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# 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.”