

## My Perspective on the City's Current Deficit Crisis

By Connie Hudson

You have heard much lately in the news regarding the City's deficit crisis as well as viewpoints on the need for an additional 1 cent sales tax to provide an immediate solution to this deficit problem. Please allow me to share my thoughts and perspective on our City's current situation.

### **Background on the FY2010 Mobile Budget Deficit Crisis**

While the global economic recession is certainly a contributing factor to the City's current deficit problem, it is by no means responsible for the entire \$18.5 million dollar deficit. The factors involved in producing the deficit are:

1. Sales and use tax collections are projected to be under budget by \$6.6 million;
2. The City miscalculated the budgeted "carryover" funds from the previous year's budget. Instead of the \$1.3 million carryover as was reported in the FY2010 budget the actual audited figure is a \$3.7 million deficit; and
3. The largest figure attributing to the budget deficit is the Attrition deficiency figure at \$8.1 million. The attrition figure (projected vacant employee positions) was \$12.9 million in the previous year's budget, but projected to be \$20.9 million in the FY2010 budget, a 62% increase! If the Mayor's \$20.9 million budget attrition figure was realized, the City would lose hundreds more employees than the layoffs threatened by the Administration following the rejection of the sales tax increase.

During budget discussions in September 2009, I questioned the \$20.9 million attrition figure which was being used to balance the budget. I argued that it was grossly unrealistic to expect job vacancies to increase at a cost savings in one year of over \$8 million dollars and that the cost savings projections were unattainable. The Mayor and Council majority disagreed with my attrition argument and the budget was approved on September 24, 2009. Following budget approval, the Administration took NO additional steps to reduce spending in preparation for a budgetary deficit.

On March 29, 2010 (6 months after budget approval and with only 6 months remaining in the fiscal year), the Administration presented to the Council and public a Perspective on City Budget that identified an \$18.5 million dollar budget deficiency and offered as deficit solutions, a 10% across the board salary cut, operating cuts (non-personnel), a capital transfer and a 2% reserve. All reductions were incorporated EXCEPT the 10% salary cut leaving a \$4.8 million dollar deficit balance for FY2010. The 10% salary cut was abandoned amid discussions presented by Councilman Carroll regarding a garbage fee. The garbage fee idea was also abandoned as a proposal emerged from the Mayor on April 8, 2010 to increase the City's sales tax by 1 cent (a 25% city sales tax increase). The additional sales tax would bring in approximately \$7 million dollars in the last quarter of the current fiscal year and a whopping \$28 million in FY2011. Far more revenue than any current or future projected deficit!

When the Council did not approve the Mayor's sales tax proposal, the Administration immediately began a media campaign that threatened massive employee layoffs purportedly targeting public safety personnel. Fearful of losing their jobs, City workers immediately began voicing support for the sales tax proposal as the "only option" to remedy the deficit. An orchestrated attempt by the Administration and some members of the Council ensued to bring the sales tax back up before the Council for another vote.

### **My Perspective**

First, I do not believe that a tax increase is the answer to a fundamental spending problem. During the current Administration, our City has realized significant revenue increases, i.e., in 2005 following Hurricane Katrina, revenues increased over 50% for several months as Mobile became the shopping focal point for citizens all along the Gulf Coast. The successful annexations of commercial property into the City in 2008 and 2009 also brought in over \$20 million in additional revenue. Now midway through FY2010, the City is staring at an \$18.5 million deficit? Why did the Administration not recommend action months ago to avert the full effect of this crisis?

Other Councilmembers and I have put ideas on the table that, if initiated by the Administration, could address the immediate deficit crisis, i.e., petition the Mobile County personnel Board for a policy change to allow shortened workweeks (4-8hr. day weeks) or allow employee furloughs, reduce the current 14 paid holidays to 12, eliminate take home vehicles for non Public safety first responders, increase user fees for City services, etc. Remember, the remaining deficit is at \$5 million, so that is the figure to target with immediate cost saving measures. The Mayor and some members of the Council have, so far, been unwilling to consider any other deficit reduction options besides a 1 cent sales tax.

Regarding the Mayor's threats of a "forced layoff of hundreds of employees" that include "every city department and all job classifications"; public safety and sanitation services should never be compromised or threatened in any efforts to address the budget deficit. Personnel reductions for Fire and Police first line responders and sworn officers should never even be considered.

Once the immediate budget deficit is addressed, the City should begin a comprehensive study of the upcoming FY 2011 budget with targeted efforts to reduce costs for the long-term not just operational costs which cannot be sustained indefinitely. Operations should be streamlined and made to be more efficient, downsizing operations/personnel where necessary. All outside contracts should be critically reviewed and some discontinued, Privatization of some services should be explored to produce cost savings.

Several weeks ago, a President/CEO of a large local company headquartered in Mobile volunteered to form a task force to include him and other business leaders to study the budget and make suggestions to improve efficiency and cost savings in the City's FY2011 budget. We should take advantage of this offer! Why not be willing to listen to

business leaders with experience in operating large companies and handling multi-million dollar budgets?

Only when the above steps are taken to systematically reduce costs and spending should the Mayor and Council consider an increase in taxes. If cost reduction steps in the FY2011 budget planning are still not adequate to fund basic city services, then and only then, should the City increase taxes, and then only to the extent that is necessary to address a projected budget deficit.

The proposed sales tax is a highly regressive tax that places a disproportionate tax burden on lower and fixed income citizens. It is also detrimental to business, particularly small businesses that are already struggling to stay afloat in the current economic recession. When businesses fail or relocate out of the City, jobs are lost, and the City's overall sales and use tax revenues continue to decline. The long-term impact of a sales tax increase on business growth, job creation, real estate development and business/industry recruitment is extremely negative. What happens at the end of two years when the sales tax "sunssets" and revenues are not sufficient to sustain current spending levels?

For further clarification, questions or comments, please contact my office at [connie.hudson@cityofmobile.org](mailto:connie.hudson@cityofmobile.org) or 208-7441.