



# **The Current Economic Turmoil What Does It Mean to a Finance Officer Like You?**

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# Topics

- > Overview
- > Virginia housing and employment data
- > Local government responses
  - Revenue enhancements
  - Expenditure reductions
- > Maintaining strong credit quality



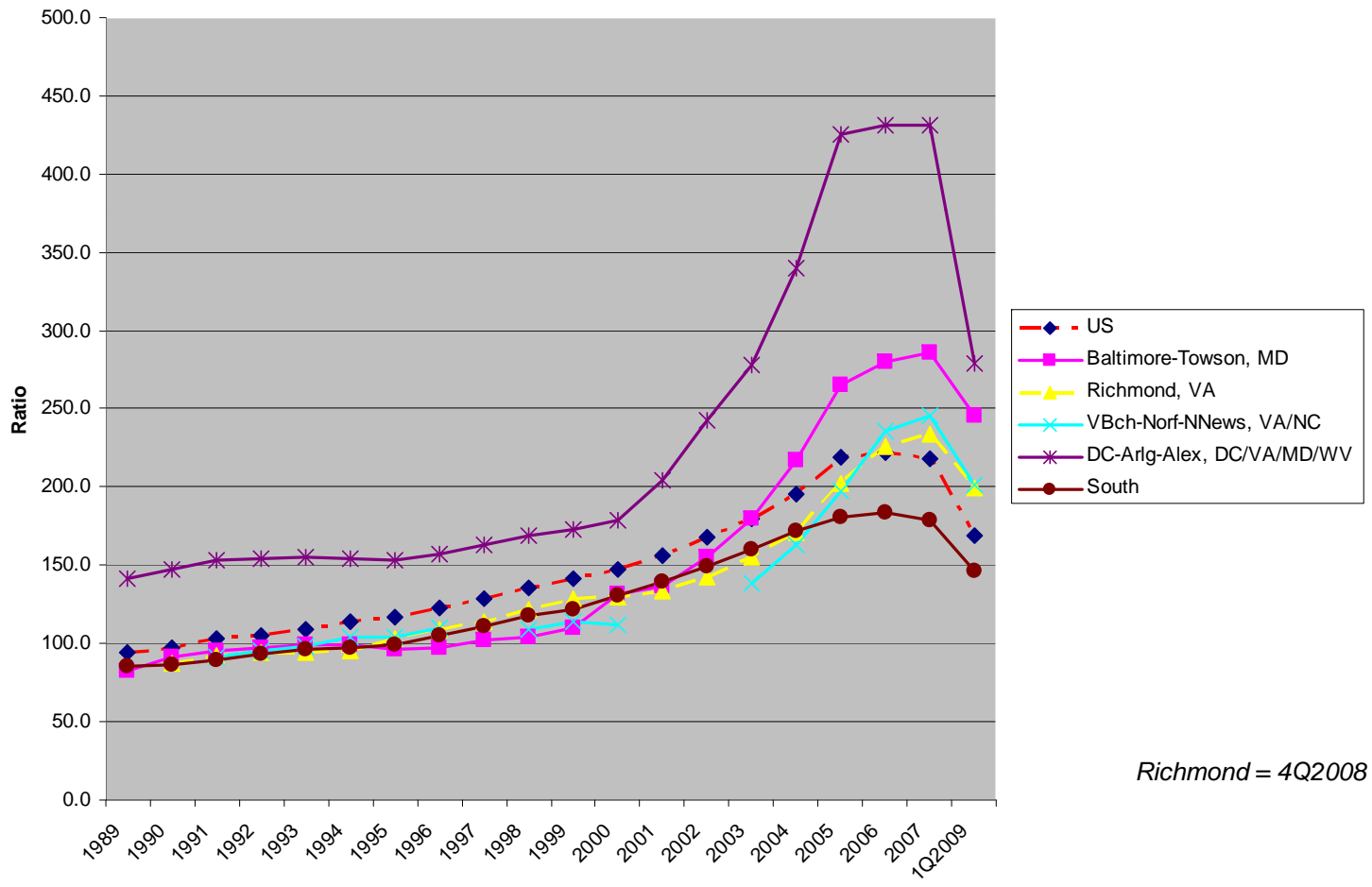
## Overview of the Decline

- > Problem started with housing, remains deeply rooted in housing and its consequences, and has spread
- > Weaker consumer sentiment slows sales and other transaction tax receipts first
- > Slowdown in real estate-related taxes
- > Businesses impacted by slowed consumer spending, reduced credit access



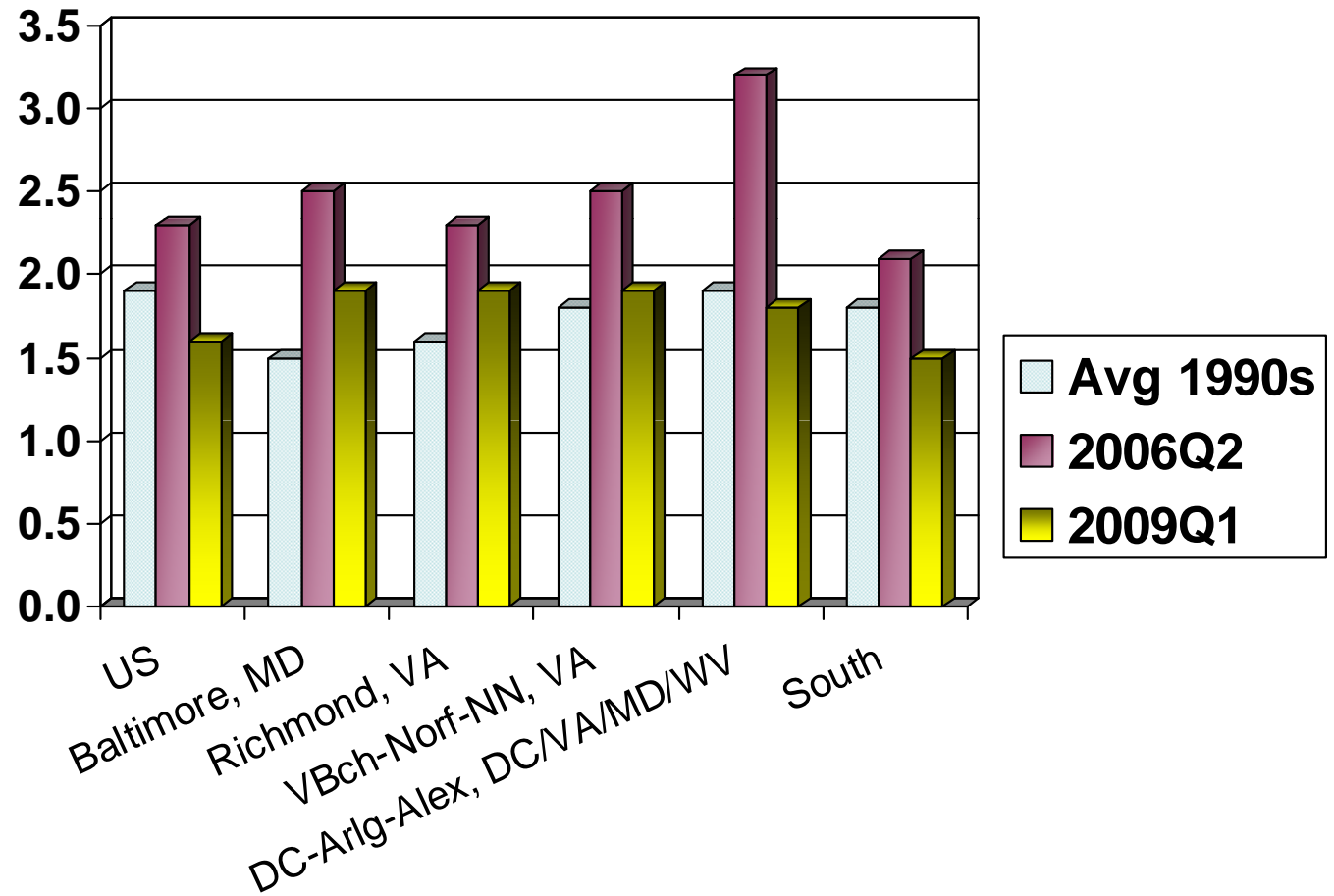


# Median Single-Family Home Prices



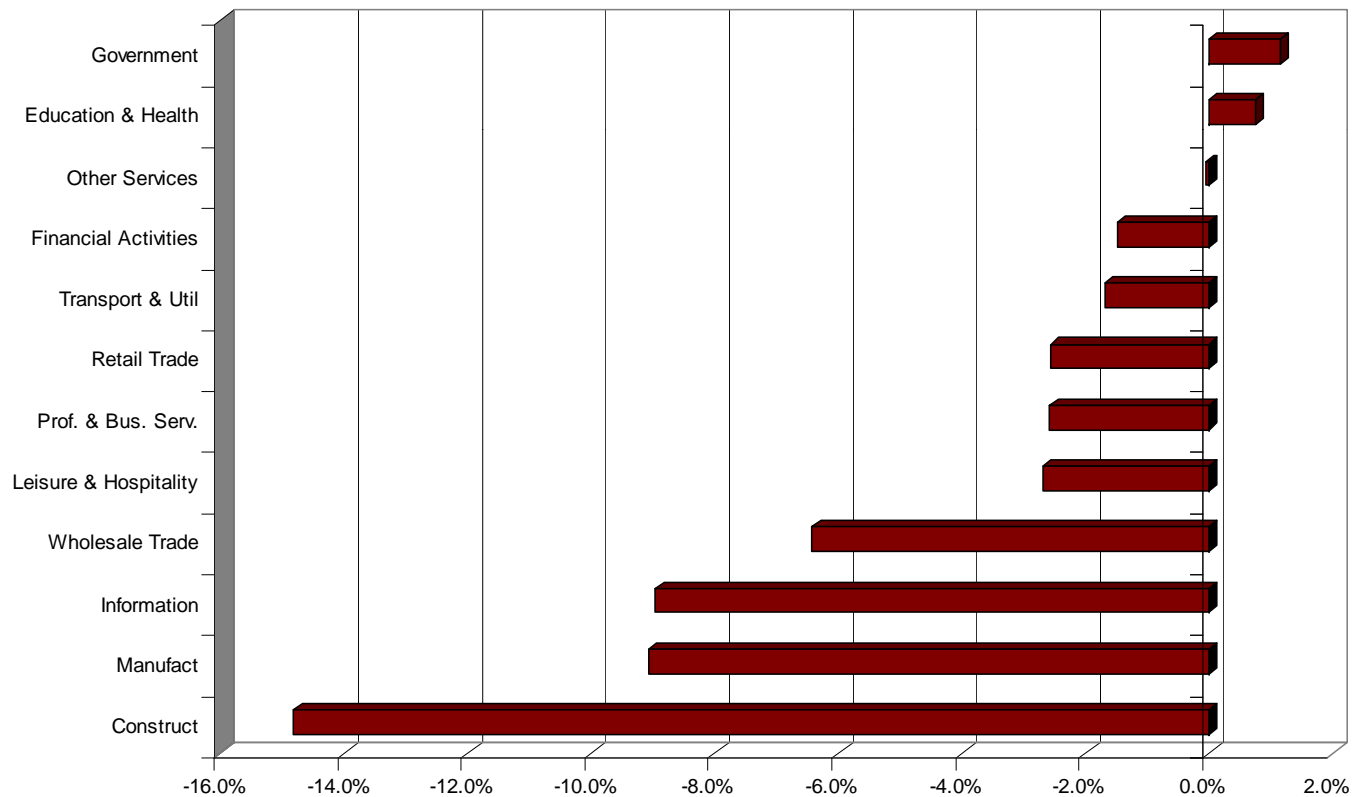


## PIR: Median Single-Family Home Price to Avg Household Income



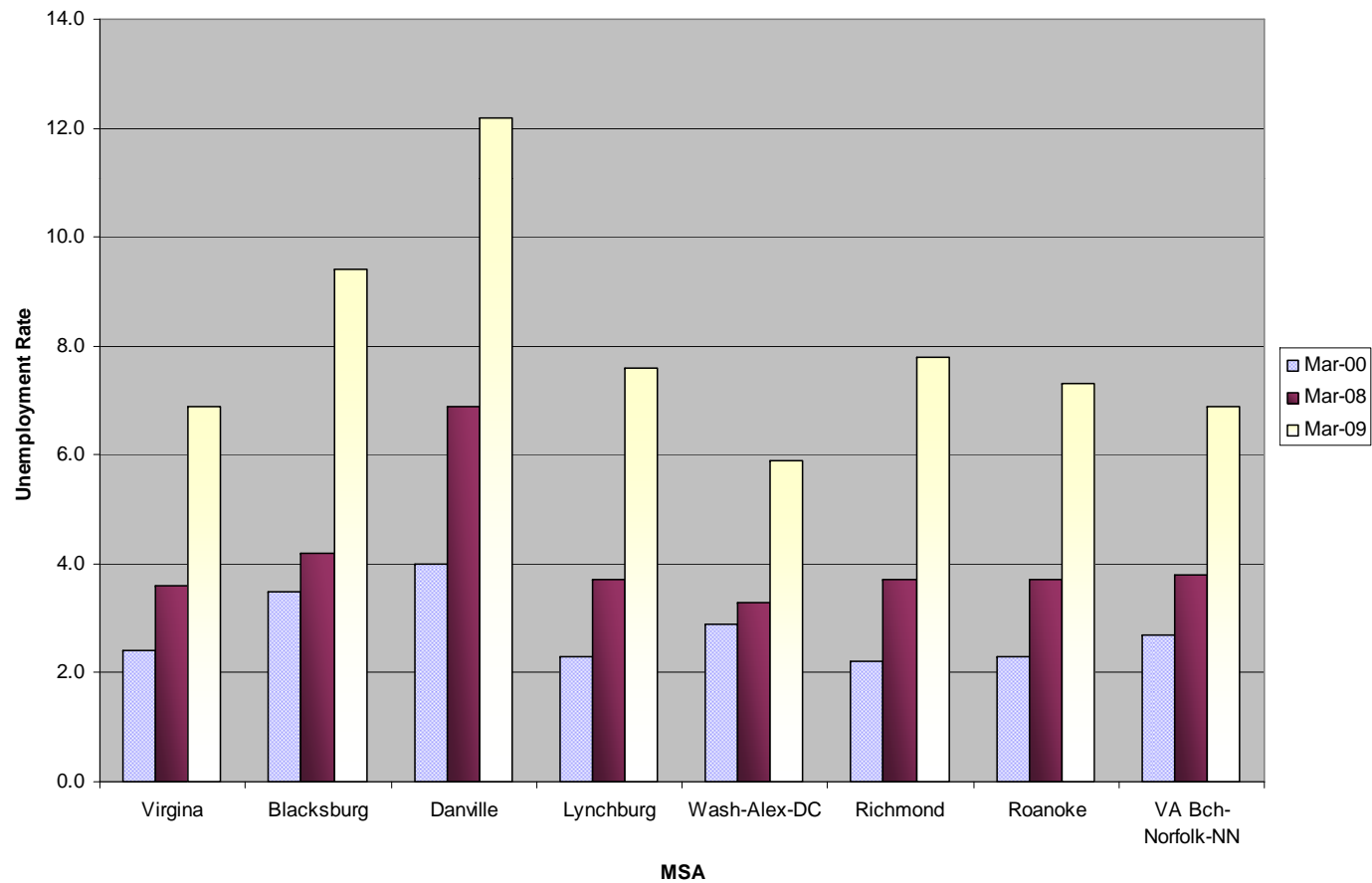


# VA Employment Change—April 2008-2009





# Unemployment Rate Comparison





# Ramifications for Local Governments

- > Broad-based, deep and potentially prolonged recession, affecting most economic sectors
  - Housing market
  - Employment levels
  - Retail sales
  - Personal income (lagged)
- > State aid reductions



## At Risk Revenues

- > Property tax growth slows or declines as taxable value gains slow or decline
  - Ability and willingness to offset with tax rate increases varies
- > Transaction-related taxes and fees
  - Impact fees
  - Building permit fees
- > Sales taxes
  - Lose multiplier effect of homeownership
  - Reduced access to home equity
  - Slowdown in consumer purchases



## Revenue Enhancement Options

- > Property tax rate
- > Hotel and room occupancy tax rates
- > Fines and fees
- > Utilize one-time revenues to fund on-going expenditures
  - Asset sales
- > Reserve use
  - Do reserves fall below policy level?
  - How will they be replenished?



## **Expenditure Reductions: First Responses**

- > Capital projects, especially those funded by pay-as-you-go financing
- > Hiring/wage freezes
- > Vacancy eliminations (without lay-offs)
- > Elimination of non-essential personnel spending
- > Deferred full ARC funding for OPEB
- > Debt restructuring w/out delaying final maturity



## More Severe Expenditures Reductions

- > Furloughs and lay-offs
- > Core service reductions
- > Payment delays
- > Deferred pension funding
- > Debt restructuring with a delay of final maturity



## Budgets as Analytical Tools

- > Budget realistically to conservatively
- > Maximize structural solutions
- > Formulate “what-if” scenarios and identify contingencies
- > Monitor revenues and spending frequently
- > Continue long-range financial planning
- > Area-specific knowledge should support budgeting assumptions



## Retaining Strong Credit Quality

- > Stay within financial policies where possible
  - Use of non-recurring funds (including reserves) for operating expenditures should fall within guidelines
- > Adhere to/develop a framework for use and replenishment of reserves
- > Contingency plans/agility
- > Keep rating agencies informed of significant changes in circumstances
  
- > *Overall – a willingness to consider what’s happening and all of the implications and then the ability to take appropriate action*



## What We Hope We Don't See From Issuers

- > NIMBY – “Not in my backyard”
- > “So far, so OK”





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