

Battling the Budget Crisis:

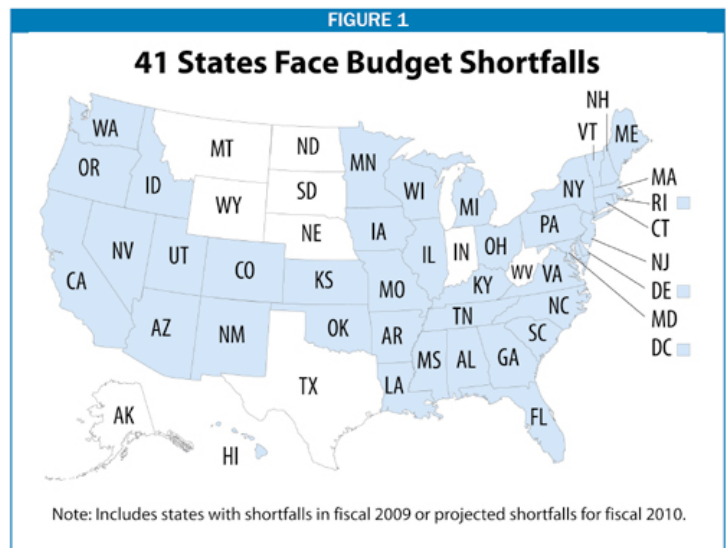
Building Departments during Economic Uncertainty

December 1, 2008

Municipal and county governments are facing significant financial issues as recent economic conditions continue to reduce historically stable revenue streams. As one of the few government services with an offsetting revenue source, building departments are being increasingly scrutinized in this current economic climate. Jurisdictions are being forced to consider whether to make changes in staffing and service levels, permit fees, or both. Instead of cutting programs or compromising service, building departments can balance their budget by contracting or outsourcing services. This paper will discuss the causes and effects of diminishing revenues, the solutions an outsourced building department service provider can achieve, and what to look for in selecting the right firm.

Budgets in Trouble Nationwide

In August of 2008, the Center on Budget and Policy Priority reported that 29 states were facing severe budget shortfalls. By early November, that number had grown to 41 states with revenues lagging far behind projected expenditures for the upcoming year. California posted a whopping gap of more than \$31 billion, which represents a large percentage of the \$71.9 billion in combined shortfalls among all afflicted states. Economists caution that, as economic turmoil continues, tax revenues are likely to slip beyond



these estimates, creating severe multi-year fiscal distress in state and local governments nationwide.

Because the majority of states are not allowed to run a deficit or borrow to cover operating expenditures, budget shortfalls are producing immediate and drastic results in the form of depleting reserves, tax hikes and budget cuts.

The additional belt-tightening that occurs at the county, city and town level only serves to further amplify the effects of the downward revenue cycle.

Causes

The direct and indirect causes of the current budget crisis are complex. The major factors contributing are inter-related and self-perpetuating:

An overall economic slowdown – It's no secret that the U.S. is experiencing an economic slump. Business and consumer confidence is down as a result of widespread job loss, stock market woes, high material and unpredictable energy costs and declining values on properties, crops and exports. Purchases, sales and investments are being put off until markets stabilize and credit again becomes available—actions that have had a dramatic impact on sales tax revenue and continue to depress market conditions. The result of less consumer spending is that the recession becomes more severe, which leads to even less consumer spending: a downward economic spiral resulting in less sales tax for local governments.

The construction industry slowdown – According to the National Association of Homebuilders, the number of vacant housing units ballooned from 1.1 million to more than 2.3 million units by the first quarter of 2008. This surplus of existing homes, combined with a volatile market, increasing raw materials costs and the shortage of financing options for even highly qualified buyers, has caused new construction in the U.S. to come to a screeching halt. Freddie Mac economist Frank Nothaft estimates that

2008 will have the fewest single-family home starts since Eisenhower's presidency, 50 years ago. As a result, cities and counties can expect a multi-year period of dwindling revenue from fewer building permits, impact fees and use taxes collected during construction.

Drop in valuations – As home prices fall due to excess inventory, short sales and bank sales of foreclosed or near-foreclosed properties, so do existing home values. Undervalued sales not only put sellers at risk of personal financial peril, but they drive prices down on nearby properties. Tax assessors must soon lower property values to be consistent with market conditions. In addition to lowered property values, the anticipated increase in property assessment appeals may actually increase expenses and impact when property tax revenues are realized.

Increase in fixed costs to employers –According to the Bureau of Labor Statistics, the middle 50% of building inspectors and plans examiners nationwide earned an average of between \$36,000 and \$58,000 per year. In addition to wages and salaries, the cost of benefits for these positions —including health insurance, vacation days, pensions, workers' comp and liability insurance, and more — continue to rise. It is becoming increasingly difficult for employers to absorb these costs as revenues decline.

Effects

The impact of the current economic climate is immediate as well as far reaching. Local government revenues are shrinking in almost every category – property tax, sales tax, fees/charges for services, grants, etc. The current climate requires local governments to make decisions on tax and fee increases, levels of service and staffing levels.

Service cutbacks – Between 2002 and 2004, budget cuts at the state level resulted in drastically reduced services, especially as related to education, public health, and the elderly or disabled. During that period, the Center on Budget and Policy Priorities

documented that 34 states restricted eligibility for public healthcare programs, causing over 1 million people to lose health coverage. Twenty-three states restricted eligibility for subsidized child care and 34 states reduced funding for K-12 education, resulting in higher fees, shorter school days, fewer teachers and limits on transportation. There are indications that the consequences of today's budget crisis may prove to be considerably more severe.

In fact, the Center on Budget and Policy Priorities provided the following examples of cuts to state services that have already been enacted as of November 2008 to counter the current budget crisis:

- **Public health programs:** At least 17 states have implemented cuts that will affect low-income children's or families' eligibility for health insurance or reduce their access to health care services. For example, Rhode Island eliminated health coverage for 1,000 low-income parents; New Jersey cut funds for charity care in hospitals; and California and Utah are reducing the number of services covered. Additionally, the governor in California has proposed cuts that, when fully phased in, will cause more than 400,000 adults to be denied health coverage.
- **Programs for the elderly and disabled:** At least 15 states are cutting medical, rehabilitative, home care, or other services needed by low-income people who are elderly or have disabilities, or significantly increasing the cost of these services. For example, Florida has frozen reimbursements to nursing homes and relaxed staffing standards and Rhode Island is requiring low-income elderly people to pay more for adult daycare. Arizona eliminated temporary health insurance for people with serious medical problems.
- **K-12 education:** At least 16 states are cutting K-12 and early education; For example: Florida, Georgia and South Carolina have each cut school aid by an estimated \$95 or more per pupil; Nevada eliminated funds for gifted and talented programs; Rhode Island is eliminating early education funding for 550 children; and Massachusetts is reducing funding for a number of early care programs.
- **Colleges and universities:** At least 21 states have implemented cuts to public colleges and universities. The result is cuts in faculty and staff and (in more than half of those states) tuition increases of 5 percent to 15 percent. Rhode Island students are facing mid-year tuition hikes on top of tuition increases enacted at the beginning of the academic year.
- **State workforce:** At least 20 states are reducing their state workforces. Workforce reductions often result in reduced access to services residents need. They also add

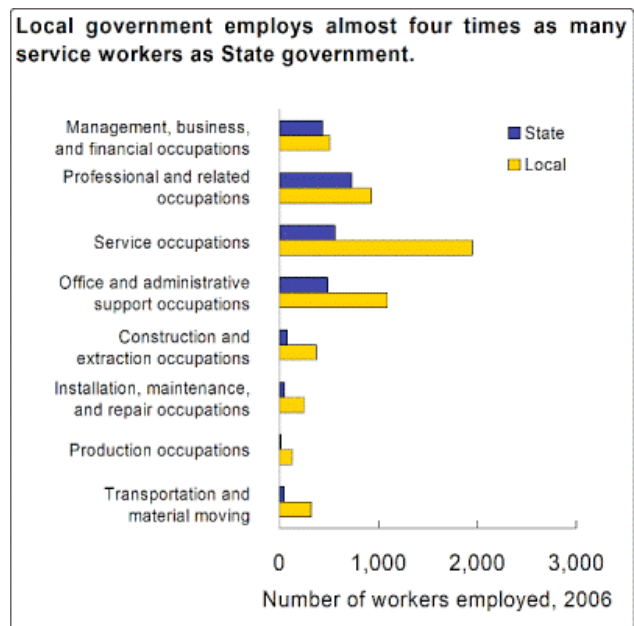
to states' woes by contracting the state economy. New Jersey is reducing its workforce by 2,000 employees through early retirement, lay-offs and attrition; Virginia is laying off 567 workers, freezing hiring and delaying a planned state employee salary increase; in Kentucky, the public defender will eliminate 10 percent of positions and decline certain types of cases; hiring freezes have been instituted in Arizona, California, Colorado, Connecticut, Delaware, Florida, Georgia, Kansas, Hawaii, Minnesota, New Hampshire, New Jersey, New Mexico, New York, Ohio, Pennsylvania, Vermont, and Washington.

The only thing government does is provide service, so every cut in government impacts a service to some degree. In slow economic times, it is possible to make cuts that slow down or reduce service levels, but still allow the service to continue. But in the current economic condition, governments will have to kill some services all together.

In Oregon, for example, proposed Amendment 63, which was defeated in November 2008, would have provided a minimum level at which a building permit would be required. While such measures address reducing the cost of delivering services, how can they account for the wellbeing of residents and public servants into the future? Services can be cut to balance the budget, but *at what cost?*

Personnel cutbacks – In 2006 state and local governments employed about 8 million individuals (excluding education and hospital workers), 70 percent of whom work on the local level, in counties, cities, special districts and towns. (Source: Bureau of Labor Statistics)

With no money to support the ongoing costs of employees, positions are being eliminated and all departments, including building departments, are shrinking. In many jurisdictions,



employees are being asked to take unpaid vacations and pay reductions.

These budget implications work in tandem to affect the way state and local governments do business—and the ways in which residents are asked to carry the burden. In May of 2008 the City of Atlanta faced a budget shortfall of \$140 million. In addition to temporary closure of 11 neighborhood recreation centers, increases in fines and new fees, the privatization of parking enforcement and reduction in staff perks, the budget proposed laying off at least 440 city employees. To make matters worse, the budget requires that citizens in an already-devalued housing market absorb \$40 million of the deficit through property tax increases—or face the elimination of 200 police, 90 firemen and nine fire stations.

http://atlanta.creativeloafing.com/gyrobase/atlanta_s_budget_crisis/Content?oid=479302

BUILDING DEPARTMENT SOLUTIONS

Local governments are entering a time of evaluation and examination. Services will be reviewed to determine if they are viable in current economic conditions, can withstand budget cuts and reduced levels of service, or can be outsourced. Building departments, with their dedicated source of revenue, are a prime candidate for outsourcing to reduce a government's fixed costs. Current building department models rely on a steady flow of income from permits, to offset a government's related fixed costs (personnel, benefits, equipment, etc.). Outsource contract providers are a simple way to match expenditures to revenue, and eliminate the fixed cost obligations that can quickly turn into budget shortfalls.

What to look for when exploring outsource options? **It is crucial to select a firm that offers a robust solution.** Keep in mind that choosing an outsource provider is not a “band-aid,” but is an opportunity to establish a more sustainable and consistent long-term model for service delivery.

1. Fixed v. Variable costs. Does the outsource provider charge a flat rate for services or will expenditures flex with revenue? For example, building department services may be provided based on the actual amount of permit fees collected. Variable costs offer a more flexible and scalable model that can consistently meet performance requirements while adapting to the lulls and surges of construction activity.

2. Safety. The provider's employees should have the appropriate certifications and experience to insure the safety of your community. A good outsource provider will provide the credentials and qualifications of relevant employees. In addition to previous experience and state licenses, ICC certifications and on-going education/training are important indicators of a firm's professionalism and dedication to life safety.

3. Performance. A provider of outsourced services should be able to provide consistent performance. Sufficient staff is necessary to keep up with increases in demand. That staff must be experienced and qualified to work on large and unique projects, "staffing up" to not only capitalize on the opportunity, but also to optimize the project's outcome and increase customer service and satisfaction. A good outsource provider will be able to pull from within the organization to match immediate and future needs.

4. Services and capabilities. Contract building department services cover a wide range of needs. Certain outsource providers may serve cities, towns, counties, municipal organizations and state agencies, or they may specialize in combining a variety of department needs. Regardless of their areas of expertise or breadth of service offerings, the right firm will be familiar with the most recent international building codes in relevant areas, as well as region-specific addenda.

5. Conflicts of interest. In the selection process, be clear about a contract provider's focus. It is important to understand if the firm works for only public agencies or tries to work for developers and builders as well. Building departments serve a regulatory function, and it is difficult to sit on "both sides of the fence" with the building

community. You want to ensure that your provider maintains allegiance to the public agency and your constituents.

For more information on outsourced building department services, please visit www.safebuilt.com or call Scott Martin at 970-292-2206. SAFEbuilt is a leader in the building and safety services industry and has been redefining the delivery of building department services for more than 15 years. The name SAFEbuilt describes the organization's purpose—to provide a safe-built environment for partner communities that simultaneously delivering economic benefits and reducing risk and liability. SAFEbuilt does this by providing full-service building department programs, building code plan reviews, complete project support and building code inspections.