road, Street, Highway Funds

- ▶ Taxes:
 - Gasoline , Diesel , Motor Vehicle , Gross production
 - Formulas for allocating each
- ▶ State Department of Transportation Road & Bridge Funds
- ▶ Federal Transportation Funds
- ▶ Tribal Funds
- ▶ FEMA Funds
- ▶ Stimulus Funds
- ▶ Grants, e.g. REAP
- ▶ Ear-marked sales tax

Know and Understand Intergovernmental Taxes and Allocation Formulas

Average County Highway Fund Revenue Source, FY 08



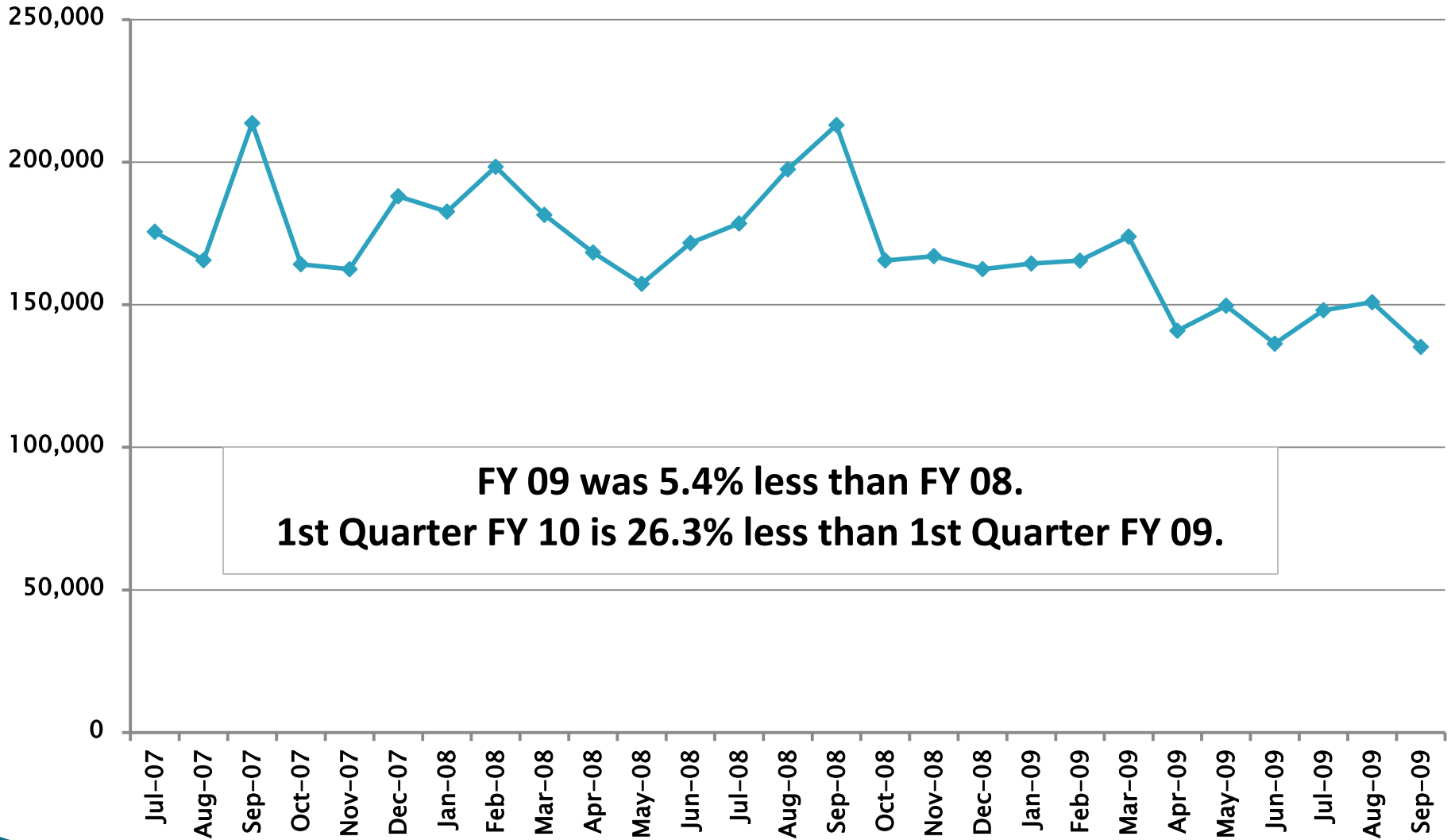
Sales Tax

- ▶ More volatile source of govt funding
 - Cities more dependent than counties.
- ▶ Consumer Driven
 - Consumers Drive 70% of US economy
- ▶ Breadth of Tax and Exemptions
 - Number of exemptions
 - Grocery tax

How many county sales taxes decreased from FY 08 to FY 09?

- ▶ 18 of 75
 - ▶ How will your county do in FY 2010?
- 

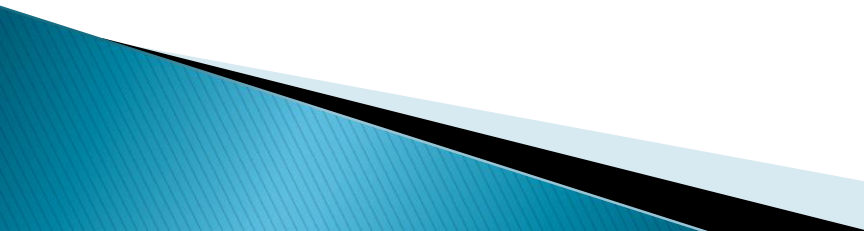
Haskell County Sales Tax, July 07 – Sept. 09



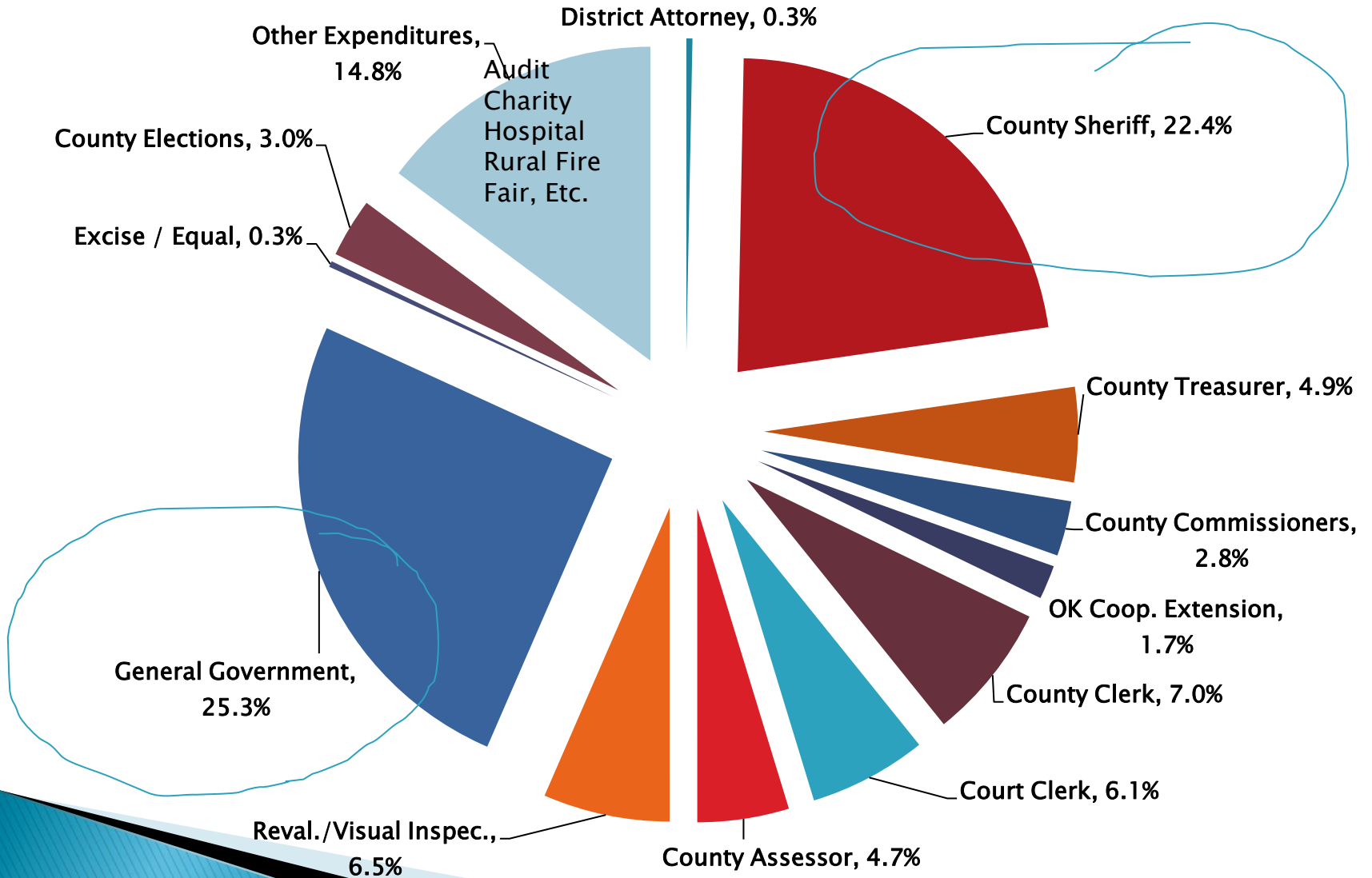
Other Special Revenue Funds

- ▶ Such funds are often ear-marked, so how do they contribute?
 - What determines the amount collected?
 - How steady/volatile are they?
 - What determines how they are used?
- ▶ Example:
 - County Treasurer “Resale Property Fund” – penalty and interest for late payment of property taxes
 - May be used only for collection of delinquent taxes
 - Office employees working on these collections
 - Deputy sheriff serving the delinquent tax warrant

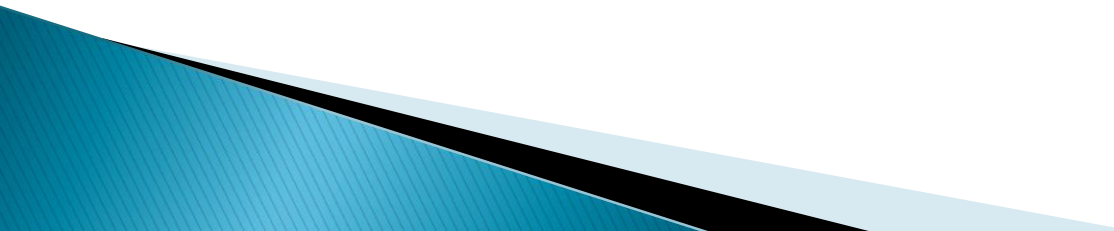
Expenditure “Requirements” - the Flip Side

- ▶ Inflation generally
 - Utilities, repairs, fuel costs, supplies
 - ▶ Mandated Offices / Functions
 - From basic functions to school class sizes
 - ▶ New Mandates
 - Jail Operations, OSHA, FMLA, Retirement contributions, ...
 - ▶ Insurance
 - Health and other employee benefits
 - Property and Liability
- 

Average County General Fund Expenditures in Oklahoma, FY 2007



Future Outlook

- ▶ Don't look for significant improvement before FY 2012.
 - ▶ So, practically speaking, what can you do?
 - To maximize revenue
 - To minimize expenditure
 - To act wisely
- 

Maximize your Revenues

- Investment policy
 - Do you have one?
- Transfer of Funds
 - transfers to avoid cash shortfalls and avoid interest charges
- Grants
 - State Govt – REAP
 - Federal Justice
 - Stimulus ([ARRA](#) – American Recovery & Reinvestment Act)
- Use Tax
 - By Resolution of the Board after sales tax is passed
- Sales Tax maximum is 2%
 - By vote of citizens
- Assessment Ratio
 - 13.5% for Real Property
 - 15% on Personal Property
 - By vote of citizens

Maximize your Revenue

- ▶ Take advantage of innovative options, e.g.
 - Tax Warrants for delinquent personal property
 - Deputy sheriff salary and vehicle
 - Trash Cop
 - TIF – Tax Increment Financing District
 - BID – Business Improvement District
- ▶ Long term and Short term Goals
 - Jail or courthouse renovation
 - Balancing budget
- ▶ Understand your revenue sources
 - Transparency in reporting
- ▶ Maintain a “healthy” carryover
 - Is there sufficient funds to cover the “lean” time

Expenditures

- ▶ **Sharing Resources vs Protect Turf**
 - Equipment
 - Employees
- ▶ **Co-op Purchasing among**
 - Departments
 - Paper; internet service; office supplies
 - Purchasing in quantity – keep good consumable inventories
 - Blister (individuals wrapped) packs for medications
 - Counties
 - Pharmacy for Prisoners
 - Medical supplies
 - Joint road projects

Expenditures

- ▶ **Example of Sharing/Cooperating**
 - **Circuit Engineering Districts in Oklahoma**
 - 8 Districts, 9–10 counties in each
 - Pool resources for engineering & technical assistance for county roads and bridges
 - Significant savings – time and money – on engineering and construction costs

- ▶ **Example #2, One County's Innovation**
 - Jail inmate meals catered by the local school
 - Economies of scale
 - Meet nutritional requirements

Expenditures

- ▶ **Education for Employees**
 - Safety programs tied to Insurance Claims/Premiums
 - Wellness programs offered by insurance company
 - Employment/Management Programs
- ▶ **Insurance Deductibles**
- ▶ **Conserve Energy**
 - Turn off computers/lights
 - Energy efficient light bulbs
- ▶ **Labor Force Management**
 - Full Time vs. Part Time
 - Contract for services

Change – Be informed

▶ Local

- Communicate with each other
 - Budgets are part of everyday life
 - Meet to discuss budgets throughout the year
 - Understand goals for department; keep the dialog open
 - Don't assume the largest budget can take the largest cut
- Be involved with local economic development
- Be open with and seek input of constituents

▶ Legislative

- Keep in touch with local legislators
- Gauge the impact of pending legislation

▶ State Associations / Government

- Attend meetings, read newsletters, ...
- Pick up the phone! Learn from peers
- Utilize technical assistance provided by Extension and various agencies and organizations.

Think outside the box?

- ▶ What has your local government done?
- ▶ Consider opportunities for purposeful change.

