LAYOFFS, FURLOUGHS AND UNION CONCESSIONS:

The Prolonged and Painful Process of Balancing City Budgets

September 22, 2009

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EXECUTIVE SUMMARY

For big-city governments trying to cope with the recession, balancing budgets invariably means cutting labor costs, which are the largest portion of overall spending. And that can't be done in any significant way without dealing with unionized workers.

As a result, the shape of municipal budgets has been heavily influenced by hard bargaining between labor and management. In many cities, a key element has been how municipal unions react to being asked to make concessions affecting all of their members so as to prevent some from losing jobs.

This tense labor-management dialogue, in which unions are being forced to choose among painful alternatives, is one of several factors that have prolonged the budget process in some places well past the deadlines. Other factors include revenue estimates that continue to deteriorate, declines in state aid and a tendency to put off hard decisions as long as possible. For Philadelphia, the major cause of delay was its reliance on action by the state legislature, action which did not come until the eleventh hour.

The Philadelphia Research Initiative's previous report on big-city governments in these hard economic times, published last May, noted that only four of 13 cities studied—Atlanta, Columbus (Ohio), New York and Philadelphia—were considering major tax increases as part of their budget-balancing plans for fiscal years beginning July 1. All four of those cities ultimately enacted those tax increases. But even for some of them, raising taxes did not eliminate the need to reduce expenditures and to look to labor costs as a prime source for budget cuts.

A common pattern across the country has been for big-city mayors to talk initially about massive layoffs—and then tell the unions that those job losses can be averted only through across-the-board concessions, often characterized as temporary, usually including unpaid furlough days:

- In Chicago, Mayor Richard Daley threatened as many as 1,500 layoffs if city labor unions failed to agree to a number of concessions, including furloughs. In the end, he wound up laying off 431 workers, all of them from the two unions that did not agree.
- In Boston, Mayor Thomas Menino confined his layoffs, 495 of them, to unions that rejected his call for a wage freeze.
- In New York, where Mayor Michael Bloomberg initially talked about nearly 4,000 layoffs, there haven't been any so far, largely because the unions agreed that workers should make increased contributions to health-care costs.
- In Seattle, city officials facing a new shortfall in August persuaded most of the city's non-uniformed unions to take unpaid furloughs and said that any forthcoming layoffs might fall more heavily on the non-complying unions.

In several cities, months after budgets were to have been in place, hard choices remain, both for city governments and for the unions:

- In Detroit, where the situation is as dire as anywhere, Mayor Dave Bing has said he will lay off more than 1,000 people, one-tenth of his workforce, by late September unless the unions agree to have their members take 26 unpaid furlough days this year. He has described the city's fiscal situation as "a train to hell."

- In Baltimore, city officials are working on a strategy for dealing with a new $60 million revenue shortfall—after having taken difficult steps to balance the city's original budget.
- In Los Angeles, forced reductions among non-uniformed employees were averted when the city and the unions came up with an early-retirement plan to reduce the workforce. The plan was funded in part by increased pension contributions from current and future workers. But the city, which has been spending $1 million more per day than it's been taking in, is still nowhere near balancing its budget.

Philadelphia's budget process has had its own special set of complications. The budget, enacted on schedule in May, was contingent on authorization from the state legislature for the city to raise its sales tax and defer contributions to its pension funds. The authorization came on September 17, the day before Mayor Michael Nutter had planned to send out notices for the nearly 3,000 layoffs he said would be necessary without legislative action.

Now the stage may be set for some of the same sort of choices in Philadelphia that have faced municipal unions elsewhere. To balance the budget, the Nutter administration has said it cannot increase wages for the next five years and must cut the cost of benefits by $25 million a year. If the administration holds to those positions, the non-uniformed unions may wind up in the same situation as unions elsewhere—forced to make concessions or face job losses—unless savings can be achieved in other ways. The unions representing police officers and firefighters will not face such a choice, at least not directly, since their contracts are worked out through binding arbitration.

Philadelphia is one of a few cities trying to address recession-related budget problems in a long-term way. By law, it must submit a five-year budget plan to a state board created solely to keep watch on the city's finances. But most of the cities studied expect another round of tough budget choices next year, if not at mid-year, since revenues show little sign of bouncing back. None has undertaken anything approaching a fundamental review of how its government functions or what services it might be able to stop providing—although the size of Detroit's fiscal problems may force that city to do so.

KEY FINDINGS

In a typical year, a big-city government spends two or three months wrangling over its annual budget. The mayor makes a proposal, the city council offers some amendments, and it's done. Not so in this year of the Great Recession. With state and local governments facing ongoing revenue declines, the budget process in many cities now seems virtually endless, with constant adjustments needed as the bad news keeps coming.

And the choices don't get any easier. With unemployment rates high, the public's appetite for tax increases is low, as is the willingness of city employees to accept reductions in compensation or jobs.

Some economists say that the end of the recession may be in sight.[1] But there is no end in sight for the hard times that the people who run city governments are experiencing as they try to balance their budgets—or keep them balanced.

In a research brief published last May, the Philadelphia Research Initiative looked at how 13 major cities including Philadelphia were coping with their municipal budgets in the recession. The goal was to examine Philadelphia's approach to the fiscal crisis in the context of its peer cities around the country. At the time, Philadelphia and most of the other cities were in the process of coming up with budgets for their fiscal year 2010, which began July 1; a few others, including Chicago and Seattle, were talking about making major, mid-course adjustments in budgets that cover calendar year 2009. As a result, our initial report focused on proposals under consideration rather than final outcomes. This follow-up report examines the choices those cities have made and tried to make during what has been a difficult time for the governments of many large American cities.

With most of the cities having mid-summer budget deadlines, one might have expected clarity by September. But in some places, the budget-balancing struggles have not ended. The delays are due partly to the need for city officials to deal with groups outside their own ranks, including balky state legislatures and wary municipal unions. The available options haven't gotten any easier, whether they

COMPARISON CITIES

Our initial study of city budgets, *Tough Decisions and Limited Options: How Philadelphia and Other Cities are Balancing Budgets in a Time of Recession*, published in May 2009, looked at 13 cities: Atlanta, Baltimore, Boston, Chicago, Columbus (Ohio), Detroit, Kansas City (Missouri), Los Angeles, New York, Phoenix, Philadelphia, Pittsburgh and Seattle.

These cities were chosen for reasons of size, geography, history and the way in which they were hit by the recession. At the time, most had budget proposals pending; officials were in the process of making the tough choices required to balance their financial ledgers.

This report looks at the decisions made—and those yet to be made. We provide detailed updates regarding all of the cities except Kansas City, which already had adopted its budget prior to the initial report and has not had to revisit it.

be reducing services or raising taxes, laying off workers or making them take unpaid furloughs.

The nature and timing of the problems vary from one city to another. In Boston and Baltimore, lower-than-expected levels of state aid forced city officials to look at additional cuts. New York and Philadelphia lost tens of millions of dollars in expected revenue from increased sales taxes; their respective state legislatures did not authorize those tax increases as quickly as city officials would have liked. Los Angeles and Detroit are still trying to determine the nature and scope of layoffs, furloughs and service cuts.

In those cities and elsewhere, hard bargaining between labor and management is having a major impact on the shape of budget-cutting efforts. Across the country, in one form or another, city officials have presented union officials with a choice: Do you want to see large numbers of your members made to take unpaid furloughs or accept other reductions in overall compensation? Or would you prefer to have a smaller group of individuals lose their jobs? Either option can produce savings for a city, although with differing impacts on government's ability to deliver services now and in the years to come.

Los Angeles has been struggling to achieve the savings that city officials promised in May when they approved a budget. Working with the unions representing non-uniformed employees, Mayor Antonio Villaraigosa's administration negotiated an incentive-laden, early retirement plan in June—and then had to renegotiate it in September—to reduce the workforce and avert layoffs. The plan, which will close about a third of the city's remaining $405 million shortfall, is financed largely through union concessions. In addition, unpaid furloughs for police officers are under consideration, and the fire department already has started shutting down rescue units on a rotating basis.

Detroit, which is in dire straits thanks to a 29 percent unemployment rate and a history of fiscal difficulties, also is enduring an extended and contentious budget season. The city laid off 205 of its roughly 10,400 workers in late August. Some bus service has been eliminated, and officials want city unions to agree to reduced pay and benefits. The city has a budget deficit in excess of $300 million (or more than 20 percent) for its current fiscal year, and Mayor Dave Bing has called the situation "one of the worst financial, educational and social crises" in the city's history.[2] Layoff notices, effective September 26, have been sent out to another 1,061 workers, although Bing has said that some of the layoffs can be averted if the unions make concessions.

Philadelphia finally has a meaningful budget in place, after a summer of ongoing uncertainty, doomsday scenarios and political brinksmanship. Mayor Michael Nutter called the period when the city was awaiting desperately-needed authorization of its plans by the state legislature "possibly the [city's] most critical…in half a century."[3] Now his administration must work out deals with its unions, all of whose contracts expired June 30. The city's budget calls for savings of $25 million per year in the cost of employee benefits.[4] Most of those savings will have to be achieved in the pending arbitration and negotiation processes with the four major labor organizations representing city workers. As of June 30, the city had 27,287 full-time employees, down 466 from a year earlier and 2,651 from the levels authorized in the fiscal 2009 budget. The number of actual layoffs has been far smaller.

In these cities and others, non-union workers have had no choice but to accept pay freezes and furloughs.

Of the 13 cities studied, only four sought last spring to enact major tax increases. In all four, those tax increases were enacted, although not without controversy and/or delay. Most of the others have decided not to consider tax increases, even as their fiscal situations have worsened.

Philadelphia, which had proposed a one-cent increase in the sales tax, did not receive the necessary approval for it from the state legislature until mid-September—more than two months after the city's budget deadline. New York encountered a briefer delay in getting approval for a half-cent sales tax hike.

In Columbus, Ohio, voters on August 4 narrowly approved raising the city income tax by half a percentage point in order to prevent service reductions and restore previous cuts. In Atlanta, the city council, by an 8-7 vote in June, raised property tax bills by 7.2 percent, thereby ending that city's four-hour-a-week furlough program for virtually all city employees; the program had been in place for more than six months.

In some places, layoffs, which were central to the debate in the spring, materialized in the summer, although generally in smaller numbers than were initially discussed. As was apparent at the time, some mayors were using early threats of massive layoffs as leverage to extract concessions from the unions. In some cities, layoffs were confined to the unions that refused to give ground.

Boston's Mayor Thomas Menino promised to save the jobs of workers whose unions accepted a wage freeze; most opted for the deal, and the city laid off 495 workers in those unions that did not go along. In Chicago, Mayor Richard Daley laid off 431 workers in those unions that did not agree to accept reduced pay, hours, and benefits. In New York, after Mayor Michael Bloomberg initially talked of nearly 4,000 layoffs, the job losses were put off after workers agreed to contribute more to the cost of their health insurance.

Deals like these help to limit job losses, but often there is a catch. The unions that agree to concessions generally are guaranteed that there will be no additional layoffs for a specific period of time, locking cities into maintaining staffing levels as their fiscal situations remain uncertain.

While some cities have tried to confront their fiscal problems head on, others have used stop-gap measures to make the books balance this year. By doing so, they have effectively kicked their underlying fiscal problems down the road and guaranteed that they'll face another round of hard choices next year—even if the economy starts to recover.

Philadelphia did not have the option of taking it one year at a time; state law requires it to present a credibly-balanced, five-year budget plan to a state oversight board, the Pennsylvania Intergovernmental Cooperation Authority. This may serve the city well in the long-run, by making future budget cycles less prolonged, less painful and less contentious. But it turned the current budget process into a long-running, high-stakes melodrama.

A few other cities seem to have done enough this year to allow them to ride out the recession without too much additional fiscal trauma. But most expect another round of tough budget choices next year or at mid-year since revenues show little sign of bouncing back.

Phoenix, which faced one of the largest budget shortfalls in percentage terms in the spring, started cutting costs early and made substantial headway until falling revenues created a new budget gap. Baltimore made the difficult choice to close facilities and trim services in the spring, which left it with a relatively wide array of options when confronted in August with a new $60 million shortfall, nearly five percent of its total budget. New York, which may be looking at a second round of budget-cutting later this year, already is projecting a deficit for next year in excess of $5 billion.

Boston relied on a number of one-time fixes, such as drawing down reserves and putting off equipment purchases, and will have fewer options in the year ahead. In Chicago, officials used money from the leasing of the city's parking meters—part of Mayor Richard Daley's move to privatize some city assets—to close this year's budget gap, and analysts are predicting a $520 million shortfall for next year. Philadelphia produced a balanced five-year budget plan by stringing out the repayment of the pension system's unfunded liabilities for 30 years instead of 20.

"It's going to be a tough couple of years," Dwight Dively, the director of Seattle's Department of Finance, said when the existence of a new, $72 million deficit was announced in August.[6] His counterparts in cities across the country would no doubt agree.

CITY SUMMARIES

The remainder of the report summarizes the budget actions taken in a number of major American cities between May and September of 2009. The report on Philadelphia comes first and is followed by cities where substantial budget issues remain to be resolved: Detroit, Los Angeles, Baltimore, Seattle and Phoenix. After that, the six remaining cities are examined in alphabetical order.

The grim picture that emerges is not limited to our selected cities. In a recent survey of 379 municipalities with populations of at least 10,000, the National League of Cities found that many have resorted to hiring freezes and layoffs to balance their budgets—and that 88 percent of city finance officers say they are less able to meet their fiscal needs this year than last.[7]

Philadelphia

Philadelphia is one of the cities where the process of putting together and balancing a budget for fiscal 2010 went well past the legal deadline. In fact, Mayor Michael Nutter first declared the existence of a budget crisis in November 2008 and started reducing costs and cutting back services.

The most recent installment in the crisis began in May. That was when the city council adopted a trimmed-down budget and, as required by state law, a five-year fiscal plan aimed at closing a projected $1.4 billion gap. The five-year plan relied on three key elements: A one-cent, five-year increase in the sales tax; a deferral of $235 million in contributions to the city's pension fund for several years; and a lengthening by 10 years of the schedule for the city to make up the pension system's unfunded liabilities.[8]

All three steps required the approval of the Pennsylvania state legislature, and city officials hoped to get that approval by July 1, the start of the new fiscal year. But the legislature was embroiled in a bitter and prolonged dispute over the state budget, so getting its attention wasn't easy. Meanwhile, the state board that oversees Philadelphia's finances, the Pennsylvania Intergovernmental Cooperation Authority, warned that the city would have to tear up its budget plan and create a new one if the legislature didn't act by August 15.[9]

As that deadline approached, Nutter warned of a grim "Plan C" that would take effect in early October if the legislature did not act.[10,11] The plan called for closing all branch libraries, health centers and recreations centers; reducing trash collection from once-a-week to every other week; and laying off roughly 3,000 city employees including hundreds of police officers and firefighters.[12]

On August 5, the state House approved the sales tax hike and pension financing.[13] But when the Senate did not quickly follow suit, the mayor went ahead and submitted Plan C to the oversight board. Disputes in Harrisburg caused the state legislation to be tossed back and forth between the House and Senate until September 17. On that day, with closing notices posted on city libraries and the Nutter administration hours away from sending out layoffs notices, the legislation was enacted and civic chaos averted.

With that, the focus shifted back to the process of working out new contracts between the city and its unions, a process that had been stalled pending legislative action. Philadelphia's five-year plan includes no money for new salary increases for any city workers and calls for reducing the cost of employee benefits by $25 million per year.[14] Hanging over the process is the possibility that the Nutter administration—which has avoided widespread layoffs thus far—might eliminate more jobs should it not get the savings it wants from the new contracts.

Detroit

These are tumultuous times in Detroit. With union negotiations stalled, the unemployment rate at 29 percent and the population dwindling, Detroit's budget problems are overwhelming and ongoing—even though the fiscal year began on July 1.

In late May, on schedule, the city council adopted a budget proposed by interim Mayor Kenneth Cockerel. It included more than 300 layoffs, a 10 percent wage cut for nonunion employees, the elimination of 509 vacant positions, and the lowering of its annual trash fee from $300 to $240 for most homeowners. But few of those measures actually went into effect. That's because the city had elected a new mayor, former basketball star Dave Bing. Upon taking office, Bing opted to postpone the layoffs and the wage cut, saying that he wanted to "look at all of the inefficiencies that are in the system and work on those first."[15] He also hoped to win concessions in his negotiations with the city's unions.

By August, having won no concessions from the unions, Bing concluded that the situation was more serious than he'd thought and that layoffs were inevitable. Two hundred and five city employees lost their jobs in a first round of layoffs at the end of August, and city officials announced plans to get rid of as many as 1,061 additional workers (10 percent of the city's workforce) as of September 26.[16, 17, 18] The mayor—who estimated the current budget deficit at more than $300 million, or about 20 percent of the overall budget—also went ahead with the original wage cut for non-unionized employees, implementing it through unpaid furlough days.[19]

Bing told union leaders that he would be able to reduce the number of upcoming layoffs if they would accept a 10 percent reduction in pay, to be achieved through furlough days. This offer was met with stiff resistance, including some strike talk.[20] The city also proposed changes in employee benefits such as reducing the number of paid days off and putting in place a 401(k)-style pension plan for new hires, eliminating paid lunch hours and yearly bonuses and dropping coverage of some elective-care items from health-insurance coverage.[21] In addition, the city has reduced local bus service and is talking about out-sourcing such functions as tax collection, trash pickup and payroll.[22]

At one point, Bing announced that the city was in danger of running out of cash by October and suggested that bankruptcy and state receivership might be around the corner.[23] He later backed off those gloomy projections but still labeled the situation one of the worst crises in the city's history. "I don't think bankruptcy is necessarily in the future," Bing said in early September, "but I don't want anybody to think we are out of the woods."[24]

Los Angeles

Los Angeles has had a budget in place for months. But some of the city's main fiscal issues remain unsolved.

In late April, Mayor Antonio Villaraigosa unveiled a $4.44 billion budget plan for the fiscal year beginning July 1, seeking to close a 12 percent budget gap amounting to $530 million. The proposal, in addition to calling for nearly 1,600 layoffs, asked the city's unions to accept concessions such as pay cuts, unpaid days off and increased contributions to retirement benefits. And city council endorsed it in May, before the unions had agreed to anything. There was no consideration of raising taxes, which would have required voter approval.

In June, the city and its civilian unions worked out what they thought was a big part of the solution—an early retirement plan designed to reduce the city's workforce by 2,400 (about 6 percent) and slash payroll by $200 million a year.[25, 26] The plan would have offered monetary incentives for employees to leave; raised pension contributions and postponed cost-of-living adjustments for those who stayed; and barred the city from laying off any members of the unions involved.[27, 28, 29, 30] But problems soon arose, the main one being that the early-retirement program would not save the city as much money as promised.

By September, the plan was on the verge of falling part, and the mayor had withdrawn his support. With a deadline at hand, city council kept the plan alive by giving labor negotiators time to salvage it even while starting the process of issuing layoff notices to 926 workers. In the end, the unions agreed to new concessions—including even higher pension contributions from its members—thereby making layoffs unnecessary.

The city's negotiations with its police and fire unions, aimed at achieving budget-mandated savings, have stalled. Villaraigosa is seeking $142 million through 14 percent cuts in overall compensation—salaries, bonuses, overtime, and benefits. If the police and fire unions fail to agree to those terms, the city has the power to unilaterally slash their pay and hours. At the same time, though, the mayor wants to continue police hiring to make good on a campaign pledge to put 1,000 new officers on the streets. The Los Angeles Police Department has begun developing contingency plans to furlough officers at least two days a month starting in October.[31] And the Fire Department has begun shutting down rescue units and ambulances on a rotating basis and is considering furloughs.[32, 33, 34]

Baltimore

Baltimore's experience demonstrates the degree to which the budget-balancing process in this time of recession seems to be never-ending—and how unreliable seemingly prudent revenue assumptions can turn out to be.

This spring, when Mayor Sheila Dixon presented her $1.35 billion budget plan, the city faced a relatively modest $65 million shortfall. To close the gap, the city cut library hours, shortened the swim season at city pools, closed several pools and recreation centers, decreased the frequency of trash pickup, closed fire engine companies on a rotating basis and laid off 150 city employees, about one percent of the total workforce.[35, 36, 37, 38] In July, Budget Director Andrew Kleine said that city officials, by being realistic and "not using reserves, stimulus money, tax increases, or furloughs to balance the budget, have positioned ourselves as best we can for fiscal 2011."[39]

But before that next fiscal year could arrive, the current one had to be dealt with yet again. In late August, months after the city budget was adopted, declines in local revenues and new cuts in state aid forced the city to re-open the whole thing.[40] The new budget gap was calculated at about $60 million. To help deal with it, city officials want to impose furloughs of five-to-ten days, with higher-paid employees taking the longer furloughs; on five days, including Christmas Eve and the day after Thanksgiving, government offices would be closed. As has been the case in other cities, the furlough plan would require the cooperation of the labor unions.

Through it all, Baltimore's leaders have been consistent on one point—an unwillingness to raise taxes.

Seattle

In May, Seattle made mid-year reductions to its 2009 budget, which covers the calendar year. These cuts, which amounted to $13.3 million, included layoffs of 30 employees, unpaid furloughs for executive office staff and library closures for the week before Labor Day.

The city has just begun its 2010 budget process and projects a $72 million shortfall (about 8 percent) at this point. Although Mayor Greg Nickels won't present his 2010 budget proposal until the end of September, he already has outlined his policy priorities and struck a deal with the unions representing the vast majority of the city's non-uniformed workers. The unions agreed to have their members take 10 days off without pay next year; non-unionized city employees will do the same. The furlough program will save $7.5 million, thereby easing but not eliminating the pressure on city officials to bridge the gap with layoffs. In announcing the deal, the mayor's office noted that four unions did not go along, "which may result in a higher number of layoffs in those areas of city government."[41]

Nickels has promised to maintain funding for public safety and human services, such as homeless shelters and food banks, and has said that cuts to such areas as administration, parks maintenance and transportation were likely.[42] The city also plans to tap its $30.6 million rainy-day fund.

Phoenix

In percentage terms, Phoenix at one point faced one of the larger deficits for fiscal 2010 of all the cities studied, 17 percent.[43] But officials there made it go away without raising taxes. They did so by taking a number of steps to cut costs and taking them early, starting last fall. Those measures included closing senior centers, reducing library hours, increasing fees for after-school programming and encouraging citizens to donate their time and money to the city. Phoenix also imposed a hiring freeze, dipped into reserve funds and diverted some property tax revenue from debt service to current operations. And city departments spent less than the trimmed-down budget called for, $35 million less in fiscal 2009, which ended June 30. As a result, Phoenix began fiscal 2010 with a modest reserve.

According to Cathleen Gleason, the city's budget and research director, employees in all parts of the government worked to contain costs, large and small. More than two-thirds of the savings came from the police and fire departments, which controlled overtime expenses, delayed expenditures and looked for efficiencies. The rest were small items that added up. Explained Gleason, "People are starting to see, wow, if I don't try to do my job more efficiently, and save costs when I can, it could be my job next time." The city also got some bargains on well-timed large equipment purchases and found savings by putting off preventive maintenance for its fleet.[44, 45]

But the savings only accomplished so much. By mid-September, city officials said that Phoenix would be facing a substantial mid-year budget gap, perhaps in the $65 to $95 million range, as revenues continue to decline.

Atlanta

In Atlanta, events surrounding the budget unfolded pretty much as Mayor Shirley Franklin had intended. At the end of June, the city council narrowly enacted her $541 million budget, which included an increase in property taxes. By doing so, council ended the unpaid, four-hour-a-week furloughs that had been imposed on all city employees, including police officers and firefighters, since December.[46] During the time that the furloughs were in place, some city agencies were closed on Fridays, and fire stations went dark on selected weekends, causing some residents to worry about public safety.[47, 48] Faced with the choice of increasing taxes during a recession or ignoring such concerns in an election year, the council passed the budget by an 8-7 margin. In addition to raising taxes, the budget refinanced the city's unpaid pension obligations and ended an expensive jail contract with Fulton County, of which Atlanta is part.[49]

To some degree, the municipal election this fall could become a referendum on the tax increase, which will cause the average property tax bill to rise by $240 or 7.2 percent.[50] Councilwoman Felicia Moore, who is seeking re-election and supported the tax increase, wonders whether she and her colleagues will "be seen as the heroes or the villains" come November.[51]

Boston

In April, Boston Mayor Thomas Menino proposed a $2.4 billion budget that assumed a $62 million reduction in state aid to the city and gave unions representing city workers the choice between a wage freeze and layoffs. By the time the budget passed in June, several of the unions had decided not to accept the wage freeze, and state aid had been reduced by an additional $32.5 million.[52] The Menino administration made up this new gap by employing several one-time fixes—such as drawing down reserve funds, reducing employee benefit costs and putting off equipment purchases—and by continuing a hiring and spending freeze. And in the end, it laid off 495 employees (about three percent of the workforce), with the layoffs limited to those unions that rejected the wage freeze.[53]

But the strategies used to close this year's deficit don't provide a long-term plan for dealing with the city's budget woes. Meredith Weenick, associate director of Administration and Finance for the City of Boston, said that the city must take a hard look at what services it offers, project its revenue outlook and then "figure out how to be an organization that is of such a size that we can…make our own way in the world."[54] The city did emerge from its budget process with authority from the Massachusetts legislature to generate some new revenues this year and in the future through taxes on meals and hotel stays.

Chicago

Of all the cities studied, Chicago produced as much drama as any during the late spring and early summer, even though it did not have a budget to pass. In May, five months into the city's 2009 fiscal year, Mayor Richard Daley announced that the city faced a $300 million shortfall caused by larger-than-expected declines in revenues; its general fund budget for 2009 was $3.2 billion.[55] To close the shortfall, Daley took money from a rainy-day fund created when Chicago leased its parking meters to a private operator.[56] And he said that he would cut labor costs by $24 million, threatening as many as 1,500 layoffs unless city labor leaders agreed to sufficient concessions.[57, 58]

All but two of the city's 27 unions affected by the threatened layoffs acquiesced by the July 15 deadline. They accepted packages that included combinations of the following elements: 12 unpaid furlough days per year, nine or more unpaid holidays per year, comp time instead of cash overtime, increased health care contributions and reduced sick-time accrual.[59] The city wound up laying off 431 members of the two unions that did not go along; among them were truck drivers, administrative staff and library workers.[60, 61] The city's police officers and firefighters are currently working without a contract; those negotiations may soon go to arbitration. Chicago faces a challenging year ahead, projecting a $520 million shortfall for 2010.[62] As a money-saving option, Daley is considering outsourcing some aspects of snow removal.

Columbus (Ohio)

By May, Columbus had already made deep cuts in city services to close a $114 million or 17 percent shortfall for its 2009 fiscal year, which began January 1. Reductions in overtime pay meant fewer police on the streets of Ohio's capital city. Most recreation centers were closed, and city workers were required to take five unpaid furlough days.[63] Faced with the prospect of deeper cuts for next year, Mayor Michael Coleman proposed an increase in the city's income tax from 2 to 2.5 percent, a move that had to be approved by the voters. Without higher taxes, Coleman warned, Columbus would be facing mass layoffs of police officers and fire fighters. In a vote held August 4, the tax plan was enacted, albeit narrowly, with about 52 percent of voters giving their approval.[64, 65]

The mayor, who campaigned vigorously for the increase, promised to dedicate the new revenue, estimated at more than $90 million a year, to preserving basic city services and undoing some of the budget cuts made this year.[66,67] Even with the tax increase, city officials are projecting a modest budget gap for next year, since other revenues are continuing to decline. As a result, the city has delayed planned capital projects—road work, equipment purchases, park improvement and building construction.[68]

New York

Much has changed since New York City Mayor Michael Bloomberg proposed his $59.4 billion budget for fiscal 2010 in January. It was a grim document that proposed laying off several thousand workers, reducing library hours and closing fire stations. It also called for increasing the sales tax by half-a-cent, subject to approval by the state legislature, and for extending the tax to cover all clothing sales.

But much of what Bloomberg proposed hasn't happened. In June, he worked out a deal with city labor leaders to defer the layoffs in exchange for increased employee contributions to health care costs, saving the city approximately $400 million over two years.[69] Then, in enacting the budget, city council made some changes of its own. It agreed to raise the sales tax to 8.875 percent but did not go along with the mayor's proposal on clothing sales. Instead, it exempted clothing purchases under $110. Council also kept most libraries open six days a week, avoided closing firehouses and scrapped another element, a controversial Bloomberg proposal to charge a five-cent fee for plastic shopping bags.[70] The state legislature approved the sales tax hike but did so later than the city would have liked, costing it an estimated $60 million in lost revenue.[71]

With Bloomberg and many council members up for re-election this fall, some analysts predict the possibility of more substantial budget cuts after Election Day. The mayor has noted this "may not be the last word on this year's budget."[72,73] Even with the sales tax increase, the city is facing a projected deficit for fiscal 2011 of up to $5.6 billion.[74] So in New York, tough choices remain.

Pittsburgh

Pittsburgh was the only city highlighted in our previous study that expected a modest surplus in 2009 and no deficit for 2010. Now, the city has turned its attention to addressing its legacy costs—a badly underfunded pension system as well as substantial costs for retiree health care and workers' compensation. In addition, a state oversight board has predicted that, without corrective action, the city's deficits will return in 2011. The board has called for caps on union raises, increased payments into the city's pension fund, possible tax increases on people who work in the city and a tax on the payrolls of nonprofit organizations.[75] The revenue proposals require approval from the state legislature. If they are not approved, the board said, the city should impose tax hikes on its residents.

Mayor Luke Ravenstahl and members of Pittsburgh City Council have come up with a plan of their own that includes some bonuses and raises for unionized employees. Should the legislature not authorize the payroll tax on nonprofits, the city would seek to impose new fees on those organizations, charging universities $50 for each undergraduate student and hospitals $25 for each patient admitted.[76, 77] The city is also considering raising the all-day parking rate at city-owned garages.[78] ■

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ACKNOWLEDGEMENTS

The Philadelphia Research Initiative would like to thank the city officials in Philadelphia and throughout the country who provided information about the budget challenges their cities face: Greg Giornelli in Atlanta; Andrew Kleine in Baltimore; Meredith Weenick in Boston; Ann McNabb and Peter Scales in Chicago; Joel Taylor in Columbus; Jan Anderson in Detroit; Wayne Cauthen in Kansas City; David Luther and Ray Ciranna in Los Angeles; Marc LaVorgna in New York; Maia Jachimowicz in Philadelphia; Cathy Gleason in Phoenix; Bill Urbanic in Pittsburgh; and Dwight Dively in Seattle.

We also are grateful for the support of our colleagues at The Pew Charitable Trusts who have contributed to this report: Donald Kimelman, Cindy Jobbins and Emily Cheramie Walz.

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This report was written by **Laura Horwitz**, research associate of The Pew Charitable Trusts' Philadelphia Research Initiative. It was edited by project director **Larry Eichel**.

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