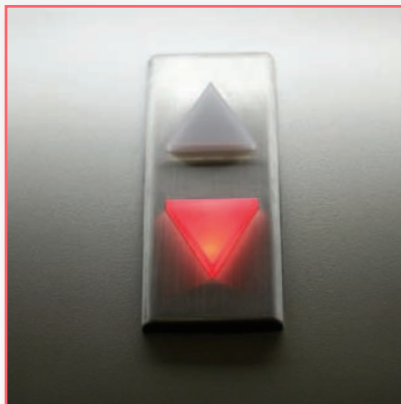


# Going Down

Public sector sheds jobs in slow recovery



PHOTO BY GARY BARBER



**T**eresa Evans sighed with relief as October 2009 came and went. Her employer, the city of Overland Park, Kan., issued an earlier email, warning employees of pending layoffs that month. When nothing happened, she thought maybe everything was fine.

“Then they said it will happen after the first of the year,” she said. “Everyone was on pins and needles for weeks.”

The thought of losing her job weighed on Evans, but nothing happened when the calendar turned over to 2010. She decided that her job was secure.

“I was in a specialized field, and our unit was supported through annual fees the city collected,” she said.

Evans had worked 10 years as a certified elevator inspector for the city. The position was a logical transition from her previous one as a codes inspector for Kansas City, Mo. She enjoyed her job that required annual recertification and continuous training. Overland Park paid her well for her expertise and experience.

“I worked three days a week as an inspector and also as a scheduler for our unit,” she said.

Commercial growth provided Evans with steady work. Overland Park attracted many stable and growing firms, including corporate giants Sprint Nextel, YRC Worldwide and

Black & Veatch, and high-rises and office complexes dotted the city’s 75-square-mile skyline by the mid-2000s.

Overland Park required elevator inspections every six months. Sometimes Evans worked all day on a multistoried building; other days she worked at three or four smaller ones. As she drove to an inspection the morning of Jan. 28, she received a call from her supervisor. The inspection was cancelled.

“Did the customer cancel the inspection?” she asked him. The city cancelled it, he replied, and she needed to return immediately.

“I knew what was going to happen,” she said.

Overland Park enjoyed tremendous growth for more than two decades on the south side of the Kansas City metropolitan area. Although major urban cities in the Tenth Federal Reserve District—such as Denver, Oklahoma City and Omaha—grew during the commercial and housing boom, some outlying suburban cities went from sleepy bedroom communities to Forbes’ and Money Magazine’s lists of best places to work and live in the United States.

Overland Park grew by almost 50 percent since 1990, and its population reached 164,800 in 2006.

“Our peak growth was actually in 2000,” Overland Park City Manager Bill Abel said.

Although growth slowed slightly from

2001 to 2007—developers submitted fewer plans and housing permits declined—the change was not enough to alarm anyone. Then the housing market bubble burst. Although the city grew to a population of 173,372 in 2010, it issued only 114 housing permits that year, a vast change from the hundreds of permits it issued annually the years before. And for the first time in four decades, Overland Park and other local governments watched tax revenue streams decrease as sales on goods and services declined and property values plummeted.

The decrease in revenue prompted many local governments to reevaluate services and tighten budgets, including workforce reductions. And some governments increased taxes.

Federal, state and local governments have shed more than 500,000 positions nationwide since the start of the labor market crash in 2009, according to the U.S. Labor Department.

Although nationwide unemployment dropped to 8.5 percent by the end of 2011 and more than 1.8 million jobs were added to the U.S. labor market last year, those jobs were in the private sector. And it appears most local governments will not grow their workforces anytime soon.

In her research, “What is the Outlook

for Local Government Revenues in the Tenth District?” Kansas City Fed Economist Alison Felix said the recession affected local government revenues worse than previous recessions due to heavy reliance on property taxes and state transfers.

“Although inflation-adjusted local government revenues fell more during the recent recession than at any other time over the past four decades, they still dramatically outperformed inflation-adjusted state government revenues during the first couple of years of the recession,” Felix said.

It took time for the recession to reach local governments—fiscal budget cycles prevented states from passing along cuts to local governments sooner and most reassessments on home values either occur once a year or once every two years for states.

“Over the next couple of years, however, local government revenues may lag behind the overall economy and the recovery in state government revenues,” Felix said.

In 2009, total local government tax revenues increased 5.9 percent compared to 2008. By 2010, local governments—counties, cities, townships and school districts—experienced a 1.1 percent decline in total revenue that year.

# Jobs Lost in the Public Sector

0  
Jobs Lost  
June 30, 2008

464,000  
Jobs Lost  
June 30, 2011

800,000  
Projected  
Jobs Lost  
June 2012



And in the first three quarters of 2011, total revenues increased only 0.9 percent.

Although local government revenue growth slowed or declined in some areas, the declines in most cases were small compared to the drop in home prices, Felix said.

After a 9.4 percent increase from 2008 to 2009, local property tax revenues declined: 1 percent in 2010 and 0.3 percent in the first three quarters of 2011.

Home prices in the United States, however, fell 17.5 percent over the last five years.

“Changes in home prices have varied dramatically across the states, ranging from a 58.1-percent decline in Nevada to a 17.5-percent increase in North Dakota over the past five years,” Felix said.

In the Tenth Federal Reserve District, which comprises Colorado, Kansas, western Missouri, Nebraska, northern New Mexico, Oklahoma and Wyoming, home prices ranged from a 12.3-percent decline over the past five years in New Mexico to a 4.1-percent increase in Wyoming.

“As local governments reassess home values to reflect those price changes, property tax collection may fall sharply in some localities,” Felix said.

One reason local government coffers have remained healthier than home prices, however, is government’s ability to change tax rates.

Fairfax County, Va., reduced property tax rates five consecutive years between fiscal years 2002 and 2007 as property valuations increased. Even with rate reductions, Felix said, the county’s property tax revenues increased due to higher property valuations. The opposite occurred after a decline in home values, forcing Fairfax County to raise tax rates to shore up losses.

Felix said Tenth District local governments’ financial futures are “somewhat brighter than the rest of the nation.” But positive revenue growth will take time to materialize, and some local governments, such as Omaha, Neb.; Fairway, Kan.; and the Unified Government of Wyandotte County, Kan., already have raised property tax rates due to declining home values

and revenue loss.

Olathe, which is next door to Overland Park, avoided raising property taxes to make up budget shortfalls. Olathe grew faster than any large city in Kansas during the state’s economic boom that began in the mid-1990s. From 2000 to 2010, the U.S. Census reported that Olathe’s population grew by 35 percent, 92,962 to 125,872. Add that growth to the previous decade, and Olathe grew by almost 60 percent.

Olathe, like Overland Park, is an anomaly in Kansas’ local government tax structure—it relies on sales taxes for a majority of its revenue. Sales taxes support about 47.7 percent of Olathe’s general budget with 17.3 percent coming from property taxes. Franchise fees and other ancillary fees generate the remainder of the revenue.

At the turn of the century, Olathe experienced an influx of commercial growth, which complemented the residential growth of about 4,400 new residents a year. By 2006, the city saw signs of a slowdown, but growth almost ceased by the end of 2008. Instead of raising taxes, the city made a number of sustainable cost-cutting measures, which included reducing its workforce 20 percent by 2010.

“The recession forced governments to streamline and focus on what are core services and what are not core services,” said Tim Danneberg, communications director for Olathe.

Olathe City Council members reduced the city’s workforce through layoffs and attrition, mainly in areas that dealt with development and growth, as part of its budget reduction measures. Those long-term reductions are now paying off, Danneberg said, and residents, through the city’s annual survey, DirectionFinder, have given the city a 90-percent overall approval rating in each of the last three years.

Mayor Michael Copeland announced during his State of the City address in January that Olathe will see positive revenue growth in 2012 for the first time since 2009. And although Olathe continues to grow in population, the city remains cautiously optimistic about the

recovery, Danneberg said, and it slated only one new position in the 2012 budget.

“We will probably stay at the same staffing levels for some time,” he said.

Olathe’s story is not uncommon—practically no local government came out of the recession unscathed.

In 2007, Thornton, Colo., was the fastest growing city in the state. The suburban city, 10 miles northeast of Denver, attracted new residents with affordable housing, good schools, cohesive municipal services and diverse retail.

The suburban city gained 8,412 people from 2006 to 2007, for a total population of 110,880. Thornton ranked No. 26 for population growth in the United States among incorporated places of more than 100,000 residents. Then the “bottom fell out” in 2008.

“Growth pretty much came to a halt,” said Todd Barnes, communications manager for Thornton.

Some of the most reputable home builders in the greater Denver area suspended large residential projects. Some builders abandoned projects altogether, selling completed homes and vacating platted lots, leaving behind incomplete subdivisions, Barnes said.

The city, which supports most of its general budget with sales tax revenue, 75 percent, and about 15 percent from property taxes, relied on cash reserves amassed during its growth to stave off the sudden drop in revenue. Unlike other cities its size, the City Council and staff were able to avoid employee layoffs or unpaid furloughs.

“We’re pretty proud of it,” Barnes said.

The city also expanded its economic development department to help attract nonretail commercial development—the type of businesses that create sustainable jobs—as part of a new stability strategy. The city, however, is not adding new costs, expanding services and hiring new employees as in the past, Barnes said.

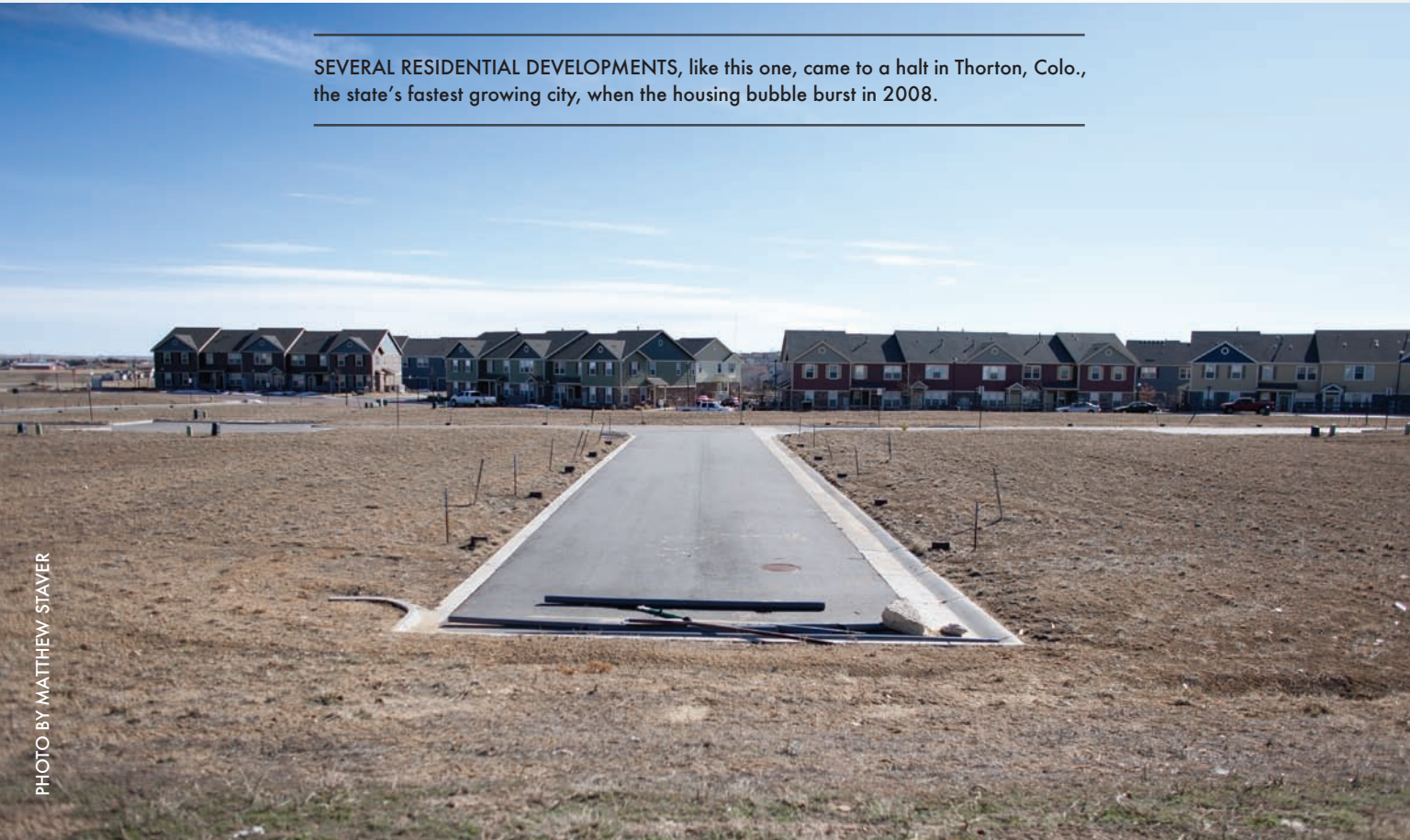
New developers have taken over some of the unfinished residential projects, adding to the city’s growth. The U.S. Census reported Thornton’s population at 118,772 in 2010, and the city estimated the population at about 120,000 at the end of 2011, Barnes said. Tax revenue projections also show modest increases in 2012. The growth, however, is small compared to figures before the recession.

“This is the new normal,” Barnes said. “I

---

SEVERAL RESIDENTIAL DEVELOPMENTS, like this one, came to a halt in Thornton, Colo., the state’s fastest growing city, when the housing bubble burst in 2008.

---



think it will be a very long time before we see growth like that again.”

Overland Park had more than \$60 million in cash reserves when the recession began and could have weathered the slow economic recovery like Thornton.

“But we had to use much of our reserves to pay the state,” Ebel said.

Kansas enacted the Kansas Sales and Compensating Use Tax in 2003, which provided a new revenue stream for the state and local governments. Overland Park benefited from the changes in 2003 and 2004, but by 2006, the city experienced the drawbacks of the act—refund policies. As fiscal year 2008 unfolded, Overland Park began to pay millions of dollars in tax refunds to the state, using more than \$28 million of its reserves by 2010 in the process.

“It incredibly compounded our situation and made it difficult to stabilize our budget,” Ebel said.

More than 60 percent of Overland Park’s general budget relied on sales tax revenue, with a small percentage coming from property taxes. With the drop in sales on goods and services and a sharp decline in residential development in 2008 and commercial development in 2010, the City Council made several tough decisions to stabilize the budget, Ebel said.

Council members approved a 4 mill increase in its property tax rate to make up a \$10 million annual deficit because it could not rely on its cash reserves. Even with the increase—property taxes now make up 18 percent of the city’s budget—Overland Park still has the lowest property tax mill rate in the state. The increased mill rate also allowed the city to diversify and stabilize its tax revenue stream so it could weather future economic downturns without taking drastic measures, Ebel said.

Measures like workforce reduction, which resulted in Evans and 42 other employees losing their jobs that winter morning in 2010. Most of the layoffs, which totaled 50 people by February that year, related to the decline

in residential and commercial development, Ebel said.

In Evans’ case, the city thought it more economical to use third-party vendors for elevator inspections. “Although I knew it was coming, it still hurt,” Evans said.

She went through the termination meeting and received two weeks’ pay for every year she worked for the city as severance.

“I was in shock,” she said. “After a couple of days wandering around the house, I realized I didn’t have a job.”

Evans, who has a degree in construction management, has limited job opportunities—the construction market is dismal, and jobs in the field of codes and elevator inspections are few and far between.

“I wouldn’t make it as secretary; I have no skills in that area,” she said.

Other available full-time jobs she might qualify for pay below what she made part time with the city, she said.

Fortunately, her husband has a full-time job as an inspector with the state of Missouri and she’s still eligible for unemployment benefits. For now, she is content searching for work and taking care of her 9-year-old daughter and the household.



BY KEVIN WRIGHT, EDITOR

## FURTHER RESOURCES

### “WHAT IS THE OUTLOOK FOR LOCAL GOVERNMENT REVENUES IN THE TENTH DISTRICT?”

By Alison Felix

[KansasCityFed.org/publications](http://KansasCityFed.org/publications)

COMMENTS/QUESTIONS are welcome and should be sent to [teneditors@kc.frb.org](mailto:teneditors@kc.frb.org).