THE BROOKINGS INSTITUTION

FISCAL CHALLENGES FACING CITIES: IMPLICATIONS FOR ECONOMIC RECOVERY

Washington, D.C.

Thursday, November 19, 2009

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Opening Remarks:

CHRIS HOENE
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Panelists:

THE HONORABLE MICHAEL NUTTER
Mayor
City of Philadelphia, Pennsylvania

THE HONORABLE CHUCK REED
Mayor
City of San José, California

THE HONORABLE SCOTT SMITH
Mayor
City of Mesa, Arizona

THE HONORABLE ELAINE WALKER
Mayor
City of Bowling Green, Kentucky

Closing Remarks:

JARED BERNSTEIN
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P R O C E E D I N G S

MR. KATZ: Good morning, folks. I'm Bruce Katz. I'm Vice President of the Brookings Institution, and I'm Director of the Metropolitan Policy Program here.

We're here today to have a very timely forum on the fiscal challenges facing cities in metropolitan areas in the United States and the implications for the economic recovery. As many of you know, the standing contention of our program at Brookings is that we are a metropolitan nation, that the national economy is essentially the makeup of a network of metropolitan economies. So, national economic recovery from the current downturn very much depends on the recovery of metropolitan economies.

Today we're going to be discussing how, to a large extent, the recovery of metros depends to a meaningful degree on cities and other local governments being fiscally healthy. It's not yet been covered too much in the mainstream public discourse, but given the worst recession we've seen in decades a potentially overwhelming local government fiscal crisis is now looming on the horizon.

Now, our partners at the National League of Cities have conducted a very timely survey showing that nearly nine in ten city finance officers are reporting difficulties in meeting fiscal needs in 2009 and expect the same in 2010. The pain is widespread from foreclosure-stricken cities and metros like Phoenix and Vegas to areas like Cleveland and St. Louis and New York suffering losses in auto and manufacturing industries and financial services and those places that are heavily reliant on state and local aid in Massachusetts, New Jersey, most of the northeast.

All of this local level stress has serious implications for the national economic recovery. Over the next couple of years, just as the federal recovery spending trails off, continuing local government budget tightening and expenditure cuts are going to pose a significant drag on the economy even as it's about to turn the corner.

Now, as we all know when cities and suburban municipalities make cutbacks, they lay off workers, they furlough workers, they cancel vendor contracts, and they eliminate funding to nonprofit providers, all of which directly removes demand from local and regional economies, because numerous individuals and organizations across a metro are left with less money to spend on salaries, supplies, or consumption. That's the dynamic facing cities and many suburbs all across the country.

So, again, to put it simply, there can't be a healthy national economy without healthy local and regional economies. In that vein, I think today's conversation is going to lead to some thought-provoking conversation on the position of cities in today's economy, their future prospects, and the relationships to state and local governments.

Mayors are making tough decisions, and that's what you're going to hear today. They're being incredibly creative to reduce the carnage. And we may need additional federal intervention beyond the American Recovery and Reinvestment Act to stave off real destruction at the local level in the next year.

Now, before we turn to the rest of the day, I want to take a moment to introduce Don Borut, who's the Executive Director of the National League of Cities, which is co-hosting our event today, and ask him to make a few remarks.

Now, Don, I've got to give you the proper introduction here as a co-sponsor.

Don is the Executive Director of the National League of Cities. That is the oldest and largest national organization which represents municipal governments in this country. Importantly, he has more than 35 years' experience in municipal government and the public interest sector.

You probably go back to which recession -- in the '70s or the '80s -- that we might learn some lessons from.

But he is uniquely experienced to talk to us today as a thought leader on these issues.

MR. BORUT: Thank you, Bruce.

We're delighted to be here. As Bruce said, the National League of Cities is the oldest and largest organization representing cities, and indeed through a network of state municipal leagues we represent over 18,000 cities, towns, and villages across the country.

Local governments, as Bruce has said and I think you're all aware, are facing unprecedented fiscal challenges. This is unknown for our generation. Fortunately, local elected officials are what I like to refer to as prudent optimists. They acknowledge the realities that they confront. They make tough budget decisions, and what they try to do is maximize the services; that is, even though they're making cuts what they try to do is provide services so that it seems seamless.

There is, however, a tipping point. There is a point that as revenues are reduced, there are consequences for programs. And one of the problems is that the public often hears about the cuts, they see no changes in services, and they conclude that city governments can do more if you give them less. But that doesn't work. There is a point where there is going to be consequences.

Now, for the last 25 years, the National League of Cities has been doing a fiscal survey, and my colleague, Chris Hoene, is going to give you the specifics of the findings this year. But based on the studies that we have done, the longitudinal studies, we have been pretty good at forecasting what the consequences are going to be after a downturn; and right now it really appears that it's going to be 18 months to 24 months before we see any kind of uptick in terms of what happens to the budgets of local governments.

Now, for the past two or three decades, the cities have really looked to the federal government more from a defensive perspective than an ask perspective. They've been concerned about unfunded federal mandates, which we sometimes refer to as shift and shaft federalism. They're also concerned about preemption -- federal preemption. But at the same time, if you go back to the '70s, city budgets had received about 17 percent of their revenue from federal programs. Right now, it's maybe 5 percent. So, there's really been a decrease in the kind of support that local governments have received from the federal government.

Now, from our perspective, the increase in unfunded federal mandates, preemption, and the reduction in federal assistance reflect an unraveling of the intergovernmental system and inattention to and a disregard of the fundamental interdependence of local, state, and federal government.

As Bruce had made pretty clear, our national economy is really the sum of the metropolitan or regional economies, making it imperative for state and local and federal governments to collaborate in order to address the dramatic fiscal crisis we confront today. At this moment, we need to recreate that intergovernmental partnership that operated two to three decades ago. In fact, our colleagues at the National Association of Counties have framed this in terms of restoring the federal partnership.

The mayors you're going to hear from today will describe their reality as they make the tough but responsible expenditure reductions to match falling revenues that they confront in their communities. At this moment, however, we again need to acknowledge that we have a federal system, a system requiring an appreciation of our disco interdependence. That's what we want to address today.

Thank you very much.

MR. KATZ: Okay, shift and shaft federalism. Okay, whoever came up with that line deserves an extra bonus at the end of the year, which of course we can't pay, so -- given the downturn.

So, we're going to start with two experts today to focus first on the broader economy and then really shift to the physical implications for cities and suburban communities. So first off we're going to have Steve Cochrane from Moody's Economy.com. He's a managing director there. He oversees the U.S. Regional Forecasting Service and directs the research and development of really what is probably the leading institution right now doing this kind of work.

And then we're going to be followed by Chris Hoene. Chris is from the League of Cities. He's the director of the Center for Research and Innovation there. He oversees a broad array of research at this organization which does really quality independent, rigorous work, and his areas of expertise include much of what we're going to talk about today, which is local and state finance, federalism, and local government structure.

So, Steve.

MR. COCHRANE: Thanks so much. It's a real pleasure to be here and to be given the opportunity to set the stage for today's discussion.

I want to divide my talk into three very short parts. First I will give you just a very brief outlook on the U.S. economy today and what that means for the regions in the metropolitan areas around the country.

Second, I want to illustrate what I think the most important risks to that outlook are right now. I'll tell you right now, I'll be focusing on consumer spending and on housing markets.

And, third, we'll be looking quickly at implications that they have for city fiscal conditions.

So, let me jump right in here. The recession is over, even though it may not really feel like it's over. Our estimate is that the recession did end in the month of August.

The bar on the right-hand side of each of these quarters -- the blue bar is our estimate and our outlook for annualized growth, real GDP for the U.S., broadest measure of the economy; and we estimate that right now the economy is growing at a rate of about 3 percent per year. You'll see that, if you look at the right-hand bar, which is the green bar -- that is our estimate of the contribution of federal stimulus spending to economic growth, and you can see that a good part of the economic growth today really is due to the active role of the federal stimulus programs right now.

The risk is that most of the effect of stimulus spending happens when spending ramps up. That's when the biggest impact is. So, when it levels off, and then even more importantly when it begins to fade it in coming quarters, that the economy has to pick up in a self-sustaining pattern without so much help from policy. And so you can see that we expect that with that blue bar showing actually very slow growth first half of 2010 and then picking up as the economy gains some speed second half of 2010 into 2011.

It does seem a little bit fragile right now with the unemployment rate jumping in October up over 10 percent, the 10.2 percent. It could very well be higher than right now. It really does make us feel like the recovery is fragile.

Yesterday there was a report, too, of housing starts, home construction, that fell in the month of October as well.

One reason why things seem so fragile is that there isn't a whole lot of hiring going on in the economy right now. Layoffs have abated, and that's what I show on the green line here, which should be read on the right-hand access. You can see that layoffs really peak back in the first quarter when there was so much panic in the economy when nobody really, really had a good handle on what was happening and where the economy is going to go. Layoffs have abated, but nobody is really hiring. There's not enough confidence yet among employers to actually go out and ramp up again, and they're just holding their own, and that's one reason why productivity growth actually is very quick right now.

But there is no hiring, and that is allowing the unemployment rate to rise even as the labor force does shrink.

You can see on this map where the weakness is. The states that are red here are the states where the unemployment has risen the highest from the -- I take each state's low point of the unemployment rate, which was usually in late '06 or early '07 and compare it to the latest unemployment rate, and you can see that it's the West Coast; it is much of the southeast; and it is parts of the industrial Midwest where the unemployment has risen the highest. If the labor force wasn't shrinking in parts of the industrial Midwest, you'd actually see more red in places like Ohio and Indiana and Wisconsin.

The risk here is that when the unemployment rate rises as fast as it is some of these areas, that's where there's the most slack in the labor market, and that means potentially there's the least potential in the near term for any improvement in wage growth because of the excess supply of labor in many of these markets, and weak wage growth will mean weak income growth, and we can see actually that weak income growth is already evident. In fact, as of the second quarter, which is our latest read on personal income growth for the states, income was down over the year actually in every state, except in the Dakotas, and where it was down the most was, again, on the red states on this map, and so it's the West Coast, largely hit by housing; Florida, also hit by the housing downturn; the industrial Midwest, hit by the downturn in auto production and other demand for durable goods; and New York, southern New England, and North Carolina which were hit so hard by finance. So, housing, finance, manufacturing -- those are the real three defining factors that are driving the pattern of regional economic growth right now.

Now this weakness in income and the weakness in labor markets in these areas generate the first risk that I mentioned, and that's a risk of an extended period of very weak consumer spending, and if consumer spending is weak, that means of course weak sales tax revenue growth, and that will hit cities very hard that depend on sales taxes. It also means fairly weak income tax revenue. That's less important for cities and more important for states, but of course some of that is shared down to cities as well. So, that's the first risk.

The second risk relates to the housing market, that if labor markets continue to be very weak, that that will probably lead to more pressure in terms of mortgage foreclosures and weakness in housing markets around the country.

And what I show in this chart is evidence of the already strong potential for arising foreclosures in 2010. This is the pipeline, in a sense a measure of the pipeline of potential foreclosures going forward. Data from Equifax, a database that we manage with Equifax, one of the credit rating bureaus, and it is a -- it takes the number of first mortgage loans that are delinquent 90 days or over or that already are on the books of lenders as REO -- real estate owned -- property or where there is a notice of default. And you can see that that has continued to rise through the third quarter and generates potential for a rising number of foreclosures into 2010 before that situation begins to abate. And then if we tack on that the potential for a weaker labor market, it could make it even worse. And it could make it worse largely in these areas.

This map, a map of all the metropolitan areas in the country, is a map of our estimate of the potential for house price decline. This is our leading house price indicator. Where there's no color on the metropolitan areas, it means those areas don't differ from, broadly speaking, the U.S. average. But the blue and the red metropolitan areas are those that are at heightened risk of further house price declines. And you can see it's largely central and southern California, coastal Florida, and much of the northeast, say, from Washington up to New York and southern New England. These are areas where, again, the labor markets are weak, where there's a lot of sub-prime lending, or where income growth has slowed considerably as it has in the northeast. Also in the northeast, house prices actually haven't fallen as much as elsewhere, and they are still, in our estimate, a bit overpriced in much of the northeast.

I think the mayors that are with us today might be happy to know that none of the metropolitan areas that contain your cities have a color here, and that's probably good news for you.

But, again, things seem fragile, and the turnaround will be slow. Our estimate is that the unemployment rate will continue to rise and will peak close to 11 percent probably sometime mid-2010 to third quarter 2010, and that employment -- payroll employment, which is the lighter -- the blue line -- probably won't return back to a peak -- back to its previous peak until maybe sometime in mid to late 2012, and if we take that down to the regional level, we can see where this would have the greatest impact. The colors here indicate timing of when our -- when we expect that total payroll employment will recover completely and reach a new peak. The red states are the slowest, and they will reach a new peak sometime after 2013. It could be 2013, 2014, or, in some cases -- say, in Michigan -- they may never actually come back to where they were before.

This is -- I think it's important to look at it in this way, because it's when employment returns to a peak that we'll truly see an impact on the broader economy. That's when we'll see a tightening in labor markets. Wage rates should begin to rise again. We'll see better demand for office space, so office buildings will begin to fill up again. New construction for office space could commence once we reach this point in each of the state economies. Housing demand would improve, and the broader economy would look much better once we reach this point in each of the states.

You can see that that broad mid-section of the country from Texas, say, up to the Dakotas and up to the Rockies will fare the best. It has the smallest hole to climb out of, and the housing cycle and the labor market cycle is much more shallow in that part of the country.

Local government does its best during these times in terms of trying to stabilize the labor market. Sometimes it's not done in a -- it's not intentional. It's simply that the tax cycle is often lagged behind the economic cycle, and the employment cycle in local government often lags as well.

This chart shows local government employment as a share of total payroll employment in the U.S., and I split it up by education, local government education -- that would be public K through 12 -- and non-education local government employment. If you add those up, local government accounts for about 11 percent of employment today, nearly a record peak. It hasn't been this high since back in the 1970s. You can see there's a bit of a cyclical pattern to it. As the economy enters recession and comes out of recession, the share action begins to rise, because private payrolls tend to be cut first. It's a little slower for local government to cut payrolls, partly because, again, the tax revenue is a little bit lagged.

Well, we're at a peak. Local government probably can't play this role much longer. We know fiscal conditions are so difficult at the local government level. Right now one of the key factors helping local government employment to stay where it is the federal stimulus spending that is being directed directly to education. The green line here simply shows the spike in federal grants and aid to state and local governments specifically for education. But of course we know that can't last and that cities will have to depend more on private employers ultimately to pick up the slack and begin hiring and get the economy going again.

Another problem for local government is that this difficulty in terms of maintaining local payrolls comes at a time when there is diminished state support for local government. What this chart shows -- the blue line is the unemployment rate, and the green line is local revenue that is derived from state governments, the year to year change in that, and what I want to illustrate or what I want you to see or notice is that when unemployment peaks, the contribution from state government toward local government revenue is at its lowest. In other words, that's an easy fix for state government -- is simply to pull back from support from local government when state government budgets are in a difficult situation.

Now, my data here only goes through '06. This is quite lagged data, but I expect it will -- it is happening right now and actually will continue to happen through 2010 as state governments themselves grapple with their own fiscal difficulties, and there'll be less available, left over, for local government.

But it's not only a near-term issue for, say, fiscal 2011. It actually could be more of a long-term issue because of what could be potential diminishment of the effectiveness of state tax policy. This chart shows our forecast of state tax revenue as a share of total U.S. GDP, and you can see that we do expect it to come back but not as robustly as in the past -- for two reasons.

One is demographics, and that is that as baby boomers age, their spending patterns change and they will shift spending from purchases of durable goods, which to a large extent drive sales tax revenue, to services, which are less important in driving sales tax revenue.

And the second is the labor force, and that is that the labor force has shrunk, and if the labor force participation rate continues to be below historical norm, then it will probably be some downward weight on income tax revenue as well. So, all this indicates that we have problems in the near term but potential problems longer term and it's going to generate a huge need for a lot of creativity on the part of city government and local government broadly but also on generating new kinds of partnerships and new kinds of ways of generating and maintaining revenue at all levels of government.

Thank you.

MR. HOENE: Like Steve, I'd like to thank you all for coming here today and being a part of the discussion that we've set up.

My name is Chris Hoene. I work for the National League of Cities, and I'm here to talk to you about the city fiscal outlook, to take what Steve has just put before you and talk about -- to narrow it down into what's happening with city finances.

So, this is the sort of continuing analytic part of the program. As many of you know, the thing about economists and fiscal analysts is we're people that are pretty good with numbers but don't quite have the personality to be accountants, so our apologies for all the charts, but -- and our apologies to the accountants in the room.

I wanted to dovetail off of what Steve's presented here today and talk a little bit about work we've done on city finances for the last 25 years and focus on a report that we released, City Fiscal Conditions in 2009, that came out in September and is our latest information about what's happening. We've done this work, as Don said and I just indicated, the last 25 years with Mike Pagano, who I believe is in the room here -- he's from the University of Illinois at Chicago -- and some of what I'll present is done with Mark Merrill here at Brookings, and you have both publications that we've produced off of that in your packets here.

I want to underscore something both Bruce and Don and several others have said here, which is the importance of local and regional economies to the national economy and national economic performance as a source of jobs and wages, as a source of stimulus in the sense of the spin-off (inaudible) happens when local governments invest in things like infrastructure, schools, public safety -- and in the sense that, as Steve just showed, that up until recently local governments were increasing that investment and may now be in a period of decreasing it and that that may have a lag effect in terms of dragging down what happens in terms of national economic performance.

Let me see here. So, what I'm going to present to you today are mostly the results from our fiscal survey. We do this survey every year. It's a survey that goes out to the nation's city finance officers around the country. It asks them for directional types of -- their sense of direction in terms of what's happening with their economies, and it asks them for their hard budget data, which we then put into a format that we can report on in aggregate for the municipal sector. And here's what they told us -- this is the sort of the summary part: For 2009 they're worried about declining housing values, slowed consumer spending, rising unemployment and wages, and restrictive credit markets.

And why are all of these important? Well, you heard Steve say some of this already. The housing values drive property taxes; the consumer spending drives sales taxes; the wage effects of unemployment drive local income taxes, which are important to a number of larger cities around the countries in particular; and the restrictive credit markets have made it difficult off and on in this recession and likely will in the future in terms of their ability to secure debt for capital projects and infrastructure investment.

So, in short, our finance officers and cities around the country are saying they're concerned about nearly every major source of revenue that they have in their budgets.

And so it's not surprising that this next chart shows that 88 percent -- the yellow bar on the far right here -- that 88 percent of the city finance officers when asked about whether they are better able or less able to meet their needs in 2009 versus the previous year said they were less able to meet those needs. And historically across the history of our survey -- and it goes a little further back than this -- this is the highest number, so it's indicative of the depth of the recession even at this point. And when we asked them the same question in terms of the prediction for fiscal year 2010, the number stays essentially the same. So, it's fairly ubiquitous at this point. They're expecting things to be tough.

Of course the real numbers we pay attention to here are about revenue and spending trends. This chart's a little bit of PowerPoint terrorism, but bear with me for just a second and I'll explain the three important points about it.

First is to explain that this is general fund revenues and expenditures for the municipal sector as if we added all the budget numbers up together, and I want to point you to, first, two pieces. The far right -- the blue bar is revenue, the yellow bar is expenditures, and everything's been adjusted for inflation so these are in constant dollars.

One of the first pieces is that revenues for '09 are down just a little bit, right? But expenditures are still up. It shows that across the municipal sector there's about a 3 percent gap, and as most of you know, local governments around the country, city governments have to balance their budgets under state law, so that's a 3 percent gap that has to be filled by the end of the fiscal year for these local governments. But it's not necessarily a huge number yet as the other piece, I would note, and this data is a little old at this point, actually. This is based on a survey we did back in May and June, so we're pretty sure that gap has probably widened in terms of what had to be filled, but we're still early, and that's a point I'm going to hit here repeatedly over the next few minutes.

The second piece that I want to draw your attention to then is these gray vertical bars that appear earlier in the chart that represent the low point or the recessions -- our two previous recessions in 1991 and 2001, respectively. If you then skate forward a couple of years and you look to where the revenue and expenditure numbers for cites hit their low, what you'll see is that the low point for cities typically comes 18 months to 24 months after the low point for the recession, and that's important in the sense that if we are at the low point now where we just turned the corner, it means we're still a couple of years away from seeing the low point for revenues and the point at which the curve starts to tick back up.

The third pieced I also want to highlight, then, out of this chart is to then look at the 1991 recession point in particular, because it's the one that probably most closely approximates what we're in now in the sense that it was a housing decline-fueled recession in some respects. And it took four years essentially before there was any real significant growth, annual growth, in local government revenues. And even after that there were some fairly slow periods. Housing markets tend to come back slowly; city revenues tend to lag -- what happens in those markets -- and so it's going to take a couple of years plus even the out-years before we're going to see real significant growth here.

So, in essence, if we've passed the low point, we have a while to go before we come out of the woods here. We've got a while to go before we see significant revenue growth. And what's the main reason for that? Well, the overarching reason is mainly the local property tax, which is nearly ubiquitous across the country in terms of local governments having some access to it or getting some revenue from it, although that's not universally true and we had, at least until recently, once case of that here in the room with us today.

But I wanted to talk a little bit about what's happening with the property tax in reference to other local taxes, and so this chart breaks those revenue numbers, those general fund revenue numbers down by property tax in the gray, sales tax in the blue, and income tax in the yellow; and if you go to the far right for 2009, what you'll see is that those revenue numbers that were down are being driven by income and sales tax revenue reductions. But the property tax revenue is still up, and -- right? And that just doesn't jive with what we know is happening in the housing markets, which started to decline in mid-2007.

The point here is that the full effect of the housing market decline on property tax revenue is still coming, and it's coming in 2010 and 2011 and 2012; and it's going to be made worse, actually, by two factors, one of which Steve showed in terms of the spike in foreclosures that's likely coming and most of the local officials around the country have been telling us they're expecting come January 2010 they're going to see a pretty significant increase.

And the second factor is that right now what's been happening with the property tax -- it's been mostly a residential story where your individual housing values went down. But the next shoe to drop is actually the commercial property market -- Kiplinger just reported that that's down about 35 percent across the U.S. this year -- and that commercial property market is very significant in terms of driving local property tax revenues, and so that -- the number is likely to get much worse here over the next couple of years.

And so that probably leads you all to be asking okay, so how are cities responding, and you're going to hear from four mayors here today who are going to talk a lot about the in detail in terms of the choices that they're making.

I'm going to highlight the two main responses to our survey in terms of how they've been responding so far. In 2009, 67 percent said they have instituted some sort of hiring freeze or have been laying people off or have been instituting some sort of furlough program, and 62 percent said they even delayed or canceled capital infrastructure projects.

There's a reason these two things are first on the list. It's where the big money is, for one, right? -- in terms of work force and capital projects, which are very large projects -- but, two, the local officials are seeing what's coming, right? If you make cuts in these two arenas, you save money in out-years. These are multiple-year capital infrastructure projects, and if you cut your workforce, you're reducing your cost and your outlays in future years. So, what's happening is they're predicting three and four and five years out that they're going to be in difficult circumstances, and they're making some really tough choices. So, that's the piece there.

I want to then step back for just a second and put this on a little bit broader context, because one of the things that was ignored for the most part during the boom period was that some of the challenges facing cities now have actually been around for a much longer period of time and were masked, in essence, by the boom itself. There is a set of underlying challenges that have been ongoing for some time that make some of this worse and make some of what we -- in terms of the out-years -- a little more difficult to deal with.

And I'm going to highlight three trends there quickly. One of them is simply that we have been in a long-term, multiple-decade situation where our economic wealth, our sources of wealth in this country, and our tax systems are moving in separate directions, where we've moved out of a goods-based taxed -- a goods-based economy which -- and a goods-based tax system to a services and knowledge-based economy, and we're still using that goods-based tax system, and so we've been eroding those existing sources of revenue regardless of the current period of downturn.

A second trend is the demographic forces that Steve and others have mentioned here. There are lots of things that could be said there, but the piece everybody seems most concerned about at this point is the coming baby boomer generation retirement, the effect on health care costs and pension costs, and those are going to be significant to local governments. Their costs they mostly can't keep up with. The revenues aren't going to keep up with the rising costs in those areas.

And the third piece, maybe the most important piece for those of us here in Washington today, is the piece that Don highlighted already, and that is that we have essentially unraveled the intergovernmental partnership in this country for a long period of time, and so in order to respond to some of these challenges, a new intergovernmental partnership, a new federal local partnership, a new state and local partnership, new partnerships at horizontal levels are needed in order to govern differently. We've essentially let this relationship go for more than 20 years. It's time to meet each other in the middle again. It's time to build some bridges to the other side in essence, and we have mayors and federal officials here with us today, and hopefully we're taking a step in that direction so that we govern differently and perhaps can figure out a response here in Washington that will be helpful.

So, thank you for your time.

MR. KATZ: So, those were two really superb presentations to sum it all up. Happy days are not here yet.

So, we're now going to move this really to the meat of the program, and we've got a bunch of mayors who've come in from around the country, and to really lead and moderate this discussion we have Dave Wessel. Dave, as many folks in the room know, is one of the most respected journalists in the country. He is the economic editor for the *Wall Street Journal*. His column, called "Capital" really is must-reading on a weekly basis, not just about the economy but around living standards here and abroad. And he's responsible for overseeing coverage of the Fed and the *Journal's* daily coverage of the macro economy global trade and economic trends. He shared in winning two Pulitzer prizes. He's got a recent book out -- you didn't know I was going to show the book -- but a recent book, *In Fed We Trust: Ben Bernanke's War on the Great Panic*, and that's been covered pretty widely.

So, Dave, take it from here. Thanks.

MR. WESSEL: Well, thank you very much. It's good to see so many people here. For those of you who are standing, there are a few seats here in the front, and you're welcome to come on down. We won't solicit money -- maybe.

So, the point of this panel is to identify why anybody in their right mind, after hearing that presentation, would want to be the mayor of an American city, and this is kind of a little bit of group therapy. We thought instead of having one of them, that there would be a little comfort if we had four together. And we do have an extraordinarily broad set of cities and regions represented, actually one from each time zone.

I'm going to introduce each of the mayors, and then we're going to have a conversation, and at about 10:45 we're going to open it up to questions and we'll have time for about half an hour of questions.

On my immediate left is Michael Nutter, who is the mayor of Philadelphia, a job he's had since 2007. He is a graduate of the Wharton

School of Business -- you're going to see a trend here -- and has previously worked in an investment banking and brokerage firm.

Now, next to him is Elaine Walker, who has been in Bowling Green, Kentucky, for 15 -- more than 15 years, and still couldn't tell us definitively why it's called Bowling Green, but she assured us that they are actually building a Bowling Green there and not with federal stimulus funds, I might add. She's had a varied career. She worked in communications; she worked for a TV station in Los Angeles; and she's been the mayor -- she's the senior mayor on this panel -- since 2005. Both Mayor Nutter and Mayor Walker are Democrats.

Scott Smith, the next gentleman, is the mayor of Mesa Arizona. He's a Republican. He has been mayor since 2008. Previously worked for a number of firms, including a housing construction firm, and he, too, has an MBA. His is from the Arizona State University.

And at the end we have Chuck Reed, the mayor of San José, California, a job he has held since 2007.

So you can see, if you looked at those charts, just when things started to get bad, each if these mayors took their jobs, which is another question about their sanity. But it does sort of make you realize why they don’t have to worry about anybody else challenging them, given that who would want the job given what we’ve been told going forward.

In any event, Mayor Reed is a graduate of the Air Force Academy and has a law degree from Stanford Law School and was a practicing attorney in San José before he took the job as major of that city in the State of California, which we here in Washington look at as a model, because when we feel bad about how Congress functions we just look to the California legislature and we say it could have been worse.

We’re going to start by asking each of the four mayors to speak very briefly, a couple of minutes, to give us a snapshot of the economic and fiscal conditions in his or her city, and we’re going to go from east to west, and we’re going to start therefore with Mayor Nutter. We were going to go alphabetically, but I couldn’t figure out -- four people, it’s too complicated, so.

So, Mayor Nutter, give us a two-minute snapshot of the economy and fiscal condition of your city.

MAYOR NUTTER: Okay, thank you very much. Just one point. Dave mentioned that I started in ’07. I actually was elected in ’07, started January ’08. I know there are journalists in the audience. I don’t want to get caught up at some congressional confirmation process and not have cleared up that particular issue right now.

MR. WESSEL: I trust you paid all your taxes.

Okay, sorry, I --

MAYOR NUTTER: Yes. The answer's yes.

MR. WESSEL: That you can recall.

MAYOR NUTTER: They're all paid. No one looking for me.

The fiscal condition in Philadelphia is -- the quickest way to describe this -- in September of 2008, September 11th, by a sheer coincidence, I announced that the city was facing at least a $450 million five-year plan deficit. In Philadelphia, unlike many other cities across the country, we have a financial oversight entity that requires balanced five-year plans, and each year that plan must be balanced. So, it helps to ensure a certain amount of fiscal discipline. We emphasized at the time with the public the "at least" part. We knew this was growing, didn't know how far it was going to go. At the time, the citizens were a little stunned, because of course we just passed the budget in May. A couple of months earlier it was balanced, everyone seemed happy, and life was going on. You'll recall, though, if you look at any of the newspapers from that time, the following week and over that weekend, I believe one of the major financial institutions was in the midst of a meltdown, and every day the following week on the front page, at least of our local papers, whether it was AIG, Fanny Mae, Freddy Mac, Merrill Lynch, WAS Mutual, and a bunch of others, every day someone was falling apart, and so unfortunately the citizens began to better understand our circumstances.

In the midst of all that the Phillies were on their way to winning that World Series and we were about to elect, for the first time, an African-American president.

We, on the other hand, in city government were trying to figure out which day do we tell the citizens that we now have a billion-dollar deficit. Do we interfere with our playoff run and World Series and parade, or do we do it right before the most historic election in most of our lifetimes? We decided to do neither, and two days after all the joy and excitement of President Obama being elected, I had to announce to the citizens that we had a $1 billion five-year plan deficit in the middle of a fiscal year.

This has never happened in the city's history. We cut a variety of services; some layoffs stopped 13 straight years of wage and business tax reductions in order to save money and actually filled that hole. And then on January 15th the following year, I announced that we had a new $1 billion deficit, because it continued to grow and deteriorate. By the time I announced our budget on March 19th, we had a $1.4 billion five-year plan. And so in the midst -- in the course of four months or so we had to solve $2.4 billion of five-year plan deficits with a variety of more cuts, more reduction of services, more layoffs, and ultimately sought a temporary increase in our sales tax going from 7 percent to 8 percent, which we needed General Assembly approval for, as well as a temporary deferral of pension payments because the pension costs continued to rise dramatically. As we've just experienced a 17 loss in value in our pension system in the most bizarre fashion, we actually beat our benchmarks at a 17 percent loss.

What we're trying to get to is fiscal stability, and we're still seeing continued deterioration. The current fiscal year we're down $51 million in wage tax receipts just in FY10, which we'll have to solve in the course of this fiscal year, and we're in the midst of preparing our next year's budget, which we're already anticipating a deficit for as well.

Having said all of that, and I do not want to pick on this gentleman, but hearing Steve’s presentation -- and hopefully this will not affect our bond rating by your company -- but hearing your presentation this morning that the recession is over reminds me of a sign I saw one time a couple years ago that said “mission accomplished.” It is not happening on the ground, and there is continued deterioration at the local level notwithstanding every bright economist, conservative, liberal, or anything else. On the ground we are still in the midst declining tax revenues, figuring out how to reduce our employee costs. Pension and health care for us will be 25 percent of our budget in another year or so, and so the ARA funds, which we’re every excited to have -- there is a little bit of a disconnect.

I have no complaints other than the fact that I can’t use a dime for our budget challenges. And so on one day we could announce at 10 o’clock in the morning a new grant opportunity from the federal government and later that afternoon announce more layoffs and service cutbacks. The public is confused as to what in the world is going on. And that is a major challenge for us.

Last point. Banks, investment banking firms audit. All too big too fail. Cities in metro areas -- all to important to fail. We cannot and we will not go out of business. We are a service organization. We have obligations and responsibilities that I would suggest are far greater, and at least equally if nor more important than anything else that's going on in terms of business and industry. We provide desperately needed services and drive the economic engines in our cities and metropolitan areas unlike any other industry in the United States of America.

Thank you.

MR. WESSEL: Okay?

MAYOR WALKER: Well, first of all, thank you for allowing me to be here, because you're hearing from the big guys, and they've invited me to represent smaller cities. I'm from the city of Bowling Green, Kentucky, home of the Corvette. We have about 55,000 people here. And also Kentucky is the third largest state in terms of automotive industry. The good news for our state is that we are the only state where all four OEMs have been maintained, and so we still are continuing on with the Corvette. The good news is we've the Corvette. The bad news is that in the first eight months of this year, they've furloughed more than they've actually worked, which has a direct impact on our revenue source, our major revenue source, which is occupational license tax. Our property taxes are a much smaller percentage. Occupational license tax is about 67 percent of our general fund. And so --

MR. WESSEL: Please explain what an occupational license tax is.

MAYOR WALKER: Basically, what it is -- instead of an income tax, we take 1.85 percent immediately off of every dollar that's paid to a person who works in the city, so there's no filing of any kind of a form. It just is automatically paid. And I was looking at Steve's figures, and the only revenue source that is up, which is sales tax, has no impact on my city, so that's the good news/bad news.

We have about 5,000 people employed in our region in the automotive industry, and so we have seen a reduction. For us, it's been about a 10 percent cut in our general fund revenue, and when you look at some of the brighter sides, we do have Western Kentucky University, which has grown in this period, and so that's how (inaudible) some of the cuts. We also are the home of a major medical center that supports our region, and so that has also allowed us to stabilize somewhat in terms of our revenue sources.

But we've got other pressures as well. You talk about the state. Not only does the state tend to take -- siphon off most of what comes in from the federal government, but they also have done things like we are required to be part of a state employee retirement system. The state doesn't make their payments, but they fine local governments $5,000 a day if you don't make your payments, and so cities and counties are maintaining the limited health of our state employee retirement system.

We've got a telecommunications tax. The state says we're going to collect it for you, but we'll hold you harmless. We're losing $140,000 each year because they miscalculated, and so all of these things have caused us to not necessarily lay off, but we have consolidated positions. We have basically cut or reduced our employee work force by 7 percent, and clearly we're going to have to be a little bit more creative in the future.

I'm an optimist by nature, and so despite the first 30 minutes of extremely devastating information, I think that these problems also provide us with opportunities, and we have to have a paradigm shift, and it really cannot be just with local government, state government, and federal government. We've got to engage the public. We've got to engage more of the private sector, and what we're doing is we're looking at public-private partnership. We want businesses to step forward and help us create those access roads to their business. We're not going to buy the property anymore, and we're not going to pay you for it, and you're going to pay for it and you're going to relocate utilities.

The other thing that we've got to do is to engage the public. We don't have the money to create new roads or expand our roads. But if they modify their driving habits, we can do much more by modifying driving habits than we can by spending half a billion dollars in terms of an investment in our roads. So, we're going to have to engage the public. We're going to have to become more actively involved in the state level and more actively involved in the federal level, and we've got to be more creative. We have a tendency to do that, because we can't pull from any lower source and we can't manufacture money and we can't send a buck upstream, and so we are more creative.

MR. WESSEL: Thank you, Mayor Scott? Mayor Smith -- I'm sorry.

MAYOR SMITH: That's okay, I'm called Mayor Scott more than I am Mayor Smith. That's fine. My first name's really Mayor, so that's okay.

Mesa, Arizona is probably the biggest city you've never heard of. We are in the Phoenix metropolitan area. We're actually the 38th largest city in the country. A little over 465,000 people. We are actually the community for which the term Bloomberg was invented, because we are a very large city that lives in the shadow of the City of Phoenix among several other large cities, and in Mesa our biggest challenge is that growth has been our biggest industry. We have grown at a tremendous, tremendous rate. When I graduated from high school 35 years ago, Mesa was a town of 74,000 people -- now 464,000 people. You can imagine the challenges we have.

The other thing is that until just literally this last month, Mesa was the largest city in America without a property tax. So, we relied completely on sales tax, on state-shared revenue -- and in Arizona the state also does not levy a property tax; their revenues are primarily sales tax and income tax and then on earnings from our enterprises -- our water company, our waste water, and things like that. So, it's split about a third, a third, a third. Obviously, two-thirds of those industries -- people still use water and they still have garbage -- those have held fairly steady, but our sales tax and state-shared revenue have gone, and it really -- in the drain.

I took office in June of last year with a three- or four-year plan to change the way Mesa city government did business. That was my campaign. And I actually meant to actually live up to my campaign.

MR. WESSEL: How's that working out for you?

MAYOR SMITH: Well, actually -- thanks for the setup, Mayor -- the first week in July I sat down with our city manager, Chris Brady, and we looked at sales tax report that showed almost an 18 percent drop year over year in sales taxes. The three-year plan suddenly became a three-month plan, and we realized that we could not continue on doing business the way that we had. We, in essence, bought short in the economy. Rather than look at this as a temporary blip, we decided that we were going to approach this problem as basically a change in our reality, and that was the same that we came up with. Our reality has changed.

The second thing we did is that we eliminated a few words from our vocabulary. The first word we eliminated was the word "cuts," because we felt that to say “cuts” really defied what we were saying as far as changing our reality. A cut is in essence a temporary reaction. We needed to change things, and so we went back to our department heads and set goals and set benchmarks that related to reducing the resources that were available -- nice way of saying “cuts” -- that maintain service levels. In other words, we wanted to challenge our department heads to, in essence, change the way they did business. And we ended up over the next three months eliminating departments, consolidating departments, reforming, reinstituting, revising the way that we provided services. Nothing was off the table. We looked at some of the changes that Chris talked about and that our economy has changed. Well, also the nature of city government has changed. Our fire departments, for example. In Arizona, our fire departments, as they do in many parts of the country, provide medical services -- emergency medical services. In fact, in the city of Mesa, over 70 percent of our annual calls to our fire department are medical related. So, we’re (inaudible) now to a three-quarter of a million dollar fire truck with four highly trained professionals to wrap somebody’s sprained ankle as well as save their life if they’re in an auto accident, and that model we decided cannot continue. We sat down with our unions and worked out a way to try something different in the service delivery in our fire for example.

Our police went to several different methods that they changed in providing services.

We decided we simply cannot continue to go about business the same way we have, because the world had changed. We treat this financial crisis as not being something we're going to get out of. We think that this may be as significant as the last great crisis -- you know, the depression -- in that it changes not only how governments operate, but it may change the relationship between local governments, state government, and even the federal government. We've seen that already with our state government. Our relationship with our state government, with our revenue sharing, has changed dramatically. We don't know if it'll ever go back to the way it was two, three, four, five years ago.

So, in Mesa, that's how we looked at it.

Growth has been our industry. Obviously, with the housing boom we did very well. With the housing crash, we suffered. Well, we also have things that are basic and that go beyond. Mesa is the home of the Apache attack helicopter. Boeing has a very large helicopter manufacturing plant there. And another helicopter -- the one you see without the rotor -- MB helicopters. We have tourism, which is hurt, but we have other industries that have remained strong. But the overall stress and pressure that the reduction in sales tax, which is not getting any better -- as a matter of fact, once again our city manager got up and said we hoped this year would be as bad as last year, and it hasn't. Last month, 17 percent year over year, meaning that in the last two years we are down month over month almost 35 percent in the portion of our budget that provides literally one-third of our income. So, we have huge challenges.

The good news is that while we were looking at a 16 to 17 percent 18-month budget shortfall, the restructuring that we implemented actually created greater savings than our budgets anticipated. It does prove that you can provide services for less money in a more efficient manner.

I'll give you one great example to conclude. Our libraries -- we cut ours dramatically. The libraries in Mesa are literally closed three days a week. The other four days they operate on shortened hours. Over the last year through efficiencies, through better use of technology, we actually moved more books out of our libraries and served more citizens on fewer personnel with a 30 percent reduction in resources available, moved more books, and served more citizens that we had the previous year. We found that we can -- it can be done. But we're wondering how much more can you put in the well. The well is getting pretty dry.

MR. WESSEL: Thank you.

Mayor Reed, who has the dubious honor of having the city on this panel that has the highest unemployment rate at over 13 percent told me earlier that he took office and they were already five years into a financial crisis in San José.

So, how bad is it out there?

MAYOR REED: It's pretty bad.

Let me tell you a little bit about San José. We're the tenth largest city in the country and the third largest in California after Los Angeles and San Diego, and I love to brag about being the capitol of Silicon Valley, the innovation center of the world, because our economy is driven by innovation in the tech sector. We are a city with no ethnic majority, and 40 percent of our people are foreign born. Our economy is driven by technology, wave after wave after wave of innovation from silicon chips that gave us our name to microphages to computers to the internet to information technology, bioscience, and now cleantech, which I'll come back to in a minute.

The other part about our economy that makes a little bit different is how global we are, because our tech sector companies typically have huge overseas sales, and many of the companies have more revenues from overseas than they do from the U.S. market. So, that sometimes helps and sometimes hurts. Depends on what's happening in the international markets.

We are in the ninth year now of a long-term structural deficit problem, so this recession is nothing new. It just makes the misery worse and knocks us back a few notches from the progress that we had made on resolving a long-term structural deficit since I came into office.

The good news is we are about to -- we're on a wave of cleantech -- alternative energy, solar in particular, energy conservation, so we have a new sector in our economy that is growing. We still have companies that are hiring. We have companies who are making profits. And it is my hope and my drive as mayor to ensure that those cleantech companies, as they create job, that they stay in San José and grow in San José. I have no doubt that we're going to create a lot of jobs. The tech sector will do that. Clean technology will create those jobs. The questions are will those jobs stay in San José? Will those jobs stay in California? Will those jobs stay in the United States. It's a global economy, a global market, and our companies that are creating the technology for energy efficiency and smart grid and alternative energy sources are going to create jobs, but they can put those jobs in China, the Philippines, Malaysia, or they can put them in the U.S., and they make those decisions day in and day out. So, we are dependent in many ways upon the federal government. My prayer is they just don't make it worse. So, we're not looking for a lot of help from the federal government, but there are areas which would be very important, because our economy continued to go well into 2008 until the wonderful days of September 2008 when the capital markets crashed and lots of projects came to a halt at that time. We were still adding jobs well into 2008, but since September we've lost jobs, so we've lost 50,000 jobs in the last year in San José, because our cleantech sector is not growing nearly fast enough to compensate for the other jobs that are being lost.

So, that's the tale of our economy. We have been doing everything on the list that you saw earlier that cities are doing -- all of the above is what we've been doing over the years to try to deal with the problems. And one interesting thing about dealing with those problems that I found from other mayors across the country is that we're all problem solvers and there's no shortage of problems, which is a good thing, but when we solve the problem, sometimes you do it in a way that the people don't fully appreciate it, because we try to lessen the impact on our people. We're making cuts in services, try to spread it out, lessen it so it doesn't go to the core services; it doesn't go to what's most important. So, this last year we covered a budget shortfall of 490 million, roughly 10 percent of our general fund, and we only laid off a couple dozen people. So, a lot of people think well, what was the big deal. You had this big crisis but you didn't lay anybody off. Well, we shrink by attrition. So, we're down 800 jobs from a high of about 7400 in 2001; we're down to 6600 jobs now, shrinking by attrition and occasionally laying people off. And the people by and large still don't I think accept the realities of things have changed, especially local government and local government finance. The mayors know it, but it hasn't sunk in with our people yet.

MR. WESSEL: Thank you very much. There's a lot to talk about there.

Rom Emanuel famously said about a year ago that a crisis is a terrible thing to waste. You all have basically a spending side and a revenue side. Let's start with the spending side. Mayor Smith mentioned some things that they had done in Mesa as a result of the crisis to change the way they practice government, and I wondered if the other three of you could describe a little bit -- what are you doing on the spending side of your ledger? We'll get to revenues in a minute. It's different than just turning the notch another 10 cents.

MAYOR NUTTER: I mean, we've been forced. Running a city, as I described the other day to some local press -- I mean, this is the toughest job at the worst possible time. You have to meet the payroll and you have to meet budgets and citizens want service; and, as the mayor said, I mean, sometimes, you know, unfortunately they just kind of don't get it. We reduce the size of our city government by 3,000 positions -- a combination of full time and part time and contractor positions -- yet local media from time to time when they want to know well, how many people actually have lost their jobs. Well, you just lay off another 2,000 people. Governments are very labor intensive. It takes bodies; it takes individuals to make the place work, and so we have left a number of positions vacant but budgeted, moved people in. I mean, as the chart indicated -- I mean, if the country's going to, you know, 11 percent unemployment, it's at 10.2? 10.2 now? We're at 11.1. So, first why would I contribute my own problem by just summarily laying off a bunch of folks. Second is which services would you like me to cut? Maybe -- should we close our records department? Shall we close down the department that inspects buildings? No one wants me to lay off a police officer or fire fighter.

MR. WESSEL: So, where have you managed to cut spending?

MAYOR NUTTER: We've cut spending actually in every -- we've filled every department. You have to find some cuts. So, there are some things we don't do.

MR. WESSEL: Like what?

MAYOR NUTTER: For instance, in the Streets Department. We cut our residential street cleaning. Just stopped it. We've (inaudible) you know, millions of -- hundreds of thousands of trees, and we used to pick up people's leaves. We don't do that anymore. The Recreation Department -- last summer unfortunately -- we have 76 swimming pools in Philadelphia with the most per capital of any city in the country. We only opened 40 of them. You know, you would have thought that we just destroyed, you know, his (inaudible) in the course of summer. But we strategically placed them or reopened them all over the place, did some fund raising -- public-private partnerships, as you talked about. We raised a half million dollars to keep swimming pools open. So, it forces innovation. Cities are really all about innovation, because we have to figure out how do you supervise the bulk of these services. But, you know, rounding up tires and all kinds of things that we do. We told anyone you want to have a parade, big celebration? You have to pay for those services now. We've been giving them away. Thousands -- hundreds of thousands of dollars in services. We now said you want to have a parade? Love it. You can have all the parade you want -- and, you know, it can be five miles, it can be five blocks. Here are the number of people that we need to support that, this is what it costs, build it into your budget.

MR. WESSEL: Thank you. I should have noted that although these cities are extraordinarily different in both where they are in their economy and where they get their revenue from, in each of these four cities, the mayor does not control the school system. So when you saw that line about the aid to local cities that went from the Federal government to schools, it didn't actually come to the parts of the business that these individuals control.

Mayor Walker, so what have you done that's different in order to save money in your city?

MAYOR WALKER: Well, clearly consolidation has been critical for us and, interestingly, enough we've done more of the position consolidation at the higher level. So department heads leave and we have one department head taking over two departments.

We've tried to do little things, like, for example, we haven't purchased any new vehicles except for police and fire trucks and public works equipment since 2005, and so we made sure that our Public Works Maintenance Department was authorized to service vehicles, and we're actually providing servicing of vehicles for the county, for the school system, for our transit system. Some of those little things are helping us get through, but clearly the consolidation, making due with less, capital improvements have been cut. We were building sidewalks to the tune of a million dollars a year. We're not doing that anymore. We're again looking at bringing the private sector in to say, okay, you want this to happen, you're going to have to come up with the money.

And we had a situation where we were going to build a road and we still had a mentality of a private property owner whose attorney came in and said we want you to pay us X-number of dollars, knowing that that property value was going to increase dramatically. We cut that off of our -- we had the money to build it. We could have created frontage property for this gentleman and we said it's off the books. We're not going to be held hostage anymore.

And so, we're just doing some basic changes and then trying to be a little bit more frugal.

MR. WESSEL: Mayor Reed?

MAYOR REED: The crisis has made some things unavoidable that we were never able to seriously consider in the past, despite our many years of dealing with a structural budget deficit, and that is the City Council recently authorized the staff to negotiate for 5 percent reductions in the cost per employee in order to save money. We don't care if it comes out of salary, benefits, whatever, 5 percent across the board. We had to negotiation with our 10 unions to do that, but the council has said we need to do this.

The second thing the council did at the same time was to direct the staff to attempt to negotiate a second tier for retirement. So, retirement benefits and health care for retirees have gone up dramatically in the last few years. And we're getting ready this next fiscal year to write a really big check and a check the next year and the next year and the next year after that, to cover the loss in market value in our pension plans. We've got to make that up. We have one of those wonderful if you've got them defined benefit plans for all of our employees. We guarantee the performance and so we've got to write the big checks. We, the taxpayers.

So, that's made it possible -- the crisis has driven us to seek another way, so that's the interesting thing about it. I don't know if that's particularly different or innovative or creative, it's just the only thing you can do.

MR. WESSEL: Let me pick up on that. I work in the newspaper industry, which is somewhere between the worst of these cities and the ones worse than that. I have never in my career -- I'm 55 years old -- had a defined benefit pension plan. My pay has been frozen. My bonus has been cut. And the cost of my health insurance is going up.

I pay income taxes, property taxes, and sales taxes to the District of Columbia. How much longer can you pay municipal employees' pensions, which I know your predecessors promised, it wasn't on your watch, and health benefits, that are somehow protected from what's going on in the private sector taxpaying lives of the people who vote for you?

SPEAKER: Well, the first thing I did last year, in the first part of this crisis, the first thing I did was cut my own pay. I took a 10 percent pay cut, cut the salaries of all my cabinet 5 percent, and all of us took 5 furlough days last fiscal year and the current fiscal year, everyone down to the level, who is an exempt employee -- not union because I can't directly control their pay -- everyone down to the level of $50,000 or more is going to have some impact.

We then -- we have four unions, I cannot imagine 10. We have four unions. We have a hybrid-defined, benefit-defined contribution plan on the table. We're in contract negotiations right now. We're asking the employees -- we want all new employees to go into the defined contribution plan. We want all employees to pay more into the pension fund. We want them to pay more for their health care. And we have four zeros on the table right now in terms of raises for these contracts.

We have step and longevity increases. All the contracts expire June 30. We're not required to maintain that. No one got a bonus after November's announcement.

So, over time -- I mean, these pension changes, if you talk to the actuary, you'll generate a little bit of savings now. This is for the long term. Our pension system is now less than 50 percent funded. I have more retirees than I have current employees. So 33,000 retirees, that's a guaranteed benefit to them. We've made that commitment and we've already bought that -- and 27,000 total in the current workforce and they're expecting one.

So, change has to come and this moment of crisis, I think, is going to force it.

MR. WESSEL: Mayor Walker, do you have unions?

MAYOR WALKER: We do not have any unions. However, we are required, for example, with the retirement system, the state passed a law in 1988, saying that if a local government provided any kind of retirement system, they had to become part of the state system. KERS, Kentucky Employee Retirement System, and the County Employee Retirement System, covers cities and counties. The difficulty is that it's a Cadillac plan because, of course, at that time municipal workers were saying, well, you know, we really don't get paid as much as the private sector and so we're going to give you the benefit of better benefits.

We have absolutely no seat at the table in terms of how the benefits are handled and how the entire fund is handled, and as I mentioned earlier, we must pay into that system if the state has had a shortfall. So, we're working with the state to try and get that changed.

We've had some modification as we go forward, but we still have a system where employees can retire after 20 years or even buy a couple of years earlier. Our hazardous duty is coming close to 47 percent of the cost of hiring an employee with a retirement.

Now, what we did at the local level is we said, first of all, we are going to require all employees to make contributions to your health insurance. We also determined two years ago that we were going to put a cap on what the city paid into the system and we had our employees develop a group that actually managed our health care system. So whether it was through increased employee contributions or reduced level of services, we are going to cap what we contribute just at a cost of living increase.

So, those are some of the things that we've been doing and then, you know, cutting our --

MR. WESSEL: Mayor Smith?

MAYOR SMITH: I think this raises a much, even more basic question, and we've talked about reductions in services, we've talked about the history of municipal employees, and I really think what we are faced with is something that was discussed in ideological and political which is, what is the proper role of government. I hate that saying, but it's -- we're dealing with that every day, and not only is, what the proper, what can we do?

If you look at the history of cities and towns, they were not generally incorporated or formed to provide police and fire service. You know, we put together -- a lot of cities and towns across the country don't provide their own police and fire services. We came together as communities to build libraries and to build parks and to zone and to control, and then a lot of times police and fire came later.

Well, the modern city basically exists for police and fire for public safety, and so as we go through these budgetary problems, now this is taking on the primary role. In most cities it's anywhere from 65 to 75 percent of the budget. The question is, what now is the role of the city? Are we simply a police and fire department? Because for example, in Mesa, our budget deficit was so large that if we had left public safety alone, we literally would had to have wiped out every other department in our city, shut down every park, every library, everything, and we still couldn't have made up the deficit.

So, there's a basic --

MR. WESSEL: You cut police and fire?

MAYOR SMITH: I'm sorry, what?

MR. WESSEL: You cut police and fire?

MAYOR SMITH: We absolutely reduced police and fire. As a matter of fact, our police department took the largest because it was the largest budget, so on a pure dollar amount, it was by far the biggest cut. But it raises the question as to what kind of cities do our citizens want. The days of knowing you're going to have 76 pools, I believe, may be over. The days of having your street swept, is that something that the city government -- kind of service which was expected and we've gotten used to, and what we actually formed cities for. That's really a challenge and what are our citizens going to decide?

MR. WESSEL: I think that's an excellent point. Doug Elmendorf, the director of the Congressional Budget Office, the other day sort of encapsulated the Federal Budget difficulty in, I think, a very compelling sentence, which I can't remember verbatim, but it went something like, people in the United States have decided to demand from the federal government a certain level of services and benefits, particularly older Americans, that costs more than the amount of tax revenue they've been willing to send to Washington.

Maybe I could start with Mayor Reed. If you look ahead, we saw with those charts something -- we saw revenues rose in the earlier years and spending went right up with them, and now revenues have fallen and obviously spending's going to fall. Nothing we've heard this morning leads me to believe that the recession for municipal finance is anywhere near over. Do the people of your city understand that you're going to have to give them something less over the next three or four years than they're getting now? Or have you protected them from that harsh reality the way parents protect their kids from --

MAYOR REED: The people of San Jose understand it because I've been preaching it for a long time, since I came into office and declared the budget deficit public enemy number one, because the way it works if you project it out far enough, the City of San Jose will have one employee. He'll be very well paid, but when your expenses are going up faster than revenues --

MR. WESSEL: Very busy, too.

MAYOR REED: No, I predict it will be a fire department battalion chief on overtime. But, you know, that's just inescapable, it is unsustainable. It can't be fixed and there's other problems at work as well just beyond this recession and our structural budget deficit because the revenue sources that we depend upon -- in San Jose, we have the top three revenue sources are property taxes, sales taxes, and a utility tax. Those three combined are just barely enough to pay our public safety budget. So, we've got another 100 revenue sources that we've put together to pay for all those parks, libraries, and streets and things like that, but if you look at sales tax, as you've already heard a little bit about sales tax, not only are we shifting from a goods economy to a service economy, we're not getting the sales taxes off the goods that are sold on the Internet. We're supposed to. We've got a use tax in California. Nobody pays it. So, we're not collecting the sales tax. It's not going to grow at the rate of the economy. Property taxes are not going to grow at the rate of the economy. Utility taxes, well, we're trying to conserve energy, conserve water, so that's not going to grow at the rate of the economy either.

We have another couple other taxes. So, we have a dump fee that's very -- a good source of revenue, because lots of cities dump at our landfills. We're going to be a zero waste city. Right now we already recycle 63 percent. If we're going to 100 percent recycling, what happens to the dump fee? Well, it goes to zero. So, that's counter to good fiscal health in the future.

So that trend is continuing and that is a very long-term problem for all cities.

MR. WESSEL: Mayor Walker, do the people in your town expect less services in the future?

MAYOR WALKER: Absolutely not. I think that there is an expectation that somehow we can still cover those services. They want their leaves picked up, they want their streets swept, they want to make sure that the police and fire are there when they're needed. I think that we have, in large part, created our own problem in that we're going to solve the problem. You know, don't worry about it, we'll take care of it. We will make modifications and I think that now we have to say, okay, we are in this together and if you want to see us get through it, you're going to have to be part of the -- you're not just part of the problem, you're part of the solution.

MR. WESSEL: Mayor Nutter?

MAYOR NUTTER: I think the citizens have heard it so many times from me that, I mean, I think they kind of get it. But as the mayor indicated, but they don't like it. And so, you know, unlike state government, unlike federal government, I mean, we see our folks in the supermarket, at the movies, walking down the street. I mean, we're not in these faraway places of state capitals and the federal government. So, I mean, you have to kind of deal with them right there at the moment.

As the mayor asked the question about what's the proper role of cities, and I know you're the moderator, but what's the proper role of the federal government --

MR. WESSEL: I was getting to that.

MAYOR NUTTER: -- in all of this? I mean, that -- and by posing that question or even raising it, I'm not saying that the government should give us money at all, but there are things that they can do to be helpful and supportive as, again, they have been with any number of other industries. And so I think the citizens -- again, I mean, the citizens of Philadelphia -- know that I did not create the economic crisis and meltdown of the financial systems in the country and in the world. I mean, I was minding my business, you know, picking up trash, filling potholes, and then the budget director came in one day and said we have no money. Okay.

So, they expect us to do certain things. They're not happy about what we're doing. Everyone is mad about something, but they're still trying to figure out, okay. We're paying more in taxes temporarily, we're getting less service, what are all these other folks doing? State is cutting its budget, which has a negative impact on us, and then they hear about billions of -- I mean, the Feds only talk in billions. I mean, that's --

MR. WESSEL: We're up to trillions now. Billions are passé, we're at trillions now.

MAYOR NUTTER: Oh, okay, all right. You know, like I'd take 1 percent of a trillion and we could just call it a day.

So, they're trying to figure, okay, so what's the federal government doing in all of this?

MR. WESSEL: Okay, let's go to that. So, the President feels your pain and he talked Congress into $787 billion worth of stimulus. And when the administration talks about it, there was a chunk for this, a chunk for that, and a big chunk for state and local government, they say it really quick together, so I wonder if each of you would tell us, has the stimulus made any difference in your local budget?

Do you want to start, Mr. Smith?

MAYOR SMITH: Well, I guess I'm starting whether I want to or not.

MR. WESSEL: You don't have to. I don't recall -- you don't (inaudible) me as the kind of guy that anybody asks you to speak you ever said no, so I thought it was safe.

MAYOR SMITH: Yeah, that's true. They have asked me to quit speaking many times, though.

You know, I guess it depends on what -- has it made a difference? I think on the fringes, yes. You know, we've been able to accelerate some projects that we wouldn't have. We've been able to build a park and ride that we maybe not have built, maybe we shouldn't have built, I don't know, but the stimulus monies were there.

But generally, I would say at the city level from a day-to-day operations, the fill in the potholes, no, we have not felt it, because that's not what the program is set up to do. You know, to say that cities have benefitted from the stimulus you have to say what does it mean to be benefitted? We've done something new --

MR. WESSEL: Like, talk about the COPS program --

MAYOR SMITH: Well, the COPS program is great for Mesa because we'll have 25 additional police officers on the streets through stimulus, through the COPS. That's very limited in scope. We pay the first three years, the federal government picks up the fourth year. We're grateful for that because it enables to basically stop the bleeding as it relates to --

MR. WESSEL: You pay the first three years. Well, no, it's the other way around right?

MAYOR SMITH: No, other way around, I'm sorry. I flip-flopped. Thank you, everybody, for noticing that. They pay the first three years, we pay the fourth year.

MR. WESSEL: Right, right. Did that limit the number of cops you could hire, that fact?

MAYOR SMITH: Well, we have to go through the normal process, and those cops will almost take two years before they literally get on the street, because by the time you go through the hiring process, then the training process, then the replacement process, you're two years down the road. The other thing is, it creates sort of dilemmas because our city council really struggled with the idea that, gee, this is great to have the federal government pay for 3 years of 25 police officers. How are we going to pay for the fourth year?

You know, we got another thing through the stimulus, assistance with two new fire stations in areas that are really growing quickly, and the response times are off the charts. Those buildings are going to look nice. We struggle with, how do we put firefighters in there? How do we put equipment?

So, on a day-to-day basis, it's been a real struggle.

MR. WESSEL: Right. Mayor Reed? Stimulus trickle down to you, yet?

MAYOR REED: It's been a very minimal impact. We've only received and spent about 10 percent of what we expect. There's this huge lag time in getting the money and spending the money, but when you think about the impact on our economy, the federal stimulus is a very small drop. The Silicon Valley economy -- as the capital of Silicon Valley, we're part of it, but it's really 40 cities spread across 4 counties. And if you look at all the aggregate federal stimulus money that will come directly to the cities, it's probably around $300 million over 2 years. Our local economy is 2 percent of the national GDP. And if you drop $300 million into a $300 billion economy, it's not all that noticeable especially when you spread it out over 2 years.

We love the money; we'll take the money. It's allowing us to do projects. It's putting people to work; it's keeping people at work. Those are all good things. But in terms of stimulating the economy, I don't see it. It's not a jobs program in the sense that I would say that you would do if you were trying to create jobs and long-term jobs.

MR. WESSEL: But have you saved a job? Is there someone not laid off because of stimulus, or not?

MAYOR REED: No. No, the stimulus money is going for special things, which we appreciate, but it's not something that comes into our general fund and helps us deal with our problem.

MR. WESSEL: Mayor Walker?

MAYOR WALKER: Every dollar that's come into our local government from the stimulus fund has gotten into the economy. The Housing Authority is putting new roofs on their units and new energy efficient windows. The local transit authority has ordered busses and those are on the way. We've gotten some CDBG funds that we're using, for example, in small business development --

MR. WESSEL: community development block grant.

MAYOR WALKER: Exactly. And we just got notification that our energy efficiency block grants have come through and that's going to get -- as soon as we get the money, that will get into the pipeline, including small grants and some larger project grants.

The difficulty is, is it's kind of this huge amount of revenue coming in and when we actually put the hose on, whatever trickles out at the local level has done great things. Somehow the state manages to take a lot of it to balance their budget, so we are very happy with what we've gotten, it just is a lot less than promised.

MAYOR NUTTER: Bob, the COPS program, I advocated for it, and the changes. We're going to get 50 police officers. We can only use our COPS money when we get back to baseline of strength. And, unfortunately, since we had to delay a class to save money, again, another one of the things we did, we can't use our COPS money yet until we get our number up to a certain level and then we can use it.

I'll give you a few numbers. We applied for, I believe, $310 million in ARRA funds. We've been awarded $157 million in funding, cash on hand, about $14 million. Again, one of these wonderful situations. The Feds, (inaudible) said, love ARRA; not saying a bad thing about it; keep it coming. But there is a difference in our world between award and receipt. They love awards; big press release, big announcements, big letters. I have a lot of letters that add up to about $157 million. In my treasury, there's about $14. So, just kind of getting it out, getting it, and kicking it back out the door.

So, excited about the program. But as the mayor said on peer jobs, I mean, if you were going to really put money out there, it's summer jobs for young people, it is a little bit of kind of some WPA. I mean, if I could walk out on a street corner and say, you five guys, do you want to work? I've got a job for you. I've got some parks. I've got some median strips. I've got all kinds of stuff that needs to be taken care of. If you want to work today, here's a job for you. And it's going to be around for a little bit.

We have people -- 24 guys just graduated from a solar panel installation program. I went to their graduation. Almost all of them now have jobs in the private sector, not in the public sector. So, I mean, people are getting trained. These programs, solar and weather station, two to eight weeks, I mean, it's not some long, drawn out program. And there are jobs out there in the green economy for folks, but, you know, as Tom Cochrane says, everyone's not going to jump on a backhoe and everyone doesn't want to be up on a roof installing solar panels. So, I mean, you've got to have a little bit of something for a wider range of folks.

MAYOR SMITH: To add on to what Mayor Nutter said, you know, if we look at a stimulus to create jobs, then one thing the cities and towns -- and to go along with what Mayor Walker said -- emphasize, is that the cities are where things are happening. Eighty to 85 percent of the economic activity in this country are generated within cities and towns and it would seem like, if we're going to pump the economy, create jobs, that we should go also for something that creates the greatest, long-term return on our investment. And we're not seeing that, because if you put money where the real economic activity is, it'll have the longest term benefit and we're just not seeing that. The cities are not getting a proportionate share which means the economic activity is not getting the investment that would create long term --

MR. WESSEL: Right, so I sense a kind of general pattern here that cuts across all four of you, is a bit of frustration at your relationship with the state government, which is traditionally a major source of revenue to the local governments.

Mayor Reed, it must be quite a challenge. Can you talk about what it's been like to deal with the state legislature and the state government budget in California and how that makes your job easier?

MAYOR REED: Well, I have been quoted a few times saying the state of California is ungovernable. I think there's plenty of evidence to support that position and one of the things that I've discovered -- we talk about revenue sharing? In California it's a two-way street. So, when the state got in trouble, they came to us and, unfortunately, we do have a sales tax that goes through Sacramento. We have a property tax that goes through Sacramento. We have other revenue sources that go through Sacramento. And when the state legislature ran a few billion dollars short, again, they took local revenues, all across the state, and so we've taken a hit. And I know that when they get back into session again they'll be looking at our Highway Users Tax, which is another category they didn't take last time.

So, it's a huge burden on the local governments in that respect but it's also a burden on our economy, the innovation economy and the technology -- we're generating jobs, because the state is a drag on the companies. When they're making a decision about where to put that next factory, where to make that next investment, they're looking to the state of California saying, I'm not too sure this state is governable, I'm not too sure about the future. And so that's another big negative on that column when they're evaluating the creation of jobs because they're going to create the jobs. Will they be in California? Well, I hope so, but we have our problems.

MR. WESSEL: What's it like in Arizona?

MAYOR SMITH: Well, Arizona, we're having a contest with California to see which state government is the most dysfunctional. And the cities, unfortunately, are in, I think their third lawsuit against the state legislature because it seems like in times of real budget difficulty, things like the state constitution become minor irritations and you're experiencing the same thing in California.

Our state government has about a $10 billion budget for this year and a $3 billion shortfall for Fiscal '09, '10, that they're trying to fix. They've done the same things that they have in California. It's been more of an up flow than a down flow with revenues, and it's a challenge.

The unfortunate thing is it's really ruined, in many ways, the relationship. You know, cities are really, you know, children of the state, we're a creation of the state, something which our state legislators constantly remind us.

On the other hand, cities like to believe, as I said before, this is where things are happening. We're really missing out because it's this constant fight and I think that's been the real unfortunate thing, certainly in Arizona, I know in California, is that our relationship between cities and states has been damaged, irreparably damaged in many ways.

MR. WESSEL: And in Kentucky?

MAYOR WALKER: Well, I think the biggest thing for Kentucky is that the state was very happy with a large portion of its stimulus money because it helped to balance the budget. Of course, we don't have that luxury. The other thing that we have is that the state, as a parent, not only wants to decide how we can raise revenue, they definitely want to control the revenues, they want to bring it through the state before it comes to the cities and then they, of course, siphon off a portion of that for administration. And so you're kind of caught in this difficult position of you can't raise property tax above a certain percentage. We have no revenue sharing in the state. We are limited -- cities of our size cannot have any type of sales tax or restaurant tax, so they don't want to allow us the option of increasing our revenue streams because that may be construed as actually increasing taxes, and so, you know, you've got this kind of difficult situation of trying to be creative but with one hand tied behind your back.

MR. WESSEL: What about in Pennsylvania?

MAYOR NUTTER: Fortunately, the governor is a former mayor and we served together when I was on city council. That's on the positive side. On the negative side, it was actually -- Pennsylvania was the last state in the country to have a fully passed budget. We were looking at California in the early summer and saying, well, we'll certainly be done before then. California got finished and we're still sitting around. The governor only got it done about a month or so ago.

The state makes cuts, that trickles down to us and it has a broader impact, especially for Philadelphia and the counties around us. We have kind of a five-county region all very dependent on the Commonwealth of Pennsylvania. Property tax is the primary tax for the counties around us, not for us, and so when the state makes cuts, counties have to raise their taxes. When our economy starts to go south, we drag them with us. And so, I mean, I think quietly many of the federal officials, again, would admit that running the bulk of the ARRA money through the state may not have been the best thing to do. I mean, fifth largest state in the country, we have some counties that have more animals than they have people. But, you know, the governor's got to take care of all the family members of the General Assembly. We have the largest General Assembly in the country.

So, it's a challenge and, you know, it just makes you long for, you know, some old days of, you know, UDAGS and general revenue sharing, some target assistance. As the mayor said, if you really want to stimulate the economy, the Feds gave a bunch of money to banks who now won't lend it to anyone because they need to hold onto it. God only knows why. I've got, easily, a dozen projects that seized in their tracks in the private sector and in education and medicine, which has been the lifeline for us. Thirty percent of our population works in education, medicine, and related industries. They still want to build, they still need to grow. Education, medicine, if they don't grow, they die. You'll put people to work immediately.

We're expanding our convention center. We had a dozen hotels scheduled for some kind of activity most of which got stopped dead in their tracks because they can't borrow any money from anyone. You want to put people to work? Build something in cities. Real projects in the private sector, good to go. Everyone has an economic development agency, real bankers, real loan officers, you know, as they talk about the states, every bridge in the city of Philadelphia actually goes somewhere.

MR. WESSEL: That may make you unique.

MAYOR NUTTER: So, you know, we don't have these kinds of issues. Our business, what we do, is on the front page of whatever the appropriate newspaper is. We have city council.

SPEAKER: So far

MAYOR NUTTER: (inaudible) watches on a regular basis, you can't find fifteen cents, somebody wants you to explain it. So, if they would invest in cities and understand what it is that we do, we could actually turn this country around.

MR. WESSEL: Mayor Smith mentioned that they're going to have a property tax in Mesa for the first time, right? Just quickly, is anybody else finding new sources of revenue in this crisis? Are you doing anything?

MAYOR REED: We scrub it every year and probably the new source of revenue is in fees and charges, so our planning, building, and code enforcement department is funded 100 percent by fees. Fee for service. We can't raise taxes in California without a vote of the people, so it's a tough proposition. We're always looking at that, but we rarely have the opportunity to put it to a vote because it's --

MAYOR SMITH: And by the way, our property tax was voted on by the people two to one.

MR. WESSEL: Right, rejected the first time and then -- right. Have either of you found new sources of revenue?

MAYOR WALKER: We utilize every source that we're allowed by the state government at different levels.

UNIDENTIFIED: Temporary increase in the sales tax.

MR. WESSEL: Temporary sales tax. Let me stop and end with this one question to each of you and then we'll turn to the audience.

You are in Washington. And I know despite the fact that you all had promised not to whine, and you've done an excellent job of that --

MAYOR SMITH: Excellent job of whining or not whining?

MR. WESSEL: No, not whining. Not whining. Very quickly, if there was just one thing that the federal government could do that would make things a little easier in your locality, what would that one thing be?

Do you want to start, Mayor Reed?

MAYOR REED: I'd like to see the Department of Energy loan guaranties processed and out the door because I've got 10 clean tech companies that have applications in to the Department of Energy. Once those are done, those companies are going to invest hundreds of millions of dollars in San Jose, building factories -- we need to get that done. There was a long backlog from the previous administration. They're trying to catch up. But each one of those could generate millions of dollars of private sector investment and a lot of jobs. I have one company, in particular, Nanosolar, one of our great solar companies that produces the world's most cost-effective solar cell. They have sold out their production for four years into the future. They would like to expand and build another factory in San Jose. They need a DOE loan guarantee to get that because there is no place to borrow money. The capital markets are not open for business to ordinary companies and ordinary investments.

MR. WESSEL: Mayor Smith?

MAYOR SMITH: You know, to echo what Mayor Reed said and Mayor Nutter, I'm sure, will talk about this a little more -- it's all about capital. And I don't think -- I know we're not looking for a direct check from the federal government. We live and die by the economic activity within our region, within our cities. And the capital markets being closed, if the federal government can step in and either help us directly, help our businesses to open up that capital market, it creates the kind of revenue flow that we don't have to look at new sources.

Now, there are some untapped revenues. Mayor Reed mentioned the Internet tax. I think it's something we need to maybe look at again because as the world changes --

SPEAKER: You mean the tax on goods and services sold over the Internet?

MAYOR SMITH: Yeah. I think last year, for example, in Mesa, you know, sales around Christmas were down at our stores. I believe I read somewhere that the Internet commerce was actually up. It was the one area that actually showed increase.

SPEAKER: Going to fix that this year. They'll both be down.

MAYOR SMITH: I don't think that's going to change long term. I think that is the future. I understand when it was imposed originally that it was a fledgling industry. I think we need to revisit that because there's a lot of revenue that historically has stayed in communities that is now leaving our communities, and we're suffering. We're still having to provide the same level of services.

So, the capital -- we took advantage of the Build American Bond Program with the federal government, and it saved us $12 million in interest.

MR. WESSEL: Why don't you just give the 25 cent description of what that is?

MAYOR SMITH: Basically, it's the federal government -- it's basically a federal subsidy. It allows you to go out and float bonds. And we saved about 100 basis points on a regular bond offering. We were surprised because it was a very active bidding.

MR. WESSEL: They helped you pay the interest on the bonds.

MAYOR SMITH: They helped us pay the interest, pay it down.

SPEAKER: And you sold them at the taxable interest rate rather than the (inaudible).

MAYOR SMITH: That's right. We sold them at the taxable interest rate. The government subsidized the difference. And it reduced our net interest costs, which comes right out of our general fund, by $12 million.

That's not a small amount. And that's just on one issuance in the City of Mesa.

MR. WESSEL: Mayor Walker?

MAYOR WALKER: For us, the biggest thing is the Block Grant Program. I think that it's -- whether it's the Community Development Block Grant, which has a long history of being an effective way to get federal revenues into the local governments. In Bowling Green, we use it for everything from transforming rental housing into home ownership. We use it to create -- we created 34 new companies in 4 years, small businesses. We have just had to build a transitional home for children who are coming out of the court system. And also, the Energy Block Grant Program. Those allow the local governments to determine how we can get -- not to balance our budget, but how we can get money into the local economy.

SPEAKER: Access to capital. The same, just the ability for our city government. If we could borrow directly from the Treasury -- 30-year Treasury rate, I'll give you 50 basis points on top of that, the Treasury is going to make a little bit of money. We're a good credit because we're going to pay. We would save $132 million a year for 30 years. It's right out of our general fund.

So, again, not asking the federal government to give us anything. Just help us -- a saved dollar is the same as a raised dollar for us.

As long as we're not spending it somewhere else, $132 million a year for that length of time right on our General Fund would really solve a lot of problems, as opposed to borrowing at 6, 7 percent out on the open market.

MR. WESSEL: Okay. Let's turn to the audience. We have some microphones. A couple of rules. Wait for the mike. Say who you are. A question ends with a question mark. And we're going to try to avoid having -- we're going to try and avoid having all four mayors answer every question. So if it's particularly aimed at one of them, do so. And if not, we'll figure it out.

Where is the mikes? Why don't you start here on the aisle here? And we'll go to the gentleman in the front here with the next one.

SPEAKER: Good morning, Mayors. I'm sure that you all --

MR. WESSEL: You are?

SPEAKER: Sorry?

MR. WESSEL: You are?

SPEAKER: Introduction, John Maggs from National Journal.

You all have talked about doing more with less, and I'm sure you are. The question: I'd like for you to look beyond your own cities for a second at the plight of cities in general. And I was struck by this chart in Mr. Haney's presentation that showed this divergence between revenues and spending in the last three years. That's really unprecedented. Cities were spending a lot more money than they could reasonably expect to have gotten in revenues the last three years. And that is a big reason for this hole that you're starting out in as we embark on this kind of period of slow growth to come.

And I wonder if you could reflect on why it is that you've all talked about, you know, reinventing yourselves and doing more with less. Something changed three years ago, where cities decided that they were going to be spending a lot more than they could reasonably expect to get. There's just a huge, huge divergence there. What happened?

MR. WESSEL: Does somebody want to take a stab at that?

MAYOR SMITH: I can only speak from our experience. In Arizona, we are required to -- rather than balance our budget, we can only spend what we collect. Once again, as a sales tax-based budget, you only collect as many sales tax as you bring in.

We spent the boom times building our reserves and not expanding services as much as we have. So I don't know where that comes from. Because generally, cities are the one level of government where there really is no plan B. We don't print money. We really can't go out and go deep into debt except for capital items. And so from an operational standpoint, I'm not quite understanding that because every year we can only spend what we bring in.

MAYOR WALKER: This must be related to bonding for long-term projects. I mean, clearly, that's one of the things that's important for us as a local government, is to be able to bond for our new rec center or our new fire center. So that's the only thing I can think of.

SPEAKER: I think the question is whether your predecessors thought that the boom would last.

SPEAKER: No, my predecessor screwed everything up.

SPEAKER: But you're also going to see increased spending in some areas that you don't necessarily want to spend money in, but have to. I don't want to spend more money on prisons, but I have to. They're going to be fed. They need health care. Unions get raises because people expect raises over some period of time. Our pension costs keep going up. We've had double-digit increases in our health care costs. There's virtually nothing I can do about them. So you're going to spend that money no matter what.

MR. WESSEL: The gentleman here in the blue tie. Can you give him the mic? And then why don't you give it to the man on the other side? Right here in the blue shirt.

MR. PERRY: Hi, I'm David Perry of David (inaudible) Perry Communications here in Chevy Chase.

I've got a question for all the mayors. You can answer it any way you want. I'm concerned about your relationship with different mayors in China, specifically, cities, like, in Shenzhen, out there in Chengdu, and Beijing. I know President Obama was just there a couple of days ago. I'm wondering, your population -- what, we're talking about, what, 1.8 million?

SPEAKER: One and a half. One and a half, 1.5.

MR. PERRY: One-half. And you probably have about 500,000.

SPEAKER: Not quite.

MR. PERRY: It's about the same for you.

SPEAKER: I've got a million.

MR. PERRY: About a million there.

Well, I did some research online and I found out that Chengdu, Shenzhen, and Beijing, minimum, 5 million people. And so I'm wondering, are you guys in contact with the mayor of those towns?

MR. WESSEL: Does anybody want to take a stab at that?

SPEAKER: Well, we have a sister city relationship with a city down in Southeastern China that we have, you know, cultural and other things. And we are constantly looking for economic development opportunities in China. But it certainly hasn't risen to the level that I think it can.

Once again, as Mayor Reed said, I think one of the things that our country as a whole has to realize is that this truly is a world economy. Now, that sounds like old news, but I can tell you that within our own business communities and everything, we are really not totally up to speed with the fact that we are losing jobs. Not to California, but to China. But to Singapore. But to India. But to places like that. And so I think we need to get more in line with that.

MR. WESSEL: Okay, sir?

MR. WILLIAMS: My name is Joe Williams, and I'm with the Boston Globe.

And I wanted to ask you about jobs. Mayor Nutter talked about it briefly where you said you've got five guys on a corner who need work. If the federal government would provide either funding or some kind of guarantee for a project that you could fund, you could not only put guys back to work; you could also get the economy growing. You could rebuild infrastructure, et cetera.

I was at an earlier seminar that talked about the need for a WPA-style approach to solve this problem, and that cities have not necessarily reaped the benefit. I mean, you guys all talk about it from the Recovery Act. That some of the money got there, not a lot of it got there. Not a lot of it was creating jobs or stimulated the economy as much as balancing state budgets.

I wonder if you guys could talk about whether or not there is a need for a WPA-style effort to get people in cities back to work, and whether the federal government needs to target that specifically at cities as opposed to just sort of sending the money out the door to states and trying to expect them to parse it out,

MR. WESSEL: Yes. Okay. Mayor Reed?

MAYOR REED: I think the key difference is the federal spending creates a job that's based -- independent upon federal spending. And when the federal spending goes away, the job goes away.

SPEAKER: Right.

MAYOR REED: I don't think that's what the focus ought to be on. I think the focus ought to be on spending money that creates jobs that will live on and spin off other jobs without federal government spending continuing on. And that's why I was talking about the Department of Energy loan guarantees that go into factories that create jobs. And it doesn't matter what the federal government is doing the next year because we already have the jobs.

There's a lot of money in the stimulus package for training people for green collar jobs.

SPEAKER: Right.

MAYOR REED: We need to create those jobs so that there's some place for those folks to go to work.

MR. WESSEL: Mayor Walker?

MAYOR WALKER: And I think that the Block Grant Program is a very effective tool to bring those jobs into the local government, rather than someone else deciding what kind of a project needs to be done in a local community.

MR. WESSEL: Okay. Woman on the aisle there.

MS. KIMBALL: Hi. I'm Debra Kimball. I am the previous city manager of Saga, Michigan. So if you want to know what happens when you get beyond the tipping point, come to Michigan. We all know.

My question is you've talked a lot about vertical relationships and what (inaudible) the federal and state governments. What are you doing in regards to horizontal cooperation and coordination? Because I think one of the big problems, especially for core cities, is the spread of government at the local level and how that's affected our cost of service.

SPEAKER: You mean the city with the surrounding suburbs?

SPEAKER: Yeah.

MS. KIMBALL: Exactly. And that's what we face in Michigan.

MAYOR NUTTER: One of the things that we've done -- one thing about the mayors again, we share a lot of information. We steal each other's ideas; give credit always where credit is due. So, Mayor Daley in

Chicago, Mayor Hickenlooper in Denver, are kind of leaders in the area of metro caucuses. And so I brilliantly named ours the Metropolitan Caucus.

So it's a Philly, Bucks, Chester, Delaware, and Montgomery counties. We are applying for ARRA grants as a region. First time ever that the five of us have virtually signed anything together other than, you know, some kind of emergency management, you know, agreements, those kinds of issues.

We're doing it on the energy side in terms of transportation with our local transit agency, SEPTA, as well as some regional training programs in the green economy. The White House is very interested in promoting and supporting Metropolitan area cooperation agreements as, again, we compete as a region. The day I came in office I said we're going to stop competing against each other; we're going to partner. And so it's the Philly region versus other parts of the country, other parts of the world.

MAYOR SMITH: And I want to tell you one thing we're doing in Mesa. We're part of what's called the Sub Metro Area, called the East Valley of Phoenix. And there's a little over a million and a half people in the cities of Mesa, Tempe, Chandler, Gilbert. We do a lot of things together. Our police operation, what's called a fusion center, where they come together and do all their gang-related activities and a lot of cross-line utilization.

Also, just recently, four communities got together to sign a joint ambulance contract. In Arizona, the ambulance services are provided by private companies. So four companies -- four communities came together to eliminate city lines to provide a much more efficient way of providing services at a much higher level. And we were promptly sued by the ambulance companies.

SPEAKER: You know you must be doing something right.

MAYOR SMITH: No good goes unpunished, right?

MAYOR WALKER: And South Central Kentucky has brought together 10 counties for economic development.

MR. WESSEL: Okay. One here and then -- where's the other mike? Why don't you take it towards the back so we can be a little --

MR. DOHERTY: I'm Connor Doherty. I'm David's whipping boy at The Wall Street Journal.

Given the number of fixed costs you're talking about, I guess Mayor Nutter, but anyone, you know, pensions, debt service, things that go on for, you know, decades, I guess, at least pensions. Should people just basically expect less for more? Or less for the same? You know, citizens. Less services? You know, meaning that sort of academically if more of your money is going to go to a piece that people don't see.

MR. NUTTER: Well, I mean, that's part of the conversation.

You know, part of our discussion at home is our pension and health care costs continue to rise. Now, we're either going to make some changes over there or you're going to have less service. I mean, it's literally -- it's the same pair of pants. Some money in the left pocket; some money in the right pocket. But it all adds up to be the same.

I want to provide more service to the citizens of Philadelphia. I believe our public employees believe, you know, fair contracts, good benefits. But what I say it's a fair contract that the citizens can afford. And so our goal here should be more on the service side, not dumping more money into the pension fund. We have to move from this antiquated defined benefit concept over to defined contribution.

SPEAKER: The current model is not sustainable, although I think in the short run there will be less services because that is the easiest place to take the money, is to cut services, shrink by attrition or lay people off. It is much more difficult to renegotiate the contracts with the unions. It is much more difficult to change the pension system to a second tier. Those are all terribly difficult things to do. I believe they have to be done. I believe they will be done. But that is not something that gets done in one year or two years.

MR. WESSEL: There's a question, the gentleman there with the blue shirt with the highest hand. In the back. Stand up.

MR. CARMODY: John Carmody. I work on world development issues for the Department of Agriculture, but my question is about health care reform.

SPEAKER: We're in favor of it.

MR. CARMODY: I'd like to know what percentage of your budget is, you know, spent on providing health care for employees. You said this is a labor-intensive enterprise.

SPEAKER: Absolutely.

MR. CARMODY: And a little back of the envelope calculation. What if, say, your health care costs were reduced by 50 percent, which would put the United States on par with comparable countries around the world? We spend twice as much now on health care as other industrialized countries. Let's say we got to where France and Japan and Switzerland and England and you name it are, and we're spending half of our, you know, half of what we spend now on health care. What would that do to your budget?

MR. WESSEL: Let me just rephrase that. So the first part was how much of your budget goes to health care? And I think if you could speak a little bit about what, if anything, you've been able to do to try to reduce the cost.

And then to his question of if we sprinkled pixie dust on every health care budget and it fell by half what would happen?

MAYOR SMITH: Well, I'll take a little different spin on that. I honestly don't know what percentage. Obviously, when 70 percent of your budget is personnel-related, there's a huge percentage that goes to health care.

But I'll tell you one thing that the cities grapple with as far as health care and that is in Mesa, Arizona, we have become the primary care physician to a large segment of our society. When I was a kid, 911 didn't exist. And so when I had the sniffles or I had even an injury, my mom put me in the car and took me to the doctor. Now, people pick up the phone and dial 911. And our paramedics show up in a three-quarter of a million dollar fire engine and provide them health care. Then they're taken to an emergency room and whether they can pay or not, they're provided health care.

And that's the greatest strain on our economy -- is that we -- and that's one of the expenses that Mayor Nutter is talking about. When someone dials 911, we got to show up. And I don't care what you do. You're going to show up.

Now, as far as reduction in services, what happens and what people in the cities will not recognize is that where we see the degradation of services, maybe in closing pools, that's what they recognize -- that's what they understand. But in reality, our biggest threat is that 911 call gets answered in six minutes instead of four minutes. And that's not something that's noticeable unless you're sitting there with a heart attack.

But that's our greatest threat as far as health care is that we are providing massive quantities of health care as city governments. And people don't realize the millions and millions of dollars we spend to take care of basic health needs for people.

SPEAKER: Love to have that kind of cut. As I mentioned before, pension and health care costs, got to talk about them in the total context. Twenty-five percent of the budget. If we could see a 50 percent reduction in health care costs, it would have a pretty significant impact on our budget.

MR. WESSEL: Mayor Reed?

MAYOR REED: We spend 75 percent of our general fund on people. They are the ones who deliver the services. That's what we're in. We're a service business. So out of that 75 percent, 70 percent of it goes to wages; 20 percent goes to retirement; and 10 percent goes to health care and some other benefits.

So if we reduce the health care, that helps. It does not solve our problem. But the problem with both health care and retirement benefits is the rate of growth. If we look back over the last 10 years in San Jose, retirement benefits and health care benefits have gone up by more than 100 percent.

SPEAKER: Right.

MR. WESSEL: Let's go back here, and then the guy in the blue shirt. If you can stand so they can see you.

MR. JONES: Good morning. My name is James Jones, and I'm a recent transplant to D.C. from Boston. And a hopeful contributor to the Administration's efforts on social innovation and building partnerships with business and private sector and public sector. And it goes to the heart of that effort.

Mayor Walker and the others mentioned the development of partnerships between the private and public sector. Where do you see there is the greatest gain in that? And how do you engage them more?

MR. WESSEL: So, the private sector.

MAYOR WALKER: Well, for example, with the Small Business Development Program, we've got the Housing Authority, which brought into the mix the Western Kentucky University Business School and a group of minority business owners who are creating small businesses. They've created 34 small businesses in the last 4 years.

We look at the transportation sector. And so, again, bringing the public-private partnership in. Economic development is one way we're bringing people to the table. And people are giving up a little bit more and expecting a little bit less so that we can all realize some improvement.

MR. WESSLE: Sir?

SPEAKER: This year the Milliken Institute published a study on the tech sectors around the world. The San Jose metro area is still number one by a pretty wide margin over number two, three, four, et cetera. But they describe the reason for that as we are a unique ecosystem of collaborating entities. So the collaboration that goes on between government and the private sector -- education, nonprofits -- is really important to what happens in the valley in the future of our economy.

So, as a city, we are working directly with industry to leverage the opportunity that we have for clean technology. So we have several initiatives underway within the city and within the region to collaborate around what are the impediments, what can we do, how can we move the industry ahead working in collaboration with the private sector in several initiatives to improve the economy?

MR. DUME: Travis Dume, Arizona State University.

So K-12 education is largely funded at the local level. So, regardless of how much control you guys actually have as mayors over those particular municipalities, what are the innovations and the sort of creation solutions that you guys are undertaking to proceed in the context of, you know, kind of reconceptualizing what are the services that you should deliver and doing it without making just, you know, kind of broad cuts?

MAYOR NUTTER: Just for our situation -- I don't know about others -- actually, the primary funding source for public education, at least in Philadelphia, is the state, although we put about $800 million on the table ourselves from the city government property taxes.

We developed a shared services -- kind of a joint shared services committee. We wanted to examine -- we're the two biggest entities, other than the University of Pennsylvania. We have a lot of buildings; we buy a lot of stuff. And in many instances, we buy a lot of the same stuff. And so how do we maximize that level of leverage for cost savings?

Our planning departments -- if the school district is about to renovate or possibly build a new building, what are we building nearby? Should we be designing those together? And are we putting them in a place where there actually are people, as opposed to historically there was always a school here. Well, that's wonderful. No one lives there anymore. Why would we put a school there? Or, you know, renovate the library. Those kinds of things.

So there's a lot of planning activity that goes on between the city and the school district in that kind of partnership.

MR. WESSEL: Okay, the man here with the beard, and then we'll go to the woman in the front.

MR. RYBECK: Hi, I'm Rick Rybeck with Just Economics.

There was some talk earlier about re-engineering services. You know, meet a performance measure, meet a benchmark, but find a new way, better way, cheaper way of doing it. I'm wondering if any of the mayors are taking the same approach with revenues. Revenues could have different impacts in terms of their incentive effects on productive activity.

Donald Shoup in California wrote a book recently called The High Cost of Free Parking. And he noticed that if in the certain parts of town where there's a lot of congestion, actually by charging more for parking they get more turnover, more business revenue, more sales tax revenue, you know. And people were going there, but they decide, well, I don't want to pay the parking fee so I'll take transit. So, you know, you can have -- you can re-engineer your taxes and fees. I'm wondering if you're looking at that.

MR. WESSEL: Mayor Nutter?

MR. RYBECK: Maybe in a revenue neutral way to create better incentives.

MAYOR NUTTER: Just a quick example. We did a little bit of that for two different reasons. One was for an hour of parking in many areas of downtown Center City, Philadelphia, it cost a dollar. It was the cheapest parking possibly anywhere in the United States of America. We are almost giving it away. It was just stupid.

So we doubled the parking rates in Center City and a couple of other areas. It has actually done exactly what you said. It did reduce some congestion. It does lead to greater turnover. And a side benefit was some of the extra money actually goes to the school district of Philadelphia. So we, the city, were able to contribute more. Not from our own pocket, but from another funding source. So it worked very well.

MR. WESSEL: (inaudible)

MAYOR WALKER: And one of the reasons why we moved to Bowling Green from Los Angeles was because they don't have any meters, any parking fees.

MAYOR SMITH: One of the things we did on our revenue side is, for example, we operate two airports in Mesa. You know, the way that government looks at revenue is much different than I ever looked at it when I was in the private sector. Government, for example, believes that, you know, you can charge whatever you want and the market will absolutely affect or accept what you do.

The other thing is there was a disconnect between the consequences, as you mentioned, and what revenue you are charging. For example, at our airports, we were renting space without trying to figure out how did that fit into the overall economic development. Our revenue we look at as, you know, first of all, our basic source of revenue has to be approved by the voters. So, there's nothing we can do that's short term. But the things we can affect, such as fees, such as rentals, such as things like that, we now have tied it into a economic -- an overall economic model to try and create this long term stability, recognizing that our financial strength, I believe, comes from our overall economy in our city.

And so we've done little things that have created business activity. So we have started to look at revenue different. But, you know, it's incremental because our base revenue -- yeah, I've got to go to the voters and get them to increase that property tax or -- not property, but sales tax or whatever. So you can look at it at the fringes, but it doesn't -- it's not going to solve our problems.

SPEAKER: Why do you have two airports?

MAYOR SMITH: Why do we have two airports? Why did we get two airports?

We have a general aviation airport, but we also have the most successful base closure airport. A former Air Force base, the Phoenix-Mesa Gateway Airport, which was an Air Force training center, which has been turned into a reliever -- or we're turning into a reliever airport to Phoenix Sky Harbor.

MS. CHANG: Valerie Chang from the Garden Foundation.

A lot of our comments today have sort of been focused on what's actually happening in the real economy, which is obviously, clearly, affecting what's going on. But I wonder if you could talk a little bit more about how much the challenge that governments at any level face as sort of a secular mistrust of what government does or people's inability to really understand what government does for them.

So, it goes back to David's quote from Doug Elmendorf. Right? People want things, but they're not willing to pay taxes for them. So, what challenges do you face? Or how have you been able to think about engaging your public on the importance of things like concepts of public good or shared responsibilities? And is that -- does that resonate with your citizens?

MAYOR NUTTER: I just had the most bizarre conversation. I was at a senior citizen event just a couple of days ago, and this was actually with a woman that I know. And as I mentioned earlier, we cut out leaf collection. Now, you know, we love trees. We plant. Everybody loves trees until the leaves fall off. And so we said it's a $400,000 service, twice a year. We can't afford to do this anymore. So we're not mechanically picking up your leaves.

A lady says to me my constituents want this. She's a local neighborhood political person.

And I said, well, we can't afford it. So, I mean, I'd love to engage in this conversation with you, but we just can't do this anymore. We're doing police; we're doing health; we're doing this.

She said, well, we don't get anything from the city.

I said, You've got to be kidding. If you call 911, a police officer or firefighter is going to show up. Did you turn your spigot on this morning? I think water came through it. We have rec centers, libraries.

I mean, I go through a laundry list of stuff. She listens very patiently and she say but you're not going to change the policy on leaf pickup?

I said, no, we're not doing it. Maybe you didn't hear my last press conference, we have no money.

It was bizarre.

MR. WESSEL: Mayor Reed?

MAYOR NUTTER: But if you just quit spending so much you'd have money.

MAYOR REED: There is a lot of disconnect because people tend to be focused on a special interest that they have. And they believe, yes, we have problems, but if you could just find a little bit more money for my thing.

MAYOR NUTTER: For your thing.

MAYOR REED: Just for my thing. And so there's that problem with, you know, conception of how we spend our money.

What I want to do in my next budget is I'm going to put a line item in there for waste, fraud, and abuse.

SPEAKER: Waste, fraud, and abuses?

MAYOR REED: For like $10 million. And then in the budget process we're going to cut that.

MAYOR WALKER: We actually had a partnership with Western Kentucky University, and we use our leaf pickup -- they actually mulch it and then sell it. And it's a revenue source for us. But with regard to engaging --

SPEAKER: There you go.

MAYOR WALKER: -- the public, I had citizens who were up in arms because we were expanding a school that resulted in the closure of an indoor pool. And so they wanted to know what we were going to do about it. And so what I did was I said, you know, okay, let's talk about the alternatives. Let's see what we can do. If you would like to be part of a group that explores alternatives, let me know.

One person contacted me. But what it did was it diffused the whole situation because they weren't mad at us because I didn't say, okay, we're going to take care of it. I put it off on, okay, you come to the table and work with us and we'll find a solution.

MR. WESSEL: Can we get one in the back? The man with the paper in his hand.

MR. SOFER: Hi, I'm --

MR. WESSEL: Can you wait for the mike? Can you bring him the mike so all those millions of people who get up at 4:00 in the morning to watch CSPAN can hear your question?

MR. SOFER: Hi, I'm Gene Sofer with the Susquehanna Group.

And I was just wondering in the context of this discussion about job loss and unemployment whether or not you have youth strategies that are aimed at out of work, out of school youth where the unemployment rates are even much higher than for adults.

MAYOR NUTTER: One of our successful stimulus programs was this summer. That's the first money we got. The first money we spent was for our youth program. So, we got a thousand kids -- well, kids 15 to 24. Typically, had to be low-income and have some other problem in their life in order to qualify for the job.

So, we employed them. We spent the federal stimulus money. It was a wonderful thing, but that was a summer job. Now they've got to go back to, you know, their school or whatever they were doing. But the federal money is helpful in that, but we don't have a separate program for youth employment. My program is creating the jobs because if the jobs are there, the kids will be able to fill them.

MR. WESSEL: Anybody else?

SPEAKER: Yeah, we don't -- once again, one of the -- one of the unfortunate things with not having enough money is that we place our children, which are, number one, most at risk; and number two, the poorest investment we make is not spending on our children. Because, you know, our police department will show up and say please have a summer job. Please have an afterschool. Because we will spend the money. It'll be much greater, and you will spend it in my department rather than that.

That being said, since we -- once again, it's a mathematical issue, revenue and expenses. We've teamed up with our school district to try and hit a long-term approach to things. And education, you know, it's an old thing, but the way that we're going to raise our youth and our community is to raise our educational level and get those kids who are dropping out and those kids who are not moving on to college -- which there is a way too large percentage -- into training programs and into higher education and try to get that going. Because we see the long-term. That's the kind -- the best kind of youth program we can have.

MAYOR NUTTER: The public-private partnership really did come in hand there. And I used some of my experience with fund-raising to spend months dialing for dollars with the corporate sector. For $1,600, you can employ a kid for the entire summer. Some people actually gave more. Didn't necessarily take all the kids themselves. We spend money in the city government. We used some federal money last summer, so we did about 1,500 just from the fund-raising -- 1,500 kids summer jobs last summer through the private sector.

MR. WESSEL: I'm afraid that's all the time we have.

The Wall Street Journal had a conference the other day of CEOs, and one of them stood up and asked Rupert Murdoch what he thought was wrong with political discourse in the United States. I think the guy may have had FOX News in mind. And Rupert Murdoch's response was the problem was we didn't have enough good people running for office in America.

I want to ask you all to thank these four people, not only for their time today, but these are obviously four people we are lucky to have in public service.

(Recess)

MR. BERNSTEIN: It's an honor to be back here at Brookings. Thank you, Bruce and the Metropolitan Policy Program and National League of Cities for hosting this event. I see many old friends. It's great to have a chance to address this high caliber audience about the economic challenges. We face all levels of government, national, state, local.

I'm especially happy to be here with local elected officials, and I bring the Mayor's greetings from my boss, Sheriff Joe Biden. He wanted me to tell you he'll be calling in real soon to catch up on how the Recovery Act is working out.

I want to give a special shout out to Mayor Nutter from Philadelphia, who played a key role in our first Middle Class Task Force meeting in Philly on creating job opportunities in major metropolitan areas. Do you realize that was only nine months ago? It feels like ten years. I don't know if that means time is going really slowly or really quickly, but it does seem like a long time. By the way, just to bring you back to that discussion, all this deep economic analysis on metro conditions, fiscal challenges is fine, but I ask you, Mayor Nutter, have you begun to work on the inexplicable market failure I discussed with you back in late February, which is why I can get an excellent bagel and a slice of pizza in Philadelphia, but not in D.C.

SPEAKER: I'm all over that.

MR. BERNSTEIN: Bruce. Surely this is a question worthy of the massive brain power that Bruce commands here, so I don't know why we haven't looked into that yet. In a number of recent discussions, I and other members of our economic team at the White House have talked about the depth of the recession we inherited, our interventions and how they've helped, and how the President's longer term goals such as health care and energy reform are so critical to both generating a lasting and broadly shared expansion while meeting a long term fiscal challenge.

And I'll summarize some of those issues in brief, but I think this audience by now is well versed in that discussion. So I'd like to stick more to the topic at hand, local economies, and try something maybe a little bit different. I found a background paper I read for the meeting quite interesting, and I'd like to plum some of the issues raised in that paper, mostly by asking questions of the experts in the room. And so I really usually you ask me questions, and we're going to have time for that, and I look forward to it, but I also wanted to ask questions of Bruce and Mark and the others who wrote the background paper which I found really, really very well done.

Now, I'm going to ask about some of these issues, and I want to be very crystal clear. I mean in my old job at EPI, I was supposed to go out and make news; at my new job, I'm supposed to go out and not make news. I want to be very clear that our administration is not endorsing any of the ideas I'm going to be asking about. I'm merely tapping the remnants, which at this point are nothing more than shards I think of what's left of my inner think tanker.

But this is – neither is this idle chatter. We have, as you know, he's mentioned it many times, we on the economic team have marching orders from the President to put all good ideas on the table, and so I hope you'll entertain some questions from me about the forward leaning ideas in your document.

But first let me say a little bit about where I think we are, focused on the job market and the macro economy. It's actually an interesting frame, job market, macro economy, because they are not, of course, working in sync right now. Thanks in part to aggressive – stimulus, including tax relief, deep investments in the safety net, infrastructure projects, fiscal relief for strapped states, investments in innovation, all implemented with great care and heretofore unforeseen transparency. The economy is pulled back from the brink and fears of depression have been replaced with hopes of recovery.

This historical intervention, the Recovery Act, is highly germane to our meeting today, and I'll come back to it shortly. Both the Treasury and the Federal Reserve have been equally aggressive in addressing blockages in credit markets, and their actions have helped stabilize this critical component to our economy.

Help for struggling homeowners, along with liquidity injections into the primary and secondary mortgage markets have helped to keep mortgage rates lower than they would otherwise be and carve out what looks like a bottom in home sales and prices. All of this is true and more after plummeting by over $12 trillion since 2007. Household wealth finally began to stabilize in the second quarter of this year, rising by about two trillion as real estate values flattened and markets began to recover from their collapse during the credit crisis which began last year.

This trend reversal in equity markets that began in early March of this year lifted the typical 401K by about 35 percent, not enough to make up for the losses, but enough for many of us to be willing to at least consider opening the envelope containing the statement once again.

Now, if you read the documents from today's conference, you get a vivid sense of how far we have to go, and I think that was part of the thematic in the last session. Fiscal imbalances at the state and local level are, of course, one of the key points of our discussion today. But I was also very interested in the long lags that these analyses documented between the broader recovery and local fiscal recoveries.

I took note that in the survey by the NLC, by the National League of Cities, the survey showed that cities most common response to a fiscal crisis was work force reduction.

Now, at this point it's typically noted that the stock market leads, the job market lags, a slightly more sophisticated take might offer the following, which I actually think is a little hopeful. Let me offer two statistics that caught my attention recently. The first was the nine plus percent increase in labor productivity in the third quarter. The second is what looks like another bottom potentially being carved out, this time in temporary employment.

Now, I don't think any economist believes that a nine percent annual growth rate in productivity can be sustained, and the worker result, it's been positive on net. If you look at the payroll employment survey, look at temp work, it's been positive on net for the past three months, with about a 34,000 job pop in October. That temp work result looks like a leading indicator that employers might be ready to dip their pinky toes, maybe not their big toes, in the hiring pool.

So what I'm basically getting at here is that animal spirits, to use a great – term, around hiring are obviously weak, weighted down with caution and uncertainty about where things are headed, and with lines of credit not flowing as freely as we'd like to see them to credit worthy businesses, especially smaller ones. And, of course, these dynamics hurt city jobs and services in the way we just heard, in procyclical ways, making the pullout of the recession that much harder, as documented again in the materials. But at a given level of positive output growth, at some point, employers can't squeeze anymore productivity out of their incumbent workers, and they either have to hire new bodies or extend ours.

That point at which growth maps onto employment in a way that we've not yet seen, at least on net, is approaching, and the Recovery Act has helped a lot in that regard. So let me elaborate on that last claim a bit more.

First, the Recovery Act is creating and saving jobs, about a million so far, according to both our own and outside estimates. Direct reports from recipients tally up to about 640,000, and I'll say more about some of the controversy around those counts in a moment.

But they only reflect, I want to be very emphatic about this point, the recipient reports only reflect about half of the recovery funds that work so far, so doubling that number gets you back to about the million plus range.

Now, why isn't this reality better understood? Probably because the job creation from the Act is not enough to offset the full labor market impact of the deepest recession since the Great Depression. As long as the unemployment rate is rising and we lose jobs each month, it's hard to make the case that things would have been worse without the

Recovery Act, but it's true. I actually passed out a little handout, I don't know if folks got it, but being congenially unable to give a talk without referencing some graphs, I have three panels there.

If you look at the pattern of monthly losses and periled employment in the top panel, since the Act passed in February, there have been three successive loss regimes in the payroll data, and every few months the rate of job loss has diminished.

Now, it may be hard to get credit for the Recovery Act until those bars turn positive, but you don't go from huge negatives to positives without a pattern like that that you see in the top panel of my handout, okay, that's first, job efficient.

Second, the Recovery Act is expanding the economy. Consider the middle panel the path in real GDP growth this year. There you see the large swing from negative to positive and the growth rate of the overall economy. Now, outside analysts have confirmed that the Recovery Act is largely responsible for that swing. Now, as I've emphasized and will continue to emphasize, and the President has consistently noted, GDP is in jobs, but you can't get to the latter without the former. And we know because the President tells us every day that we need to do all we can to hasten the occurrence of that growth job linkage, but you can't build that bridge if you don't have the growth.

Third, it's got a lot more jobs left to deliver, the Recovery Act. Slowly but surely, the Act is helping to chip away at our jobs deficit. We've got a long way to go, which is why it's a very good thing that the Act has a lot of fire power left. So far, about half of the funds of the Recovery Act are at work in the economy, mostly through fiscal relief to states, tax cuts, programs like unemployment insurance to help people battered by the economy hold it together until things improve.

What's coming over the next few quarters is a lot more of the rebuild and reinvest part of the Act. Lots of infrastructure programs out there in the field are just ramping up, along with investments and new growth areas that will set the stage for a more robust recovery, stuff like smart grid, high speed rail, and the production of renewable energy. As noted, the Act has saved or created about one million jobs so far, but we expect another 2.5 million over the next year. Fourth, this part is slightly controversial, it's unprecedentedly transparent and accountable. President Obama and the members of the Congress who supported this Act wanted it to be the most transparent use of government resources this country has ever seen. So now you can actually go to recovery.gov and learn about projects in your zip code.

Now, this part of the Act I think has also been badly misunderstood. The point of transparency is not to show that the Act and its implementation are perfect, to the contrary, it's to spot the imperfections as they arise and correct them.

Now, as my colleague, Ed DeSeve, points out in a recent blog post at whitehouse.gov that I commend to you, you pay a price for that. As far as the "gotcha squad" is concerned, transparency equals bulls eye.

But as Ed's post discusses, the reporting errors are small relative to the whole, we're fixing them, and most importantly, the main conclusion regarding jobs that I've been noting throughout my talk not only hold, they're strengthened by the direct reports. So in other words, once you get past the noise, the Recovery Act is neither more nor less than a well crafted, well executed and highly transparent -- stimulus helping to repair some, not all, of the damage to the economy our administration inherited. But as the President has stressed, we've got to do more to translate economic growth into job growth and continue helping states and localities meet the deep fiscal challenges they face so as to avoid taking steps that make getting out of this mess that much harder.

So let me close by commenting on the ideas in the brief behind today's conference. There are five of them, and I'll take them one by one. Targeted and temporary fiscal assistance to cities. This idea seems motivated by the belief or perhaps the experience that state fiscal relief has not adequately reached our cities and towns.

Now, I'm really not trying to start a fight here, and again, I stress that my inquiries should not imply any degree of administration preference or disinterest, but does this imply that state fiscal relief should be restructured since we would be providing some relief directly to their cities?

Second, do we have any idea what they'll do with the assistance? My biggest question is, would it be labor intensive? From all perspectives, state fiscal relief has been very important in retaining jobs, particularly in education. How would this idea interact with that? Second, you recommend a public service employment program, which you know, and I'm quoting from the report, would provide money to cities and other local governments to hire people to fill needed roles in their communities in response to the economic downturn, such as helping maintain vacant properties and homes and fixing schools and other local facilities.

Now, remember, our top economists have provided support for this idea lately including Alan Blinder and Paul Krugman, so I guess it's big at Princeton. And given my comments above about macro challenges, it may make sense to target employment more so than GDP right now. And in this regard, harking back to the last set of questions I was posing regarding local fisc I'd be interested in which idea you thought would be more likely to generate jobs, PSE's or local fiscal relief, or you could simply look at this PSE idea, public service employment idea, as local fisc, but restricted to an employment use, which has some appeal, I think.

But here, and this is something I think you've really got to deal with if you're in this space, one worries a lot about substitution, both fiscal and employment. The last thing you want to see is a PSE – is PSE workers substituted for public sector workers. So you need to think about how your plan would avoid that, and you also need to deal with the question of capacity. You know a lot more about capacity of your cities and these cities than I do. Can they get a useful non-make work PSE up and running relatively quickly?

Continued efforts to strengthen and stabilize the housing market, here I'll just stipulate that I agree and I thought your ideas made sense. A new federal surface transportation program. I'm just – through the five ideas that were in the conference document. A new federal surface transportation program, that's obviously fodder for a whole conference unto itself. So let me speak briefly from 40,000 feet up on this one.

The President and the Vice President are deeply committed to infrastructure investment. Ever since I've known those two, they've talked about it. And that commitment, as your report notes, is manifested in the Recovery Act. There are great economic rationale for such investments involving pricing externalities, large sum costs, and the productivity payoff from getting it right. But you are raising another issue, which I won't weigh it into, but about which I share your concerns, which is the geographical distribution of these investments. It's one thing to talk about it from 40,000 feet up, it's another when you get down to the ground and you talk about how these investments get distributed geographically.

One can easily worry that politics trumps policy here. I challenge you to find a member of Congress that doesn't like cutting ribbons. So I urge you to keep working to bring your very important distributional views to this debate, which at one level is relatively simple, making sure local actors are at the decision-making table.

I also stress, however, that when we're talking about infrastructure in the context of jobs, recession, and the need for some quick relief, we need to be mindful that the words "shovel ready" mean different things to different people.

Finally, municipal credit market enhancement, this, too, I'll simply stipulate is critical, and I'll finish up with one more bragging point, if I may. Another way the Recovery Act is helping in this space of municipal market enhancement, I understand it was referenced earlier, in the space of expanding access to capital for state and local governments is through the highly successful Build American Bonds Program included in the Act. This program allows state and local governments to issue taxable bonds and the treasury pays a 35 percent interest credit to the issuer to offset borrowing costs. These bonds allow state and local governments to enjoy lower borrowing costs while offering investors yields comparable to other taxable debt, and they allow state and local governments to attract investment from broad segments of the markets that do not typically purchase ordinary tax exempt municipal bonds such as pension funds and foundations that do not have tax liability, that's the policy wrinkle with these Build America bonds, because without a tax liability, you wouldn't benefit from a tax exempt bond.

Since the program was launched on April 3, there has been over 45 billion in Build American bond issuance which now represents over 20 percent of the entire municipal bond market. At the same time, Build America bonds have expanded access to credit and significantly reduced borrowing costs for local governments that have taken advantage of the program.

The dramatic growth and issuance in reduced borrowing costs from the program indicate that it's a highly successful one, efficiently using federal dollars to expand access to credit for state and local governments when they need it most, so I think very much in the spirit of your fifth bullet there. On that upbeat note, I thank you for your attention, for all the thoughtful ideas you suggest in your report, and for focusing on this important issue of local fiscal relief. It's an issue we overlook at our peril. Thank you.

MR. KATZ: I think we have a bunch of time for questions. So, again, we have microphones floating. There's one right back here.

MR. MILICAN: I'm Al Millican, AM Media. How do you communicate to our enemies and reassure urban – well, any urban American who is starting to feel their security and safety from terrorism is starting to be compromised perhaps, in part, due to our government's difficult economic situation?

MR. BERNSTEIN: You know, when I used to work at the Economic Policy Institute, the contributor to CNBC, I would talk about anything, which I think is probably one definition of Washington punditry. I don't do that anymore, and frankly, I don't sit in meetings that address that particular, precise concern, so I think it would probably be – do more harm than good for me to address your question.

MR. KATZ: Other questions? Question right over here, make the way.

MR. FINEBERG: Hi, my name is Michael Fienberg, I'm a student at the George Washington University. I was wondering if you could comment on some of the major concerns of the Mayor, which isn't the number of opportunities and the amount of money that's going to funding municipalities, but more of the efficiency of getting those funds actually in the treasuries of those cities.

MR. BERNSTEIN: I guess I would refer you to the set of comments I made about fiscal relief to localities. I think there is expressed in the comments of the Mayors and the documents around the conference concern that state fiscal relief may not be reaching units as efficiently as it should, and that's a matter of obvious concern which brings us here today.

I mean people – one of the things that I was reminded up, and it's become – I try to read everything Bruce sends, which isn't easy, but one of the things you're reminded of when you read this stuff, you know, in a sense, yes, we live in states, but we really live in cities and towns, counties. I mean I relate much more in some ways to my life in Alexandria than my life as a Virginian just because my wife is the president of the PTA, I live in the city. I notice, by the way, that in Alexandria, which is a fairly wealthy city, we've cut down the amount of times we're cutting our baseball fields as a budget cut, and others, and that – I was reminded of that when I was reading about the public service employment ideas.

So I think that the issue here that's raised is very much a question about how do we efficiently address that concern. I kind of pose that question back to the Mayors and to Bruce and his team, particularly from the perspective of how it interacts with state fiscal relief, which we have found is – the program to get out the door the fastest. I mean the F map (?) checks were going out quickly, very shortly after the signing of the bill, and have really I think worked extremely well in preserving some key public service, particularly in education.

According to the recipient reports, 325,000 jobs something in that neighborhood, have been saved or retained, and I would – I mean saved or created, and I would suspect that the saved or retained part of that is probably stronger, maybe some of the public officials could tell us that. I think that these funds have gotten out and really helped to prevent some layoffs. So I think that we've – to some extent, the answer to that question at the state level, and I think they're good questions about the local, and I don't – I'm more asking a question about that and how it interacts with the state than I am answering it.

MS. AXMAN: Hi, I'm Lori Axman, I work with Mayor Nutter in Philadelphia. Like a lot of other regions, we're trying to prepare to compete for some of the energy efficiency money available soon through the Recovery through – Program. And the other day in the *New York*

Times, there was a very interesting article about the cash for – concept that is going to model the "cash for clunkers" concept, and I was hoping you could comment a little bit about what you're thinking.

MR. BERNSTEIN: Cash for clunkers -- yeah. I read the article, I've read the underlying documents. The President went out a couple of weeks right before he left for China and talked about a set of ideas that he was encouraging his team to look at. It wasn't the full state of ideas, but it was some that obviously were worth looking at to him, and therefore, to us, and one of the ones he mentioned was green jobs, and I think that intersects nicely with the stuff that Leon Hart was writing about in *The Times*. Those ideas I think have been circulating for a while. The tie into cash for clunkers is that – is a set of mechanisms that kind of make this thing a lot more user friendly and understandable to people.

But, you know, the Leon Hart article was not wholly saying this is great, we should all do it tomorrow, I think it also raised questions about how people can be sure that these investments make sense to them, which parts of the investments make sense to them, how do you amortize the investment over a long time, what if you're thinking of being in your house for much longer than that investment would pay back to you, and there's some interesting ideas about building that into the tax base of the home. So I thought there were good, interesting ideas there, and the President certainly signaled his interest in that space.

MR. KATZ: Neal Pierce back here, and then I think –

MR. PIERCE: Neal Pierce of the *Washington Post* Writers Group. I wonder if you could react – could you think back a little bit to what Brookings was telling us of their studies on the centrality of metropolitan regions, the American economy, and then think of the Recovery Act, or looking forward; should this administration have been doing more, and can it do more to reflect in its anti-recession policies the supremacy and economic terms and revitalization terms of the metropolitan regions?

MR. BERNSTEIN: First of all, the question, should this administration be doing more just makes me feel very tired, we're doing a lot. You know, I think -- the spirit of my comments today I think, and the spirit of the President and the Vice President's urging of us to put every good idea on the table and look at it, the recognition that we are no where near out of the woods until we have robust job growth on a monthly basis, I mean you can look at that GDP graph and say, well, you know, that's it, we're done, and we are absolutely not there.

We recognize, as I've stressed in my comments, that at the end of the day, what really matters to middle class families are jobs, incomes, wages, and middle class families, as I said, yes, we live in the country, and yes, we live in the states, but we also live in the towns and the cities and the counties.

And so I thought my comments about the five ideas in the document today were indicative of my interest in those comments in the spirit of the President's guidance to look at every good idea out there. I think that the Recovery Act was framed very well in this regard, and that the state fiscal relief, both the F Map and the state fiscalization, has been extremely important in the results that I showed you in those three slides, both in terms of payroll, GDP, I didn't talk about the unemployment insurance, but you can see the reversal in the trend and initial claims, in terms of particularly helping school systems.

Now, here's another example, where, you know, it's maybe harder to get credit than it should be, but I know, and Joe Biden knows this because he goes out and sees it, that there are kids sitting in classrooms today, classrooms that would be twice as large, were it not for Recovery Act state fiscal stabilization funds. So I think that that part of the Act was crafted very well and has been very effective.

MR. KATZ: The last question, Amy.

MS. LIU: Hello, Jared. I'm Amy Liu, I work at the Brookings Institution. And maybe by way of closing out the program, I wanted to say thank you for considering each of those policy recommendations so thoughtfully. But I think, like many of us in the room, we actually think you raise some good questions and would be very curious what our panelists and our Mayors think about the questions that you pose. So maybe one way to close out the program is to hand the mics over to the Mayors, have each one of them stand for a moment and really answer Jared's questions about, if you look at fiscal revenue sharing, improved credit, access to credit, and a public employment jobs program, which of those three would have the biggest impact on short term job growth, which is, I know, an important criteria at this moment, and maybe clarify the extent to which the state fiscal aid has or hasn't been felt locally.

MR. REED: In San Jose, we really appreciate the R funding that we've gotten, and I'm less concerned about what the state did with the money than perhaps others are because if the state hadn't got the R funding, they would have taken more of our money. So that was a plus in my book, you helped the state, and all those teachers that are still working are a plus for our community. The direct -- is we appreciate that. But I think we have to focus our resources on creating jobs in the private sector. The money that you give us to put people to work are not creating long-term jobs. They're creating jobs that only last as long as the federal government is willing to write the check. And that's why I'm focused on the Department of Energy loan guarantees and things that can go direct-to-industry who will create jobs that will go on forever and will spin off other jobs. And I think if we could focus the resources on trying to create those kinds of jobs, we'd be much better off.

MR BERNSTEIN: That's great. Great comment. Thank you.

SPEAKER: You might hear a broken record here. I would agree with Mayor Reed. You know, it's easy to look at a short-term impact, and right now we're feeling the pain. I'm not looking for a sugar high, though. And I'm afraid that if we look at short term, that's what the cities will get. You know, sugar highs are great until you get off of them. And I think that's where the capital markets are so important because capital markets create economic activity, which creates long-term jobs. And it does us -- I don't want to say it does us no good, but it does us little good in the long-term scheme of things to create these short term.

I mean, any help is wanted, but if given the choice, I would rather plow money into things that will create long-term stability because that's how we benefit as cities is when the economic activity and that growth happens over a long term, so we avoid the sugar high. I'd rather do with a little bit more pain than I would to have the high only to come down after.

MR WESSEL: Let me ask you before we get -- let me ask the two of you then a question. One can wonder about this particular area of economic blockage as to whether it's on the supply side or the demand side, and usually it's a combination of both. But your comments suggest that the problem is more on the supply of credit side than the demand side so that if credit were available, there are ample numbers of long-term investors' takers such that these kinds of investments would occur. I mean, one of the things that one could also worry about is you could try to apply some help to the credit markets and find that there just weren't enough takers because investors didn't have the faith that they could get a return on the investments even with subsidies.

So could you reflect on that?

SPEAKER: Well, I'd like to, first of all, say that if there -- I'm not sure there are "ample."

Second thing, I think the question is really moot because on Main Street the credit market is completely shut off. So you really can't even see whether there would be ample or what the true demand is because people don't even get to the starting line. And that's what we're experiencing on Main Street, there just is no credit out there.

MR WESSEL: That's a helpful comment. Thank you.

MR. REED: I can give you two specific examples, one I mentioned earlier, that's Nanosolar. Nanosolar is the producer of the world's lowest cost solar cell; a tremendous for its products. Five hundred million dollars of private sector investment, 300 patents, they've got a great product. They're selling it all over the world. They can't get the capital to expand another factory here. There are other countries that are offering them the money and they will do it in other countries if they don't get to do it here. So capital access there is really important.

The other one is a company I won't name because they were trying to get a $10 million loan to build another little factory in San Jose. The only way they could get a $10 million loan out of the capital markets is if they would put up $15 million in a deposit in the bank. That's not workable. (Laughter)

MR NUTTER: Jared, thank you again for today. On the question, I talked earlier about --

MR BERNSTEIN: Question of bagels? Can you just help a little bit with that? (Laughter)

MR NUTTER: I'm working on that. About a half-hour. Someone's coming up on the Acela right now. (Laughter)

It goes back to the access to capital issue. I think every project up on the board, even in the good times, was not necessarily going to happen, but a whole lot of projects that could are definitely not happening now because of access to capital issues. I do think, though, that the -- what was it -- PSE, public sector --

SPEAKER: Public Service Employment (inaudible).

MR NUTTER: I do think that that is important. And I heard my colleague talk about the sugar high. I'm not particularly interested in that either. But people do need to get to work and when they're working, they're also paying taxes. What's going on, as the unemployment rate goes up and as fewer people are paying taxes, that's also causing additional stress and strain on the city government. And not that we shouldn't be cutting and constraining ourselves, even in good times.

The other challenge, though, is it really does affect the quality of life in our locales. And it's not just Philadelphia; it's also the surrounding region. So people start to make other choices as well. If they're not going to do this, if they're not going to do that, if not going to do the other thing, I mean, I look at city government as a business. We're in a constant fight for market share. Someone else will pick up their trash. Someone else will run their rec center. Someone else will provide other services that they need. They don't have to stay in Philly to get that. And so there are other consequences from all of this cutting -- or my colleagues, what was the -- we're just going to reduce our services. We're not using the "cut" word anymore; we're going to reduce our services. Same thing. (Laughter) Same impact.

SPEAKER: Sounds nicer.

MR NUTTER: Yeah, it does sound nicer. If you can get away with that at a town hall meeting, I'll give you $100. (Laughter)

So, you know, again, we don't need to be in a fight about, you know, states. I mean, the program is the program, and whatever's going to happen is going to happen. But I think that restoring a sense of hope on the ground. And whether it is a job or a training program, people need something to do. The more folks that are out there not doing anything, the more stress it is on my police department because we're just going to drive up our arrests, which drives up our prison costs. I mean, it's an endless downward spiral to the fact that I've got five guys still standing on a street corner and they're trying to figure out the federal government's spending all this money, you're cutting services, and I'm still unemployed. What am I supposed to do?

MS. WALKER: Well, as the last person to answer the question most of it has already been said, and I will reiterate the fact that I think that access to credit is critical for not just the public sector, but also the private sector. Because if my private sector can find funds to expand or build a new business, then they're going to create the jobs that are going to create the occupational license tax that will help my community.

I think with regard to the sugar high, you know, if you provide assistance during one budget year and you can't provide it the next year, you've simply delayed the pain and maybe increased it a little bit more. So the idea of, for example, the block grants where it can go into the community, we have chosen to do things like looking at the creation of green jobs where it's not just a one-time project, but we're actually creating an infrastructure that will allow us to build for the future. And that's where, I think, the local governments have got to focus on and that's where I think we do the best job in terms of looking at the future.

MR BERNSTEIN: Well, let me just say that these are great responses and your attention and even passion for longer term investments that make a difference when this difficult time is behind us is really very heartening. You do hear a lot of short-term alarm around here, so I really applaud your thinking. It happens to be very consistent, by the way, with that of the President and the Vice President, although obviously they're aware of short-term needs as well.

I mean, the only thing I would say vis-à-vis the sugar high and vis-à-vis the point you just made, Mayor, about, you know, if we have it in one year, we don't have it in the next year, there's a whole, I mean, there is a basic logic to helping folks offset deficits, especially people who can't run budget deficits, in a period like this in the spirit of pure Keynesianism, which is temporary stimulus as you wait for the private sector to come back and things to go -- stabilize and go back to normal. So I think while sugar high, you know, is -- in a way sugar high could be used as sort of a criticism of Keynesian stimulus in general, you know, I view it more as a bridge over a big gap, and sometimes you need that.

But those were really inspiring comments. I'm kind of awed. Thanks very much.

MR. KATZ: I'd like to do this in closing. This has been a joint conference with the League of Cities. And I think in the spirit of what Amy was doing we owe you sort of a point-by-point response to all your questions, particularly with regard to the state fiscal relief and how it's affected municipalities down the line and I think particularly with regard to public sector employment. Because at the end of the day, we're talking about jobs for whom, jobs for what, jobs for where.

SPEAKER: And jobs for how long?

MR. KATZ: And jobs for how long. But there's been a disproportionate impact on certain people within the country of this downturn, a good portion of whom live actually within the cities and the surrounding urban counties. I think we need to lay out that case.

I just want to associate with the remarks, however, about access to capital for long-term job growth. I think all these are complementary and compatible. So we owe that to you.

The other issue that came up today that we'll put together in a separate brief is around the long-term federalist relationship, which is -- and, you know, some of this is really about the state-local kerfuffle we're seeing over infrastructure spending and over fiscal stabilization and so forth. We need to get back to a longer conversation about what federalism means in the United States for this century, particularly as we move to a very, very different economy. And the League of Cities and us have talked about it. We've talked with the mayors and the counties, the governors, and the state legislators. I think there's a moment now -- and particularly when you go back to the Hoover Commission of the '40s and '50s and the Grace Commission of the '80s and the federalist efforts and even reinventing government -- of getting back to a disciplined, structured conversation about that.

So as we go forward, this is just mature and adult and empirically grounded. And that is the Brookings Institution, so -- maybe.

Thank you very much for coming today.

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