FEDERAL RESERVE BANK OF MINNEAPOLIS

JANUARY 2013

fedgazette

Regional Business & Economics Newspaper

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Government employment: Job insecurity

Despite the imprimatur of job security, the ax has (belatedly) fallen on public sector employment, especially at the local level

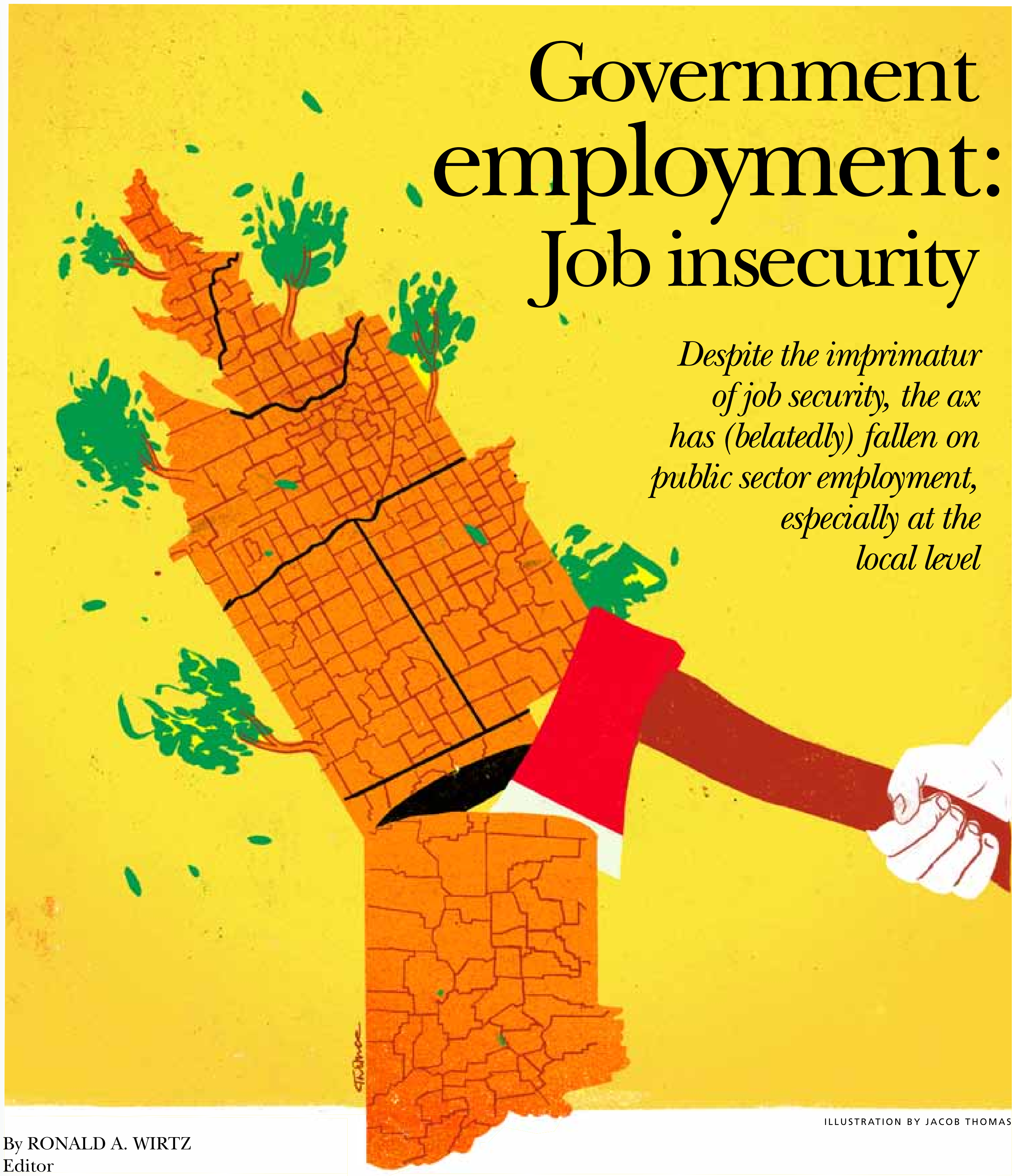

ILLUSTRATION BY JACOB THOMAS

By RONALD A. WIRTZ
Editor

Let's start with introductions. Public sector employment, meet Wile E. Coyote.

You've never met, but an introduction is in order because the two of you share a unique characteristic: You both know how to temporarily defy gravity.

Wile E., remember the time—actually, *those hundreds of times*—you ran off the cliff chasing the Road Runner but stayed suspended in the air in ignorance, until reality finally set in and you plummeted to earth, followed by a huge boulder for a little extra hurt at the bottom. Remember that?

Public sector employment, you were doing the same thing for a while across *thousands* of state and local government units. At the height of the recession, private employment was falling like it was tied to that boulder. But what did you do? You actually floated *higher*. But then reality set in for you, too, and look out below. It's been tough watching you fall because private employment is still trying to pick itself up off the ground below you.

It's a scene now uncomfortably familiar to thousands of government workers in the Ninth District. Public sector employment has fallen significantly over the past couple of years, following a similar—if delayed, and not quite as steep—decline experienced by the private sector during the recession.

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Government employment from page 1

The Quick Take

Government employment has seen significant job losses since 2010 across all levels of government and most district states. While private employment dropped dramatically with the recession, public sector employment actually rose, thanks to the federal stimulus. A slow economic recovery and the end of stimulus funding have led to hard budget decisions, particularly among local governments. Local governments in Minnesota and Wisconsin have seen the largest cuts. But rather than a recent phenomenon, local government employment in these states has fluctuated for the past decade, thanks to periodic state budget deficits and subsequently less state aid to local governments.

Today, the fact that people are losing jobs doesn't merit a lot of special attention, even for supposedly secure government jobs. It's almost like we're immune to the pain—like Wile E. Coyote dusting himself off after yet another death-defying fall. Yet it's worth tracing the arc of public sector employment over the past decade to better understand both the moment of levitation and the comparatively sudden fall.

Of course, this is not the first time government workers have lost jobs. But rarely have there been job losses of this magnitude—almost 19,000 from the first quarter of 2010 to the same quarter of 2012, or about 2 percent of the 1 million public sector workers in Ninth District states. In past recessions, public sector employment tended not to decline dramatically, in part because most recessions have been fairly brief, and governments often prefer belt-tightening to dramatic cuts in personnel.

The Great Recession from late 2007 to 2009 was a large—and somewhat ironic—exception to that rule: Public sector revenue and employment actually increased for many governments during and shortly after the recession thanks to the federal stimulus program, which shoveled tens of billions of dollars to state and local governments to stave off further unemployment in the economy.

But the effect was short-lived. A slow economic recovery has kept a lid on tax revenue, and once stimulus funds were gone, government budgets cratered. Tough decisions finally had to be made almost everywhere in the Ninth District, save for North Dakota, whose economy, government budgets and public employment are growing, in contrast to most of the country. Montana and South Dakota have lost public employees since 2010, and government payrolls in Minnesota and Wisconsin have been volatile, especially at the local level, for a decade.

Jobs have been lost at every level of government in recent years, but the biggest losses have been at the local level, in part because that's where most of the jobs are, but also because state aid to cities, counties and school districts has been cut back as states deal with their own fiscal shortfalls.

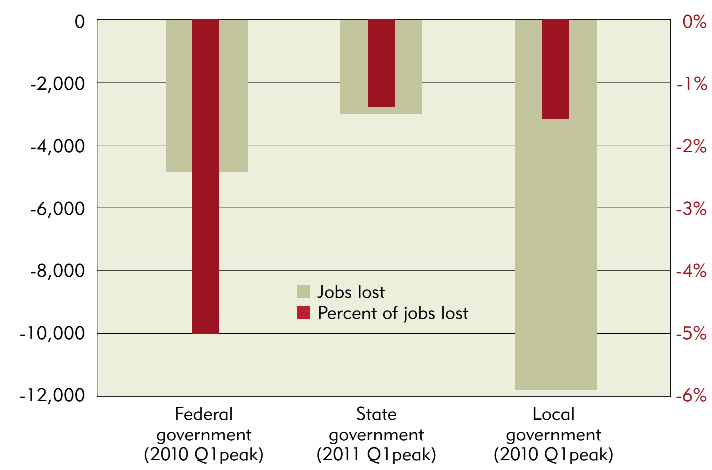
Public sector score card

Explicit trends in government employment can be difficult to nail down given some 13,000 government entities just in Ninth District states. But breaking them down by government jurisdictions—local, state and federal—helps identify some of the broader trends. (See online chart tabs for district state breakdowns of local, state and federal employment trends.)

Chart 1

Look out below

Public sector job loss in Ninth District states*
Peak employment to Q1 2012



*Includes MN, MT, ND, SD, WI
Source: Bureau of Labor Statistics, Quarterly Census of Employment and Wages

This is not the first time government workers have lost jobs. But rarely have there been job losses of this magnitude.

Recent job cuts have been spread widely among local, state and federal government workers in district states (see Chart 1). Federal employment is the smallest share of total government employment in any district state (between 8 percent and 16 percent, depending on the state). Nonetheless, almost 5,000 federal workers across the district lost their jobs over this two-year period. But rather than being an artifact of the recession, federal job losses stem mostly from the buildup and subsequent wind-down of the decennial census.

State government employment saw steady growth in district states for the better part of a decade—even during the recession—largely thanks to growth of general administration, corrections, health and human services, and higher education, which is seeing record enrollments across the district. But that payroll trend pivoted in 2011, and more than 3,200 jobs were eliminated by the first quarter of 2012, almost two-thirds of them in Wisconsin, and most of the remainder in Minnesota.

But the lion's share of job losses occurred among local governments, with employment falling in 2010 and accelerating a year later, with almost 12,000 local government employees losing their jobs over this two-year period. More than 60 percent of those cuts occurred in Wisconsin, but every district state except North Dakota saw local government employment fall over this period.

But local government employment trends are diverse and complex, partially due to size and scale; roughly two-thirds of all public sector jobs in a state are at the local level, scattered among thousands of government bodies. Part of it is mission; local governments include county, city, township, school dis-

fedgazette
FEDERAL RESERVE BANK OF MINNEAPOLIS
Regional Business & Economics Newspaper
ISSN 1045-3334

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One of the Minneapolis Fed's congressionally mandated responsibilities is to gather information on the Ninth District economy. The fedgazette is published quarterly to share that information with the district, which includes Montana, North and South Dakota, Minnesota, northwestern Wisconsin and the Upper Peninsula of Michigan.

The opinions expressed in the fedgazette are expressly those of the authors or of attributed sources and are not intended to represent a formal position of this bank or the Federal Reserve System.

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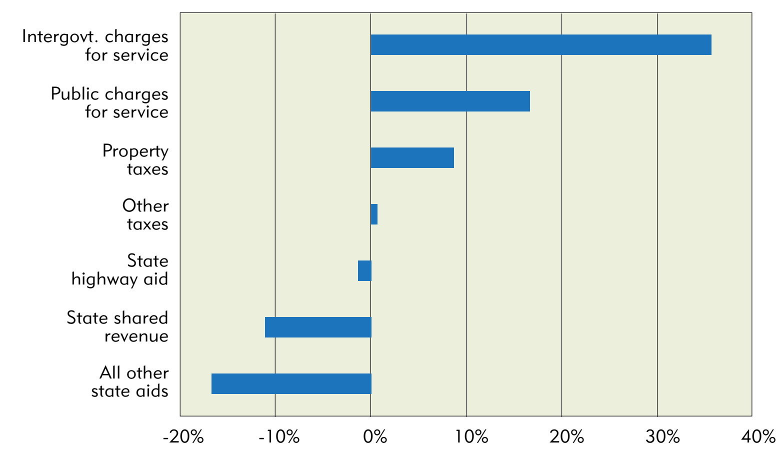
Chart 2

Lagging local aid in Wisconsin

Percent change in local government revenue
By source, 2005 to 2010 (2010 dollars)



Source: Wisconsin Department of Revenue

Many laid-off government workers were victims of a budgetary vise that had been developing for much of the past decade: persistently falling financial aid from states and rapidly rising property taxes.

ILLUSTRATION BY JACOB THOMAS

trict and special district units, each with its own public service niche. Lastly, part of it is geography and economy; local governments face different financial circumstances depending on their home state's economy, among other factors. Sources in booming North Dakota, for example, report very different concerns than those in Minnesota and Wisconsin.

The pathway here

Most laid-off government workers ultimately lost their jobs because of the recession and its impact on tax revenues. But many were also victims of a budgetary vise that had been developing for much of the past decade, especially in Minnesota and Wisconsin: persistently falling financial aid from states and rapidly rising property taxes.

States pass along aid to local governments in various forms, and many of them have been flat or declining in real dollars for a decade or better. For example, so-called shared revenue is a formula-driven sum given to local governments. Local governments in South Dakota saw shared revenue fall by 10 percent from 2006 to 2011, according to the state's latest comprehensive annual financial report. (All dollar figures in this article have been adjusted for inflation.)

States also give categorical aids to help local governments manage things like roads and other services, and many of those aids also have fallen in real terms. Among the top seven sources of local revenue for Wisconsin local governments, all aid categories fell between 2005 and 2010, while property taxes and various charges for services rose (see Chart 2). Shared revenue dropped by 10 percent to $924 million and has continued to fall. According to recent figures from the state Department of Revenue, shared revenue this year is expected to be about 8 percent below 2010 levels.

States have tried to limit property tax increases, with varying success. Wisconsin local governments have been under property tax levy limits for 10 years, and a property tax freeze for the past two years, according to Richard Stadelman, executive director of the Wisconsin Towns Association. With cuts in shared revenue in three of the past 10 years, the effect on local government finance is "dramatic," he said.

In Minnesota, it's the same story, or worse. Total state aid to local (nonschool) governments has trundled steadily lower; in 2012, it gave towns, cities and counties $1 billion less in aid than a decade earlier (see Chart 3).

"For the last decade, there's been a significant shift in the financing of local government," said Jeff Spartz, executive director of the Association of Minnesota Counties. The state mandates that counties provide certain public services with the understanding that "it would fund what it said needed to be done," he added. "[But] the state has solved its own budget deficit by cutting back on aid to local governments." (See sidebar on page 4.)

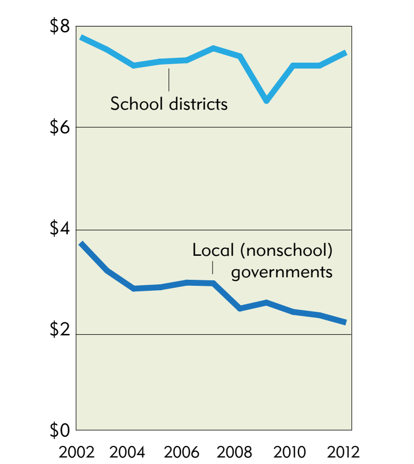
To fill out their budgets, local governments in Minnesota and elsewhere persistently chose to raise property taxes (see Chart 4), often along with fees and other revenue sources.

"The state has passed the buck to the local level for revenues," said James Hendrickson, clerk of Wang Township in Renville County, Minn. The town's expenses have risen "considerably" in recent years, he said, requiring the town to raise property taxes three years in a row to continue basic services, and also depleting the town's reserve fund. As of late October, "we are at the lowest level of financial reserves that we have ever been," he said.

Chart 3

First aid?

Minnesota state aid to local governments
Billions of 2012 dollars

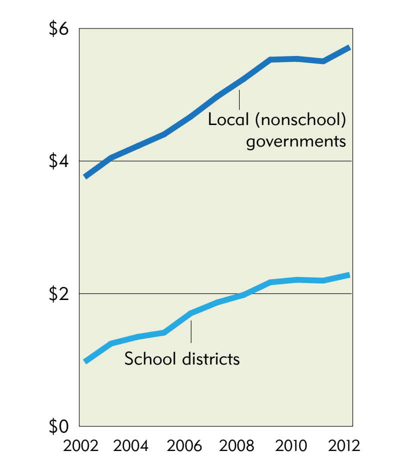


Source: Minnesota Department of Revenue

Chart 4

Tax hike

Property taxes collected
Billions of 2012 dollars



Source: Minnesota Department of Revenue

A stimulating budget filler

The run on rapidly rising property taxes ended around 2008 or 2009, when property values started dropping. Like Wisconsin, many states have bent to voters' discontent over rising taxes by capping allowable increases in local revenue as well as property assessments, tax rates and levies—or sometimes all of the above.

In years past, this has been less of a problem, as cities, counties and school districts could depend on modest (or better) increases from the appreciation of property values. But with stagnant or dropping property values, these revenue handcuffs meant local government income grew more slowly and sometimes fell; meanwhile, many governments couldn't shed service requirements.

In Minnesota, for example, property tax revenue from 2002 to 2009 rose at an annual real rate of about 4 percent for Minnesota counties and towns, 5

Continued on page 5

Government employment from page 3

percent for cities and 8 percent for K-12 school districts, according to the Office of the State Auditor. In the three subsequent years, tax revenue for these same local governments increased by an annual average of 1 percent or less.

But the budget shock was offset considerably by the American Recovery and Reinvestment Act (ARRA)—a.k.a. the federal stimulus program—which funneled billions of dollars to state and local governments starting in 2009, enabling them to keep payrolls afloat. For example, about $750 million went to local governments at all levels and sizes in Hennepin County (home to Minneapolis), according to an October county report. The money supported government efforts in housing, infrastructure, job training, education, public health and a multitude of other priorities, many of them with the overarching goal of supporting public sector employment.

But with stagnant or dropping property values, these revenue handcuffs meant local government income grew more slowly and sometimes fell; meanwhile, many governments couldn't shed service requirements.

Hennepin County government received $12 million directly. But ARRA's goal of job creation, according to the report, "was challenging … because we rightly saw the infusion of federal funds as temporary, arriving at a time when our basic local and state resources were stressed by the recession. As a result, stimulus funds were often used for 'job retention' by replacing declining local funds" or hiring only on a short-term rather than permanent basis.

By 2010, a sluggish economic recovery and the end of the stimulus funding meant the start of hard choices for many, and job cuts were widespread. Wisconsin, however, saw the biggest decline. A federal database on stimulus funding shows that five district states received about $3 billion in education funding, with Wisconsin getting close to $1 billion, via some 3,000 individual grants, with all K-12 school districts receiving multiple grants. State aid to Wisconsin schools had been declining steadily for several years, yet school district employment in 2009 increased by more than 1,500 employees over the previous year, including almost 1,000 new teachers. Higher property taxes were making up for some of the lost state aid, but the federal stimulus was a well-timed budget filler.

But when stimulus funds ran out—starting in 2010 for some and by 2011 for virtually all school districts—jobs started to fall under the ax (see Chart 5). These cuts accelerated when the state Legislature passed Gov. Scott Walker's controversial plan (known as Act 10) to restrict collective bargaining rights of local and state government unions. It also required workers to pay more for health and pension benefits, and the state used those savings to cut aid to local governments to fill a $3.6 billion state budget deficit. Schools lost $600 million in state aid in the 2011-12 school year, according to Department of Public Instruction figures, and job losses mounted. That trend is not expected to quickly subside: The agency recently noted that 64 percent of the school districts will receive less aid for the current school year.

The long view of public sector jobs shows that state government jobs are growing, having added about 14,000 since 2001, despite recent losses (see Chart 6). Every district state saw these ranks grow, led by an increase of more than 5,000 in Minnesota.

But at the local level, the federal stimulus interrupted a long period of stagnant or falling local government employment, especially in Minnesota and Wisconsin. From 2001 to 2007, local government jobs grew by 2,000, a rounding-error increase of 0.3 percent amid 680,000 such jobs. Stimulus dollars saved and created thousands of jobs, but with the economy still struggling, the overarching trend reasserted itself once those funds were spent. Since 2001, total local government employment is pancake flat in district states—by 2012, there were just 13 more local jobs, according to federal data.

The long view of public sector jobs shows that state government jobs are growing, having added about 14,000 since 2001, despite recent losses.

However, district states have seen very different local government job trends. Minnesota has lost 8,000 such jobs over this period; Wisconsin saw considerable growth through the recession, but then shed it all in recent years, seeing a net loss of about 200 by 2012. Local governments in Montana and the Dakotas combined have added more than 8,000 workers to payrolls since 2001, much of it in growing metropolitan counties in those states and booming oil country in western North Dakota and eastern Montana.

Which way is up?

Local governments facing tight budgets are reacting in a variety of ways, seeking greater efficiencies and choosing services to either protect or cut (see accompanying article on page 6).

More cities appear to be feeling the floor beneath them, but they may be in the minority. In 2009, just 17 percent of Minnesota cities reported an improved ability to meet service needs. That proportion rose over the next two years, to 30 percent, and slightly more (31 percent) predicted more favorable conditions for 2012, according to the most recent State of the Cities report by the League of Minnesota Cities. The report manages to sound half full rather than half empty by stating: "Some challenges cities have dealt with over the last several years may be lessening, or at least not worsening."

But until the economy gains its footing and state budgets rebound, most local governments are preparing for more of the same. Minnesota, for example, is facing a $1.1 billion state budget deficit.

"I think [local budgets] are going to be pretty difficult given the structural deficit at the state level," said Spartz, from the Association of Minnesota Counties. Barring dramatic political changes, he's not expecting any significant new revenue for counties. With baby boomers retiring, demands on county services will increase. Yet most counties expect that persistently tight budgeting is "the fiscal environment we're going to be in well into the 2020 era," Spartz said.

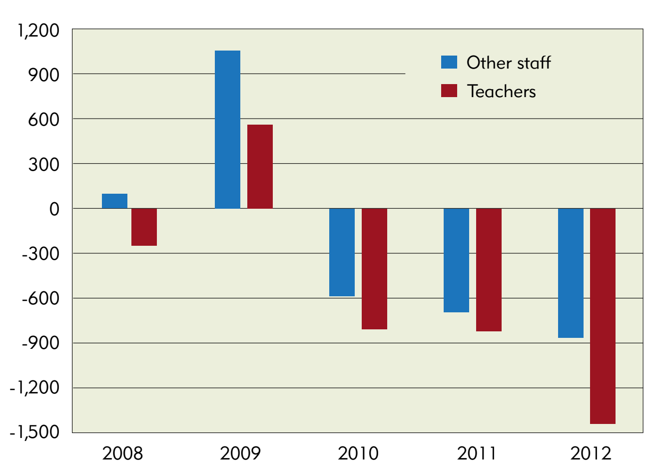
Tongue firmly in cheek, Spartz suggested that the only real relief from tight budgets, service requirements and rising costs would be a variation of Jonathan Swift's prescription for solving economic troubles in his essay, "A Modest Proposal." "Take geezers like me and put them on Lake Mille Lacs just before ice out." f

Research Assistant Dulguun Batbold contributed data research to this article.

Chart 5

Getting schooled on budgets

Wisconsin K-12 staffing changes

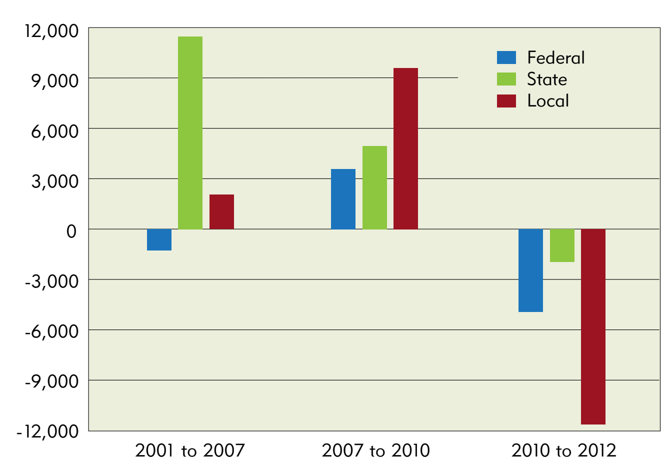


Source: Wisconsin Department of Public Instruction

Chart 6

A tale of three time periods

Change in government employment
Ninth District states*



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Source: Bureau of Labor Statistics, Quarterly Census of Employment and Wages