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An Economy in CRISIS

The recession began more than a year ago.
When it will end is harder to say.

2008 has ended, but the widespread financial problems that began to ripple through the economy last year are lingering like a New Year's Day hangover.

While the economy in Canada has stayed fairly steady, the U.S. economy has been battered and bruised at every level. Workers are being laid off. It's harder to get a loan. Businesses are going under. State and municipal governments are facing deficits — some massive. We didn't know it at the time, but the United States slipped into recession in December 2007.

The collateral damage caused by the economic meltdown could linger into fiscal year 2011, according to Stephen Fuller, an economist and director of the Center for Regional Analysis at George Mason University in Fairfax, Virginia, and public employees are only now beginning to feel the impact.

"It's going to be a bloodbath in 2010," Fuller says.

Currently, 11.1 million Americans are out of work. That's more than the population of Wyoming, the District of Columbia, Vermont, North Dakota, South Dakota, Alaska, Delaware, Montana, Rhode Island, Hawaii, New Hampshire and Maine combined.

In the four-month period from September 1 to December 31, 2008, employers eliminated 1.9 million jobs, and in December the unemployment rate reached 7.2 percent.

"We expect the jobs hemorrhage to continue through much of 2009," Nariman Behraves, chief economist at IHS Global Insight in Lexington, Massachusetts, told financial news service Reuters on January 9.

"The current pace of job losses means that the unemployment rate will rise into

the 9 percent to 9.5 percent range — at a minimum — before leveling off," he says.

House of Cards

The nation's economic crisis seemed limited to the housing market when it began, but those problems triggered a series of economic repercussions that infected the U.S. and global economies. Defaults on subprime mortgages initiated the economy's collapse.

As housing prices soared through the roof between 2000 and 2006, many financial institutions wanted a piece of the action. An increasing number of lenders made risky mortgages available to people who were unable to afford the home they were purchasing.

Subprime refers to the interest rate of the loan. Borrowers were lured in by subprime

Toledo fire, police layoffs possible

Toledo Mayor Carty Finkbeiner doesn't intend to lay off police officers and fire fighters to fix the city's budget crisis, but the possibility is not completely out of the question. Toledo City Council was told it must erase an \$8.1 million deficit to close out 2008 — a shortfall many thought would be much smaller because council last month had redirected \$8 million of unspent capital improvement money to help plug the hole. Robert Reinbolt, chief of staff to Mayor Carty Finkbeiner, said officials "are exploring a variety of options to balance the budget." — Toledo Blade

loans with "teaser" rates — artificially low interest rates in the beginning of the loan, but ballooning later in the term of the loan. The housing bubble burst when they couldn't make mortgage payments.

The first casualties were the people who bought homes using the subprime mortgages but who could no longer afford their payments at the much higher interest rates. They defaulted on their loans and many lost their houses. Then lenders that extended subprime mortgages, such as Ameriquest, at one time the top U.S. lender of subprime loans, went out of business in August 2007.

The collateral damage spread to Wall Street because financial institutions were providing financing for the mortgages by packaging them into securities that were sold on global financial markets.

Merrill Lynch was so exposed to these bad loans that it agreed on September 14, 2008, to sell itself to Bank of America. Lehman Brothers filed for bankruptcy on September 15, 2008.

The house of cards was toppling.

Brookline (MA) to mull cutting 20 firefighters

A proposal to cut 20 fire fighters included in a Brookline committee report is likely to cause a furor in that town. And it may well be a preview of heated arguments in the days to come as cities and towns cope with cuts in the aid they receive from the state.

— The Boston Globe

IAFF Responds to Economic Crisis

The current economic downturn is affecting IAFF members and public safety operations across the country.

Many IAFF affiliates are facing staffing reductions, station closures, benefit and wage freezes and other cost-cutting measures.

To help affiliates address and prepare for potential cutbacks, the IAFF is developing a comprehensive online resource that includes:

- Tools and information for evaluating the economy's affect on your town, city, state and fire department.

- Databases, strategic planning materials and other services to help minimize or prevent adverse action on personnel and public safety.
- Links to economic crisis news articles recounting the cuts many fire departments are experiencing and reporting how some IAFF locals are working with their elected decision-makers to balance budgets while preserving fire fighter jobs.
- Updates on IAFF legislative efforts to get more funding for states and localities.

This new online resources is available to affiliate leaders through www.iaff.org. ■

Ripple Effect

In the 12 months following the stock market's peak in October 2007, more than \$1 trillion worth of stock value held in 401(k)s and other defined-contribution plans was wiped out, according to the Boston College research center. This rapid nose dive affects about 50 million Americans with 401(k) plans with \$2.5 trillion in total assets, estimates the Employee Benefit Research Institute in Washington, DC.

The stock market's collapse left corporate pension plans at the largest companies underfunded by \$409 billion, reversing a \$60 billion pension surplus at the end of 2007. The stock market's tumble is also affecting public pension plans.

The market's breakdown also made money harder to come by for businesses — especially large employers that typically borrow money to meet payroll — that were forced to shed jobs.

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Chico (CA) firefighters give up raises to save jobs

The union representing Chico fire fighters has agreed to give up raises for two years and roll back wages for new hires to save jobs. Fire fighters were scheduled to receive 4 percent increases this year and next. Eliminating those will save the city about \$800,000 over two years. Chico also will pay about \$66,000 less in health and dental insurance coverage. With the fire union's agreement, all eight of the city's employee groups have now accepted wage and health insurance concessions the city sought to balance its budget.

—Associated Press

\$17 million budget shortfall looms for city

The city of Anchorage faces a \$17 million budget shortfall this year and must find ways to save money, particularly labor costs, Acting Mayor Matt Claman said. The city had planned to spend \$433 million this year, based on a budget approved by the Assembly in November, but says it has less cash than expected. City officials mostly blamed the deficit on the faltering national economy.

—Anchorage Daily News

—San Diego Union-Tribune

Councillor wants formal review of Thorold fire services

Fewer Cops And Firefighters

In his FY 2010 budget proposal, Mayor Bloomberg is providing details of the latest round of agency "gap closing actions" he ordered in December that are expected to save the city close to \$1 billion. They include reducing the NYPD uniform headcount by 1,000 (-\$48.9 million) and eliminating companies in dual-company firehouses or axing the fifth fire fighter on 64 engines (-\$17 million).

—New York Daily News

—Toledo Blade

Board trims public safety department

The Leoni Township Board continued its efforts to eliminate a nearly \$800,000 projected budget shortfall by approving three layoffs in its Department of Public Safety. The department lost a fourth employee with the resignation of Director Bill Lenaghan before the board meeting. Board members also voted against recommendations from the police and fire board to lay off two fire fighters, opting to keep its seven-member fire staff intact.

—The Jackson City (MI) Patriot

—Rochester Democrat and Chronicle

Consumers put the brakes on spending, which is significant because the nation's economic engine is fueled by consumer spending.

And looming over all of this like a wet blanket — the Congressional Budget Office on January 7 forecast that the budget deficit for fiscal 2009, which began October 1, 2008, would likely hit \$1.2 trillion (the fiscal 2008 budget deficit was \$455 billion, and it was \$161 billion in fiscal 2007). That means less federal money for state and local governments.

States, towns, cities and counties all feel an additional pinch when real estate, sales, corporate and withholding taxes plummet, because that's where they get their revenue.

bleak Outlook

So where does that leave first responders? Public safety operations are in no way

immune to the financial woes strangling the U.S. economy. The harsh reality is that the economy is affecting IAFF members across this union through staffing reductions, as municipalities close companies and stations, cut crew sizes and benefits, and impose wage freezes and cuts — and as they see pension and retirement plans lose value.

This is not business as usual — the stream of revenue for many local and state governments has slowed to a trickle and cuts are being made to every agency in many cities and towns, and fire and police department resources are being slashed in the process.

"All of the city and county budgets that are being prepared for fiscal 2010 (which begins October 1, 2009) are going to have enormous constraints," says Fuller. "Revenue will contract while expenses continue to

"It's very difficult for public employees to say 'we need a 10 percent raise' when the private sector is slashing millions of jobs and state budgets are being decimated."

— Ben Garber, Economist at Moody's Analytics in New York

grow. Sales taxes, real estate taxes, income taxes — every source of revenue — are going to be constrained in the coming year. Fiscal 2011 is going to be just as bad."

In city after city, IAFF members aren't discussing how big their increases will be,

Avoid Foreclosure

Millions of Americans are trapped in unaffordable mortgages as a result of the subprime housing crisis. IAFF members who are having difficulties making mortgage payments during the current economic and housing crises can take action to help avoid losing their home to foreclosure. The IAFF Financial Corporation (IAFF-FC) offers advice on important steps to take now to prevent foreclosure:

Call your mortgage company. If you are behind on your payments, speak with your mortgage company. You can find the contact information on your monthly mortgage statement or coupon book. It is important to act quickly because if you fall further behind in your payments, there are fewer options to avoid foreclosure.

If you are unable to reach your mortgage company, the company is unable to help or you are not yet delinquent but think you may be unable to make future payments, **contact the Homeownership Preservation**

Foundation at (888) 995-HOPE.

Experienced counselors can help you consider the best plan of action for your personal financial situation.

Understand your options.

Your mortgage company or a homeownership counselor can help you understand the options available to you, including:

■ **Repayment Plans** — If you have missed some monthly payments, you may be able to catch up by creating a schedule for repaying the past-due amount.

■ **Advance (HomeSaver Advance™)** — If your mortgage company tells you that your loan is owned by Fannie Mae, you may be eligible for an unsecured personal loan to help you catch up on mortgage payments.

■ **Modification** — In some cases, mortgage loan terms can be changed on a temporary or permanent basis to make the payment more affordable.

Foreclosure will damage your credit rating and your ability to borrow money or buy a home in the future. When the options here don't work or you know you can no longer make your monthly payment, you may need to sell your home.

■ **Pre-foreclosure or Short-Sale** — If you cannot sell your home for the amount that will pay off the loan, talk to your mortgage company about a pre-foreclosure sale. Depending on your situation, the mortgage company will be willing to accept a payoff amount less than you owe.

■ **Deed-in-Lieu** — If you cannot sell your home in a reasonable period of time, your mortgage company may be willing to accept a deed where you agree to transfer the property to the mortgage company.

You have more options if you act quickly. Now is the time to ask for help! ■

but are instead making tough decisions to help conserve cash while protecting their livelihood and safety in the recession.

Responding to the Fiscal Crisis

A quick look at a cross-section of newspaper stories around the country illustrates the cruel reality of the economic downturn and how IAFF affiliates are responding:

In Columbus, Ohio, a January 26 news story, "Columbus Firefighters Agree To Delay Pay Raises," reported that Columbus, OH Local 67 will accept a pay raise delay. A *Washington Business Journal* story about Montgomery County, MD Local 1664 fire fighters explains that the more than 1,000 fire fighters and paramedics employed by the Montgomery County government are taking hits to their paychecks to help the county close its looming budget gap as part of a budget deal to save more than \$7 million over the next two fiscal years. Similarly, IAFF members in Tempe, Arizona, Vancouver, Washington, and Galveston, Texas, have all offered up their pay raises to help their cities manage financial woes. In Barre, Vermont, union employees agreed to a change in health insurance that could collectively save employers and taxpayers as much as \$250,000 next year. These are just a few of the stories. Many more are posted on the IAFF web site at www.iaff.org.

"It's very difficult for public employees to say 'we need a 10 percent raise' when the private sector is slashing millions of jobs and state budgets are being decimated," says Ben Garber, an economist at Moody's Analytics in New York.

IAFF affiliates throughout North America are realizing that the best way to make the difficult decisions about how to negotiate these budget challenges is to have a seat at the table.

Public officials may delay cutting essential services, including fire protection, as long as possible, but IAFF affiliates must engage with decision-makers to prevent or minimize the damage to fire department budgets so that public safety, first responder safety, service delivery and fire fighter families are not compromised.

"The only way local governments can cut spending is not just by cutting out the coffee," explains Fuller. "So I think we'll see them eliminate vacant positions, we'll see furloughs and we'll see cuts in

non-essential services. But if those cuts don't help local governments find a way out of this epic economic mess, essential services will be on the chopping block, too." ■

Salaries frozen at current level by Ocean City (MD) council

There will be no pay raises for Ocean City employees in the coming year, as the City Council approved an across-the-board salary freeze for its general employees as a cost-saving measure. Six days after City Manager Dennis Dare publicly recommended freezing all city salaries not governed by union contracts for the upcoming fiscal year, the council approved the request. In addition to eliminating the traditional 3 percent cost of living adjustment increase, the council also froze step increases and merit-based salary increases for a savings of \$877,000. "Merit increases are a substantial part of the annual increase in the budget," Dare said as he renewed the request. The cost-of-living increases were frozen for all general employees as well as those working under the fire fighter/paramedics contract, as Dare said that contract does not guarantee an annual COLA but says the union employees shall have the same increase as the general employees. Under the Fraternal Order of Police contract, those employees are guaranteed a 3 percent cost-of-living increase. Dare said the COLA freeze would save the city \$462,000 in the coming fiscal year — \$391,000 from the general employees and \$71,000 from the fire fighter/paramedics.

—Ocean City Today

Beware of PSOs

IAFF affiliate leaders and fire department officials should be warned about the International City/County Managers Association's (ICMA) Consulting Service. If ICMA Consulting is contracted by your city to evaluate fire department operations, it's likely that its primary recommendation will be to combine fire and police services into a single public safety officer system (PSO).

The IAFF — along with the International Association of Fire Chiefs (IAFC) — is opposed to fire and police consolidation because it can have a severely negative effect on municipal fire services. Consolidation generally involves the elimination of the fire chief as the head of the fire service and the appointment of a public safety director to head both fire and police operations, as well as the replacement of fire fighters with public safety officers who perform both police and fire functions. ICMA Consulting Service is led by a former city manager, Leonard Materese. He is responsible for managing all services relating to police, fire and emergency management

services. Further, Materese's background is in the police service; specifically, he served as police chief, director of public safety and elected president of the Miami-Dade County Association of Chiefs of Police.

Consolidation is typically considered by cities as a quick fix method to lower municipal budgets through the restructuring of two jobs into one.



However, the anticipated benefits are not realized and instead, PSOs can reduce fire fighter staffing and undermine effective fire suppression by disregarding proven fire fighting techniques and relying on personnel with inferior training, skills and experience.

Especially now — during the economic decline — municipalities may be considering consolidation, or merging, of fire and police departments under a single public safety office under the guise of saving money.

IAFF affiliates need to be prepared to educate elected decision-makers about the dangers of PSO systems and why fire and police operations must remain separate.

The IAFF and the IAFC have developed a manual, "Fire and Police Consolidation: An Ineffective Use of Resources," to provide IAFF affiliates with general

information about PSOs and offer advice for prevention.

The IAFF has also developed a detailed toolkit to accompany the manual, including a video, position statement and a list of the top 20 questions to ask city/county managers who may be considering a PSO system.

These resources are available to affiliate leaders through www.iaff.org or by request to mshaffer@iaff.org. For more information, call (202) 824-1546.

There are four types of consolidation: full, partial, functional and nominal.

- Full Consolidation: police and fire fighting duties are combined under a single agency.
- Partial Consolidation: police and fire services remain separate, except for a designated cadre of PSOs who perform both fire fighting and law enforcement functions.
- Functional Consolidation: police and fire departments operate separately, with some of the duties typically performed by one department assigned to the other (e.g. fire fighting personnel may help in administering police work, or police officers may assist fire fighters at the scene by reading gauges or hooking up hoses).
- Nominal Consolidation: fire and police departments remain completely separate; however, they operate under the administration of a single director who maintains full authority over all police and fire services. ■