PLS 505 - Policy Analysis

Final Exam Questions
Summer 2013
Mark T. Imperial, Ph.D.

Directions: You should answer **6 of the 7** questions on this exam. The extra-credit question is optional. Each question is equally weighted. Be sure to properly label and number all of your answers and to follow the directions for each question. Your exam is due by **5:00 PM on Tuesday July 30, 2013**. If you submit it electronically by email, it must be submitted as a single computer file (either MS Word or PDF). You may not talk with others in the class about the questions or your answers. You should also sign, date, and attach the honor pledge to your exam. I will be available to answer any questions you have about the exam during regularly scheduled office hours. You can also arrange an appointment to discuss the exam. Be sure to check the class web page for the links to the materials referred to in the exam.

1. Listed below are goods and services that government purchases or provides directly. For each good or service, identify the "type" of good or service provided using the public goods typology discussed in class (Table 1-1 from the figures on rationales for government intervention). Be sure to briefly explain your reasoning.
   a. Fire protection
   b. The shoes worn by police officers
   c. Building a dog park inside Hugh McRae Park
   d. Providing public drinking water instead of homeowners using private wells
   e. Freeman Park on the Northern end of Carolina Beach

2. Many policy analysts believe that government should only intervene when market failures exist. The readings and class discussion discuss several different types of market failures that provide rationales for why government provides a wide range of goods and services. For each of the following, describe the rationale(s) that support government intervention discussed in class (see the lecture notes on the corresponding topics page for a summary of the rationales). Be as specific as possible and use the terms and concepts discussed in the readings and lecture notes to identify one or more rationales for each government action:
   a. Federal government requiring nutrition labels on foods
   b. State governments banning smoking in all public places
   c. Local governments zoning land use
   d. Local governments providing trash collection services to residents
   e. Regulating fishing off NC's coast
   f. State public utility commission regulating the rates charged by electric companies to homeowners

3. Read the attached editorial from the *USA Today* (attachment 1) that debates using incentives for boosting organ donation and answer the following questions. You can make reasonable assumptions when answering the question as well.
   a. Provide a one sentence definition of the problem as framed by the pro and con side of the editorial (i.e., two different sentences that reflect their respective definitions of the problem).
   b. We discussed a wide range of "generic policies" (i.e., policy instruments, tools of government) used to correct government and market failures (Handout posted on the website). Identify 5 1-sentence alternatives mentioned in the editorials that address the problem. Use the conceptual framework and terminology from the handout from class to identify the "generic policy".
   c. Identify 5 1-sentence alternatives that are not mentioned in the editorials (they don't have to be plausible so you can be creative) that can address the problem as defined above. Be sure to use the conceptual framework and terminology from the handout to identify your five "generic policy" alternatives.
   d. Based on the arguments in the editorial, identify the three evaluative criteria that you feel are the most appropriate for evaluating alternatives you proposed to address the problem. Be sure to briefly explain your rationale for why each is most appropriate evaluative criteria to use in this case.

4. There are many ways to view the "fairness" or equity of a policy proposal. This includes whether you feel the situation is best viewed in terms of horizontal or vertical equity and your view about who should pay (or not pay) and who benefits (or should not benefit). Evaluate the equity of each of the following policy proposals from the recommendations from the co-Chair's proposal to President Obama's deficit commission (http://www.fiscalcommission.gov/). Describe all of the equity concepts that support the "fairness" of the proposal as well as those that question their fairness. Be sure to use the terms and concepts discussed in readings and lecture notes when answering the questions.
   a. Gradually increase the gas tax by 15 cents beginning in 2013 to fully fund the transportation trust fund for federal transportation projects (page 29 of the co-chair's proposal)
   b. Index the retirement age to increases in longevity, which means that retirement age in 2050 would be around 68 rather than 67 in order to increase the fiscal solvency of social security through 2075 (Page 45 and 48 of the co-chair's proposal)
   c. Terminate low priority Army Corps of Engineers construction projects including those for beach nourishment to save $1 Billion in 2015 (#13 on the illustrative outline)
   d. Increase the maximum income level that people and employers pay social security taxes (i.e., Payroll Tax) in order to increase the fiscal solvency through 2075 (Page 46 and 48 of the co-chair's proposal)
   e. Reducing the budget of the Smithsonian and National Park Service and allow these agencies to offset the cuts by charging user fees (e.g., admission fees) to save $300 million in 2015 (#30 on the illustrative outline)

5. Read the article “A City’s Wrenching Budget Choices” from the New York Times. Imagine you are working as a chief budget analyst for the city responsible for giving policy advice to the Mayor, Council, and City Manager. Based on what you have read this semester, how would you frame and prioritize the problems identified in the article. How would you prioritize the city services deserving funding during difficult budget times? Do you think the Mayor and Council are approaching the problems properly? Be sure to use concepts from your readings to support your arguments.

6. One of the main required readings this semester was the book *Superfreakonomics*. What are the main arguments advanced by the authors? As someone studying public policy analysis, explain what is useful (or not useful) about their approach to studying problems. How were the authors successful (or unsuccessful) in making difficult concepts accessible to a broad audience of readings. What are the lessons that you take away from your reading of the book as you begin your career as a manager or analyst?

7. Read the attached handouts describing the economic impacts of a proposed NC International Terminal project in Brunswick County (Attachment 3). Additional readings detailing the proposed Port Facility are posted on the course website but you shouldn’t need them to answer the questions. You can make some reasonable assumptions about the activities associated with building and operating the port to answer the questions as well. Be sure to use the terminology and concepts from the readings and lecture notes to answer the questions.
   a. Briefly describe how you would go about using benefit-cost analysis to decide whether to build the proposed port facility.
   b. Identify an example of a direct cost mentioned in the article.
   c. Identify an example of an indirect benefit mentioned in the article.
   d. Identify an example of a tangible cost and an intangible cost and explain the difference.
   e. Identify an example of a fixed cost and a variable cost and explain the difference.
   f. Identify an example of a positive & negative externality of the proposed port

Extra Credit

The public goods typology is a useful way to conceptualize the rationale for government intervention in the economy because it helps identify potential market failures created when various goods and services are provided solely by the private sector. That said, what type of good or service is the “Internet”. Based on your characterization of this good/service, what type of government intervention if any is warranted to prevent market failures associated with the provision of this good/service. Be sure to explain your reasoning as partial credit will be awarded.

Attachment 1

USA TODAY

October 16, 2003, Thursday, FINAL EDITION

Consider incentives to boost ranks of **organ** donors

SECTION: NEWS; Pg. 14A

LENGTH: 637 words

Today's debate: Transplant waiting lists

Our view: Crafted carefully, such programs could help meet growing demand.

For two years, Melissa Alexander of South Waymouth, Mass., waited for a transplant to replace her lungs, which were diseased from cystic fibrosis. Finally, in a desperate attempt to save the 32-year-old woman's life, doctors performed partial transplants on Oct. 3. But her body was so weakened from the long wait that she died the next day.

Medical advances offer the potential to save growing numbers of lives such as Alexander's through transplants of livers, hearts, lungs and other **organs**. Yet 6,900 patients on waiting lists died last year because of a critical shortage of donors. Currently, more than 82,000 people in the USA are waiting for transplants. That contrasts with 7,500 living and deceased donors so far this year.

The donor shortage persists in spite of numerous education campaigns aimed at persuading healthy Americans to donate their **organs** after they die. Medical studies estimate that **organs** could be obtained from 10,500 to 26,000 brain-dead victims each year if more people consented to the **donations**. And polls conducted for **organ**-procurement groups show 75% say they would be donors. Yet fewer than 30% have formally consented. In nearly half the cases, relatives step in and veto the wishes of the deceased.

The resistance to donating **organs** raises doubts about the nation's ability to meet the need for replacement **organs** without a change in strategy. Even medical groups long opposed to modest payments to donors, including the American Medical Association, now endorse the idea of testing some reward programs. But progress is stymied by an outdated federal ban on financial incentives for **organ donations**.

The medical community's shifting mind-set and the growing need for **organs** suggest the timing is right to test whether sensible ways exist to encourage **donations** without creating a for-profit industry.

Some possibilities include:

* Offering the families of brain-dead donors a "death benefit" of $ 5,000 or $ 10,000 for the use of healthy **organs**. A Pennsylvania plan to offer a $ 300 "funeral benefit" four years ago was blocked by the federal ban.

* Giving a $ 10,000 tax credit to the estate of a donor.

* Compensating living donors for travel, expenses or lost income. Wisconsin is considering a $ 10,000 tax deduction.

Before such ideas can be tested, Congress would need to ease its 19-year ban on compensation for **organs**. Senate Majority Leader Bill Frist, R-Tenn., a transplant surgeon, backs a proposal moving in that direction. A more direct approach has been offered in the House.

Critics argue that financial incentives will lead to a black market of **organs** auctioned off to the highest bidder. They say offers of money are an affront to human dignity and donors who give for altruistic reasons.

To avoid a black market, incentive programs would need close monitoring. But physicians, scholars, clergy and civic leaders who worked together this year to consider solutions to the **organ** shortage concluded that carefully limited financial incentives would motivate those already inclined to be donors to carry through with their plans.

Melissa Alexander and the other thousands who die annually while waiting for **organs** provide tragic evidence of the need for a new national policy. Test runs of incentive programs are a good place to start.

TEXT WITHIN GRAPHIC BEGINS HERE

Organ shortage grows

The number of patients waiting for **organ** transplants is increasing faster than deceased donors.

Patients on waiting lists:

2000: 74,078

2001: 79,524

2002: 80,790

2003 (as of Wednesday): 82.880

Decreased donors:

2000: 5,985

2001: 6,082

2002: 6,183

2003 (through July): 3,713

LOAD-DATE: October 16, 2003

LANGUAGE: ENGLISH

GRAPHIC: GRAPHIC, B/W, Keith Simmons, USA TODAY, Source: United Network for **Organ** Sharing (BAR GRAPH)

TYPE: DEBATE

USA TODAY

October 16, 2003, Thursday, FINAL EDITION

Don't put price tag on life

BYLINE: Tracy Yen

SECTION: NEWS; Pg. 14A

LENGTH: 438 words

Today's debate: Transplant waiting lists

Opposing view: Instead of offering financial incentives, improve public education.

"We have an **organ** for you!" Those mere words can bring the greatest joy to thousands who are desperately ill. Thus in a capitalistic society, it isn't surprising that financial incentives are suggested to address the shortage of viable **organs** for transplant.

There is no denying the gravity of the situation: People are dying everyday. My sister could be one of them. She did receive her phone call, but transplanted **organs** aren't perfect. They can fail, too. However, overturning the ban on paying for **organs** only opens a Pandora's box.

Options proposed would give beneficiaries or families financial benefits for the sheer act of agreeing to extend the life of their fellow man at the rate of $ 300, $ 5,000 or $ 10,000. Is that the value of goodwill, of life? How much closer can we get to selling body bits? Where is the line to discourage individuals from murdering for profit? (After all, the economy isn't drastically improving.)

Or why bother stopping at the deceased? Open the floodgates and pay live donors for excess **organs**. You need only one kidney and most of your liver. You can afford to lose some skin or bone marrow. It's just an incentive to widen the donor pool, after all. What difference if there's no guarantee any **organ** is salvageable or a suitable match?

Let's step back to consider a real solution to this very real problem: better public education on the issue. Transplants are a reality that's far removed from too many people. Bone-marrow and blood drives have achieved critical mass understanding in terms of the need for donors. But you don't see extensive **organ-donation** awareness strewn into general consciousness. Like many health concerns, it's always an issue for someone else -- until it's too late.

Educational campaigns are considered ineffective, yet they also are inadequate. Did you know that families can, and often do, override the deceased's wishes to donate? What about the stringent tests to determine compatibility? Or the loss of a recipient's immune system to prevent rejection? What about interim treatments for those waiting? Or the effect on the ability to have children? Do you know if your health history leans toward **organ** failure? Do you even know what **organs** and tissues can be transplanted?

Everyone dies sometime. Plan ahead and give someone else a chance at life -- not giving to get something in return.

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Tracy Yen is a San Francisco public relations associate whose sister is waiting for a kidney.

LOAD-DATE: October 16, 2003

LANGUAGE: ENGLISH

TYPE: DEBATE

Attachment 2

July 4, 2011

A City's Wrenching Budget Choices

By KEVIN SACK

WILMINGTON, N.C. — When Engine 5 pulled up to a burning house on Woodlawn Avenue early on March 19, the firefighters were told that a man might be trapped in the back left bedroom. As two firemen trained a hose toward that corner, Capt. Don Ragavage crawled through smoke and flames to search for the missing resident.

It was an inopportune moment for the water pressure to plummet. But that is what happened when Engine 5's motor, strained to the limit by 16 years and more than 100,000 miles of hard service, abruptly sputtered and died.

Only a month earlier, the fire chief, Buddy Martinette, had lobbied the City Council to replace the cantankerous engine at a session devoted to the latest of Wilmington's six consecutive budget gaps.

"The mechanics really don't think it will make it," the chief warned at the time.

"You need another mechanic," shot back Charlie Rivenbark, the Council's foremost fiscal curmudgeon.

Mr. Rivenbark was not smiling, and once the scattered snickers quieted, none of his colleagues took issue. The fire truck fell off the table for the fifth year in a row.

Wilmington, N.C., is not Camden, N.J., which laid off half its police force this year. It is not Detroit, which is closing half of its public schools.

But like local governments across the country, the City of Wilmington has been demonstrably diminished by five years of unyielding economic despair. That a place like Wilmington, until recently a real estate boom town, would defer a purchase as essential as a fire truck for even one year, much less five, speaks to the withering toll.

In repeated visits over six months, Wilmington revealed itself to be typical of hundreds of American cities where the relentless drip-drip-drip of yearly contractions has gradually arrested civic momentum. As they wrangled over the 2012 budget, the city's recession-weary mayor, Bill Saffo, and his fellow Council members faced a menu of increasingly distasteful options.

For Mr. Saffo, 50, a second-generation developer whose family had prospered with the area's growth, the notion of presiding over a shrinking city was hard to stomach. Already a light sleeper, he was down to about four hours a night as a series of haunting tradeoffs — and a looming July 1 budget deadline — confronted him in the dark.

Padding around his house in a Pittsburgh Steelers T-shirt, while his wife, Renee, still slept, Mr. Saffo would flit from worry to worry. With the city facing a shortfall equal to 8 percent of its revenues, the mayor wondered whether this would be the year the Council had to close a fire station, and compromise emergency response times. Would the city have to withhold merit raises from employees for the third year in a row, and further demoralize valued workers? Could it keep the streets navigable by continuing to patch potholes rather than repaving?

"It gnaws on you day and night," Mr. Saffo, a centrist Democrat, said. "Are the policy decisions we're making helping rather than hurting? Are we doing everything we possibly can? You do stay up and think about this stuff."

As a diversion, the mayor would surf North Carolina news sites in search of fiscal doom in other cities, "just to make sure I'm not the only one going through this." But Wilmington always pulled him back.

He was running for re-election in November and he badly wanted to beef up the city's police presence downtown, where a rowdy weekend bar scene had turned increasingly violent. But was it feasible to raise taxes to do so when voters had trended conservative (and angry) in local elections last year?

The mayor and the Council, who serve part-time, were still smarting from last year's decision to raise property taxes to make debt payments on projects they had approved when coffers were flush. If a tax increase was out of the question, would they need to raid the city's reserves? That, Mr. Saffo knew, could threaten Wilmington's capacity to rebuild if a hurricane smacked the Carolina coast this summer.

"We've had to make some pretty tough choices," Mr. Saffo said one afternoon in his City Hall office. "We actually do make decisions where people can feel it and see it and touch it, and if they don't like it they let you know about it."

He pinched his brow with his thumb and forefinger.

"How you play this tough hand will determine how your community is going to come out of this," he said. "You can hunker down and not invest in anything and then have to play catch-up, or you can continue to invest and find ways to improve so we can catch that economic wave up."

Revenues Take a Fall

What makes Wilmington's reversal so striking is that the city had so much going its way.

Until 2007, the general fund budget for this endearing port of cobblestone streets and moss-draped oaks had been expanding by about 7 percent a year. Fueled by in-migration and a series of annexations, the population surged 40 percent for the decade, to 106,000.

The growth helped pay for glittering capital projects all over town — a convention center on the Cape Fear River, a police headquarters with its own crime lab, a 20-mile bike and jogging trail, tennis courts and softball fields, a host of road and streetscape improvements. The mayor's calendar was crowded with ribbon-cuttings.

But by the time Mr. Saffo and the Council took on this year's $85 million budget, the collapse of the real estate market had so choked revenues that the finance department could no longer afford free coffee for its staff. Despite last year's increase in property taxes, which account for nearly two-thirds of the general fund, the city's revenues were still projected to be lower in 2012 than in 2008.

Wilmington's experience is not uncommon. Nationwide, the decline in municipal revenues has accelerated in each of the last four years, draining billions from direct services like police protection and garbage pickup. Local governments have shed nearly half a million jobs, and are expected to lag well behind any recovery in other sectors.

This year, they face the exhaustion of stimulus aid from Washington, deep cuts in federal Community Development Block Grants and belt tightening in state capitals newly controlled by Republicans. One of them is Raleigh, where Republicans have captured both houses of the General Assembly for the first time since Reconstruction.

Wilmington's Council had been closing shortfalls of 5 percent to 10 percent for several years, and the compounding effect was roughening the edges of a city that aggressively marketed its coastal quality of life.

Just the previous year, the city had eliminated its budget for planting spring bulbs and trees. Hours had been shortened at community centers and parks. Deep reductions in code enforcement had ballooned the inventory of derelict properties. Although eager to attract corporate investment, the city had eliminated its economic development recruiter.

If the average Wilmingtonian did not feel the impact every day, it was largely because city workers had borne the brunt. Through attrition and a selective freeze on hiring, the work force had been trimmed by 8 percent, to 794 positions. Between the elimination of merit pay and a big cut in the city's contribution to retirement benefits, the remaining employees had lost 10 percent of their earnings over two years.

Department heads fretted that once the private sector reheated, they would not be able to compete for employees. More immediately, morale was awful, particularly among police officers and firefighters who resented the expectation that they would do more for less.

One afternoon, three firefighters at Station 4 griped with little provocation about their stagnant salaries. They said they resented it when the brass ordered extra training or asked them to perform nonessential chores like distributing safety brochures.

"I make sure that I take care of my equipment," said Andrew Comer, a master firefighter. "I do my job well when I respond to calls. But I'm not going to go above and beyond to try to make this department any better right now. They're not doing anything to make my life any better."

Mr. Comer said he could make ends meet only by working a second job in boat repair. Were he not saddled with his house, he said he might join the co-workers he knows are searching for work elsewhere.

"People say, Be thankful you have a job," he said. "But it's hard to come in and be motivated when you know you're not going to get anything in reward."

A pair of police officers walking a downtown beat one Friday night saw it the same way. Officers had become less proactive and tended to simply wait on calls for assistance, they said.

"People say, 'I'm going to cover my calls but I'm not doing anything extra,' " said Officer Kendall Murphy, a three-year veteran. " 'I'm not going to go above and beyond. Why should I? I don't get raises.' It gets worse over time, and it's not just a few people."

Budget Casualties

Despite Engine 5's failure last March, the house fire on Woodlawn Avenue ended without injury because another truck had quickly replaced the disabled engine. The firefighters eventually discovered that the missing resident had not been at home.

But Captain Ragavage, who conducted the hands-and-knees search, said it could have been a disaster.

"Let's say the house was a little bigger and we were deeper into it," he said. "The fire could have overwhelmed us."

The fire chief had begged for years to replace the truck, which would cost $730,000 but could be financed with a first-year installment of $103,000. The truck had logged 863 hours in the repair shop in 2010, almost as much as the other 10 engines combined. Its drivers routinely took roundabout routes to fires to avoid even slight inclines or traffic lights that might stall their momentum.

Deferring equipment purchases and maintenance had enabled the mayor and the Council to protect manpower in the police and fire departments, which consumed almost half of the city budget. But the casualties were mounting.

The police chief badly needed new cruisers and car-mounted cameras. The cameras, which had been breaking at the rate of one a month, occupied a special place in the department's arsenal because in 2007 a video had absolved an officer in a fatal shooting that threatened to ignite the community.

The chief, Ralph Evangelous, also had no money to hire five officers to supplement the new downtown patrol unit he had formed by shifting personnel from other beats.

The need was pressing on warm weekend nights, when Front Street more resembled Bourbon Street. Ninety-eight establishments held liquor licenses in a quaint central business district of 21 square blocks. And when Mugsy's Pub and Hell's Kitchen and the others closed simultaneously at 2 a.m., a toxic mélange of students, Marines, townies and young women in Snooki-short dresses poured onto the sidewalks.

On a typical night, it was not uncommon for overwhelmed officers like Kendall Murphy to break up half a dozen fights. In January, a 19-year-old gang member had been stabbed to death in a brawl outside a downtown bar.

Mr. Saffo was acutely aware that it would take but one mugging of a business visitor to imperil bookings at the new convention center. "That would be a bad black eye, for sure," he said.

Of all the fiscal degradations, perhaps most irritating to residents was the minefield condition of city streets. In 2010, the public services department had managed to resurface only one-fifth as much asphalt as in 2008, a mere 4.5 miles. Instead, in a futile game of whack-a-mole, a single city worker, John Diggins, rumbled about town in a pterodactyl-like pothole-filler called the Patcher, which spewed gravel and asphalt out of a pneumatic nose.

In 2010, the city had filled three times as many potholes as in 2008, simply because there were so many more to fill. But even at 125 a day, Mr. Diggins could not keep up. "You like to get the job done," he said in frustration, "but there just aren't enough hours."

One afternoon in February, the public services director, Richard King, guided Mr. Saffo on a tour of the city's cratered streetscape. It would take $3 million a year for a decade to restore the streets to good condition, he told the mayor. For the 2011 fiscal year, he had received $750,000.

As they turned down Park Street, where the asphalt was cross-hatched with deep cracks, Mr. Saffo quipped that the roads were better in Afghanistan. "I think I've seen enough," he told Mr. King. "I've seen that we've got more needs than we have money."

Into Public Service

This was not exactly what Bill Saffo had in mind when his father nudged him into local politics in 2003. He ran for City Council then with the goal of streamlining land-use restrictions that he felt were restraining the region's growth. Now he saw his mission as limiting the deterioration of essential services, or at least the public's perception of it.

The son and grandson of Greek immigrants, all from the island of Ikaria, Mr. Saffo went by his given name, Vassilios, until it befuddled his grammar school teachers. A hometown boy in every sense, he played football at Hoggard High and majored in political science at the University of North Carolina Wilmington .

As new highways opened access to southeastern North Carolina, and a nascent film industry conferred hipster appeal, Mr. Saffo joined with his father in developing subdivisions between town and the nearby beaches. Business was really good, until it got really bad.

From 2006 to 2010, residential and commercial foreclosure filings tripled in the Wilmington area and sales of single-family homes dropped by more than half. Mr. Saffo watched a number of competitors and local banks go under, and eventually propped up his weakened firm by merging with a Coldwell Banker franchise.

Councilman Saffo was elevated by his colleagues in 2006 when the mayor at the time resigned to take a banking job in Greensboro. Affable and presentable, with hangdog eyes and a vast mesa of graying hair, the new mayor proved a natural politician.

He maintained a ubiquitous presence at public events, where he greeted friends with a gravelly drawl that was somehow both Southern and Greek. If not saluting a constituent's football allegiances — "War Eagle!" — he was rarely without game — "Mark Kennedy, if that's not an Irish name I don't know what is."

Mr. Saffo handily won two-year mayoral terms in 2007 and 2009, and by all accounts had remained popular. If he had a shortcoming, fellow Council members said, it was that he was more liked than feared, and that his reluctance to offend sometimes prevented him from articulating a more forceful vision.

Making Tough Choices

The squeeze on Wilmington's revenues would require Mr. Saffo and the Council to reassess which services were truly essential, which tasks could be re-engineered and which worthy programs might be sacrificed. But the first crack fell to the city manager, Sterling Cheatham, a veteran administrator who had worked in four cities before landing in Wilmington in 2002.

Under the city's weak-mayor form of government, it was the cool and controlled Mr. Cheatham who oversaw daily operations and formulated a budget blueprint for the Council's consideration. While Mr. Saffo was clearly the city's face, the mayor held but one of seven votes on the Council and wielded no veto. The job paid $19,080, including allowances for car and telephone.

The Council members — three white men, two white women, and two black men — were all elected citywide in nonpartisan races. Because they represented the same constituents, consensus tended to grow organically.

When Mr. Cheatham began working on the budget late last year, he understood that the mayor and the Council had already forged a broad understanding. They had no appetite for another tax increase. They wanted to maintain reserves equal to 15 percent to 20 percent of the general fund. And they hoped to avoid layoffs that might worsen unemployment, which remained around 10 percent.

Mr. Cheatham, who dealt daily with grumbling city workers and felt they deserved a break, suspected that Council members would again reject pay increases. But he also thought the politicians should have to make that call.

In December, he proposed the broad outlines of a spending plan that would restore merit pay and retirement benefits, put nearly $2 million into needed capital projects, and buy a fire truck, police cruisers and police car cameras. "Everybody has a side of the street to walk on," he explained.

It would leave a gap of $6.7 million between anticipated revenue and spending, more than half of it due to the pay increases. Mr. Cheatham proposed to take the full amount from the city's reserves, reducing the balance well below the Council's threshold. Alternately, the Council could raise property taxes by about 15 percent.

Mr. Saffo felt the tug of the workers' plight. Whenever he dropped by Jimbo's, an all-night diner where he nursed his insomnia with coffee and eggs, the late-shift police officers would talk to him about their jobs and their pay.

But he also encountered exasperated taxpayers, like the waitresses and short-order cooks, who said they simply could not handle another increase. They were the ones, he assumed, who had helped elect a Tea Party-esque gadfly to the New Hanover County Commission last November, ousting an 18-year incumbent.

"The mood we saw out there," Mr. Saffo recalled, "was, 'Hey, my 401K has become a 201K. I've lost my job. I'm mad, and I want to know who to blame.' You get painted with a pretty broad brush."

At the Council's first budget work session, Mr. Saffo and his counterparts all but killed the pay package. "I know they deserve raises," the mayor said, "but I just don't see it. We've got to hold the line."

Before the next session, Mr. Cheatham asked department heads to submit doomsday plans for cuts of 5 percent and 10 percent. Even the lower number would mean eliminating 47 positions, ending the recycling program and closing Fire Station 4, which covered the university and the medical center.

At the meeting, in a cramped conference room in the city's operations center, the finance director, Debra Mack, told council members that taking $6.7 million from the city's $16.8 million in reserves could threaten its AA+ bond rating. Ms. Mack reminded them that they had already drained the balance by more than $4 million over four years.

Mr. Saffo asked if the Council would feel comfortable taking $1 million from the fund. And in the odd way that the Wilmington City Council sometimes did business, with no vote, but no one posing any objection, the proposal morphed into policy. Mr. Cheatham left the meeting with the understanding that his next draft should avoid layoffs, withhold raises, defer the fire truck and other capital projects, and make only a minimal grab from the city's reserves.

Looking to the Capital

By the time the Council next met on the budget, in April, there were indications that mildly improved sales tax collections might cushion the worst cuts. But the mayor and the city manager also worried that the hole could deepen because of the budget battle under way in Raleigh.

Republican legislative leaders had proposed rolling back sales taxes and slashing billions in education spending proposed by Gov. Bev Perdue, a Democrat. It would mean a big hit on counties, and cities worried that in the dead of the night, in some session-ending deal, the legislature would requisition their revenues as well.

Mr. Saffo and Mr. Cheatham had attended a mayors' conference in Greensboro where the new House speaker and the Senate president pledged they would not float the tax burden downstream to cities.

But the mayors, many of them Democrats, remained suspicious of their new Republican overlords. "It's only going to be a matter of time," Mr. Saffo predicted. "It's like preparing for a hurricane and not knowing if it's going to be a Category 4 or Category 5."

At the Council's budget session, held in an airport conference room as small jets taxied past the windows, the group sliced into Mr. Cheatham's proposed spending on construction projects. Again with a series of mumbles and nods, Mr. Saffo led his colleagues through no-win decisions to defer all sidewalk repairs and to cut by almost half the $1.8 million that Mr. Cheatham had urged for street resurfacing.

With the budget gap narrowed to about $1 million, Mr. Cheatham went back to work, choosing among the cuts offered by his department heads. He deleted programming for the elderly at community centers and ended the city's provision of umpires and scorekeepers for softball leagues.

On May 3, he presented the Council with a balanced recommended budget. He had found enough money to buy some of the needed police cars and cameras, but not enough to pay for the fire truck or downtown police officers.

What Mr. Cheatham did not know was that his fire chief, Mr. Martinette, was not ready to give up on replacing Engine 5. A week earlier, Mr. Martinette had called one of the Council's newest members, Kevin O'Grady, and invited him to his office to discuss the truck.

Mr. Martinette had never before circumvented the chain of command to directly lobby a Council member. But he had been impressed by Mr. O'Grady's penchant for steely analysis and correctly deduced that the councilman, a retired lawyer, might be persuaded to advocate for the truck.

"I thought that if I could get one person to put it back on the table I had a pretty fair shot," Mr. Martinette said.

The chief told the councilman that any money saved by deferring the new truck would be wasted on maintaining the old one. He said that a functioning truck would be crucial to his plans to restructure the department by closing four outmoded stations and building two modern ones. Once Mr. O'Grady learned that it could be had for an initial installment of $103,000, he was sold.

"If we don't spend that $100,000 and there's a fire and the truck doesn't get there and somebody's hurt, then how stupid were we?" he asked.

At the Council's final work session, on May 19, Mr. O'Grady said that while he hated to drain the city's reserves, he felt the truck was not optional. "This is something you go to savings for," he argued.

Not everyone agreed. "Using that fund balance," Councilman Rivenbark said, "is like paying your rent with a credit card. I've never voted against public safety, but I'm having a hard time getting my hands around it."

As the discussion floated about the table, five members of the Council spoke for buying the truck, while Mr. Saffo joined Mr. Rivenbark in opposing it. With one eye on November, he argued that this kind of spending would ultimately force another tax increase.

"We're getting to a point," the mayor said, "where I hear it on the street: 'I'm stressed out because I don't want to pay more taxes.' We still don't know what the state is going to do to us, and we're in a hurricane zone here. If Mother Nature hits us and the state hits us, we'll really have a double whammy."

Later that day, the National Oceanic and Atmospheric Administration forecast a worse-than-normal hurricane season.

The Votes Are In

The mayor was outvoted, and the longer he thought about it the more he felt the money would have been better spent on merit pay or downtown police officers. But he appreciated the tradeoffs that the Council, like most American families, had to confront. Save or invest? Borrow or pay as you go. When resources are scarce, which essentials become less so?

It was perhaps a measure of the Council's skill that when the city held its public hearing on the budget in May, the public did not show. Five social service agency directors came to offer thanks for their appropriations, but that was it.

On June 4, the North Carolina legislature passed the state budget, abiding by its pledge to protect city revenues. Unable to stomach the cuts to education, Ms. Perdue vetoed the bill, and then watched the General Assembly override her with help from conservative Democrats.

Three days later, the City Council unanimously approved Wilmington's budget on the first of two readings, with minimal discussion. On June 21, it took three minutes and 19 seconds to vote final approval of the four budget ordinances.

Mr. Saffo quickly turned his attention to his re-election campaign, although he had yet to draw an opponent. He knew that it would be a referendum on the city’s handling of hard times, and that the decision to replace Engine 5 might serve as Exhibit A.

“At the end of the day,” the mayor said, “it all comes with a cost, and the citizens are going to have to decide whether they’re willing to pay for it.”

Attachment 3

ESTIMATES*

$2.3 billion

Port construction cost

1.8 million

Shipping containers handled annually

477,000

Jobs supported statewide

4,407

Average daily truck traffic

WANT TO GO?

WHAT: Presentation on the proposed N.C. International Terminal
WHEN: 11 a.m. today
WHERE: Commissioners' Chambers, Building I, Brunswick County Government Complex, 75 Courthouse Drive N.E., Bolivia

Proposed Brunswick port would cost $2.3B

By Patrick Gannon
Staff Writer

The proposed seaport in Brunswick County will cost an estimated $2.3 billion, with the first phase expected to open in 2017, according to new studies released Thursday by the N.C. State Ports Authority.

That's a substantial increase from the $1 billion-plus cost the Authority had previously projected. Funding for new highways, better railroads, deeper navigation channels and construction of the facility is expected to come from a number of federal, state and private sources, with most of the burden falling on the Ports Authority, the state and future private partners.

The N.C. State Ports Authority is planning the port on 600 acres on an undeveloped site near Southport. The container terminal, authority officials hope,

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will take advantage of expected growth in international trade and the resulting demand for East Coast ports as space dwindles on the West Coast.

The authority has begun to search for the right development partner from a short list of companies worldwide capable of handling the complex job, said Carl J. Stewart Jr., chairman of the Ports Authority Board of Directors.

A business plan recently completed by CH2M Hill, an international engineering design firm hired by the Ports Authority, recommended a public-private partnership as the best way to develop the new port.

"My real hope is now, that we can move swiftly to identify the perfect partner for North Carolina," Stewart said Thursday evening. "We are already in the process of doing that. There's a lot of interest in this project worldwide."

The business plan concluded that the International Terminal is a worthwhile endeavor and that economic models indicate that projected revenues would justify the cost and provide a return on investment.

"The need and demand for a port ... is going to be there," Stewart said.

Meanwhile, an economic impact study by Martin Associates of Lancaster, Pa., projects that the N.C. International Terminal – as it's called in the new studies – will create more than 16,500 jobs and support 477,000 jobs statewide, as well as generate $1.1 billion a year in state and local tax revenues at full build-out in 2030.

But with the rosy economic forecasts come sobering projections for trucks and railcars to carry more than 1.7 million containers from the port each year by 2030. The goal would be to move half of the containers by rail and half by truck. That would mean an average of 275 trucks would come or go from the port each hour, and 441 trucks in peak hours. Also, about 10 trains would leave the port each day, according to the business plan.

Port officials said they will work with the appropriate agencies to ensure adequate highways and rail facilities are in place.

At 11 a.m. today, Bill Bennett, vice president of port planning and development, will make a presentation on the new data in the Commissioners' Chambers at the Brunswick County Government Complex in Bolivia. It is open to the public.

The Ports Authority is already hearing public concerns about the port and one Brunswick County town – Caswell Beach – has come out against it.

Stewart said the development process will involve engaging all of the communities impacted by the massive development on Brunswick County's coast.

"Anyone can understand early concerns and anxieties about a project of this magnitude," he said. "We need their support, and that's precisely what we're going to go looking for."

Patrick Gannon: 343-2328
patrick.gannon@starnewsonline.com

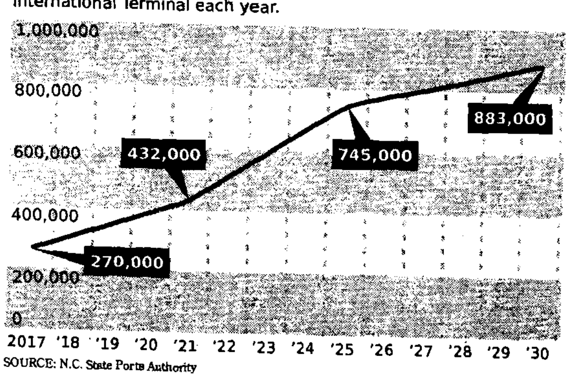
PORT DEVELOPMENT TIMELINE

MAY: Business plan promoted to private investment community
MARCH 2012: Environmental Impact Statement complete. Permitting begins.
JUNE 2012: Long-term financing alternatives evaluated and executed.
MARCH 2014: Design complete and major permits secured. Major construction begins.
JUNE 2017: First phase opens.

Source: N.C. State Ports Authority

PORT TRUCK TRAFFIC

The projected number of trucks entering and exiting the N.C. International Terminal each year.



SOURCE: N.C. State Ports Authority

N.C. INTERNATIONAL TERMINAL BY THE NUMBERS*

$1.1 billion	Tax dollars generated annually
3,676	Trains leaving the port each year at full build-out
10	Average trains per day
417	Ships arriving per year
8	Ships per week
275	Average trucks per hour
600	Acres in port property

* Projections
Source: N.C. State Ports Authority