
The Directors' Forum

The Immediate Challenge Surviving Budget Cuts

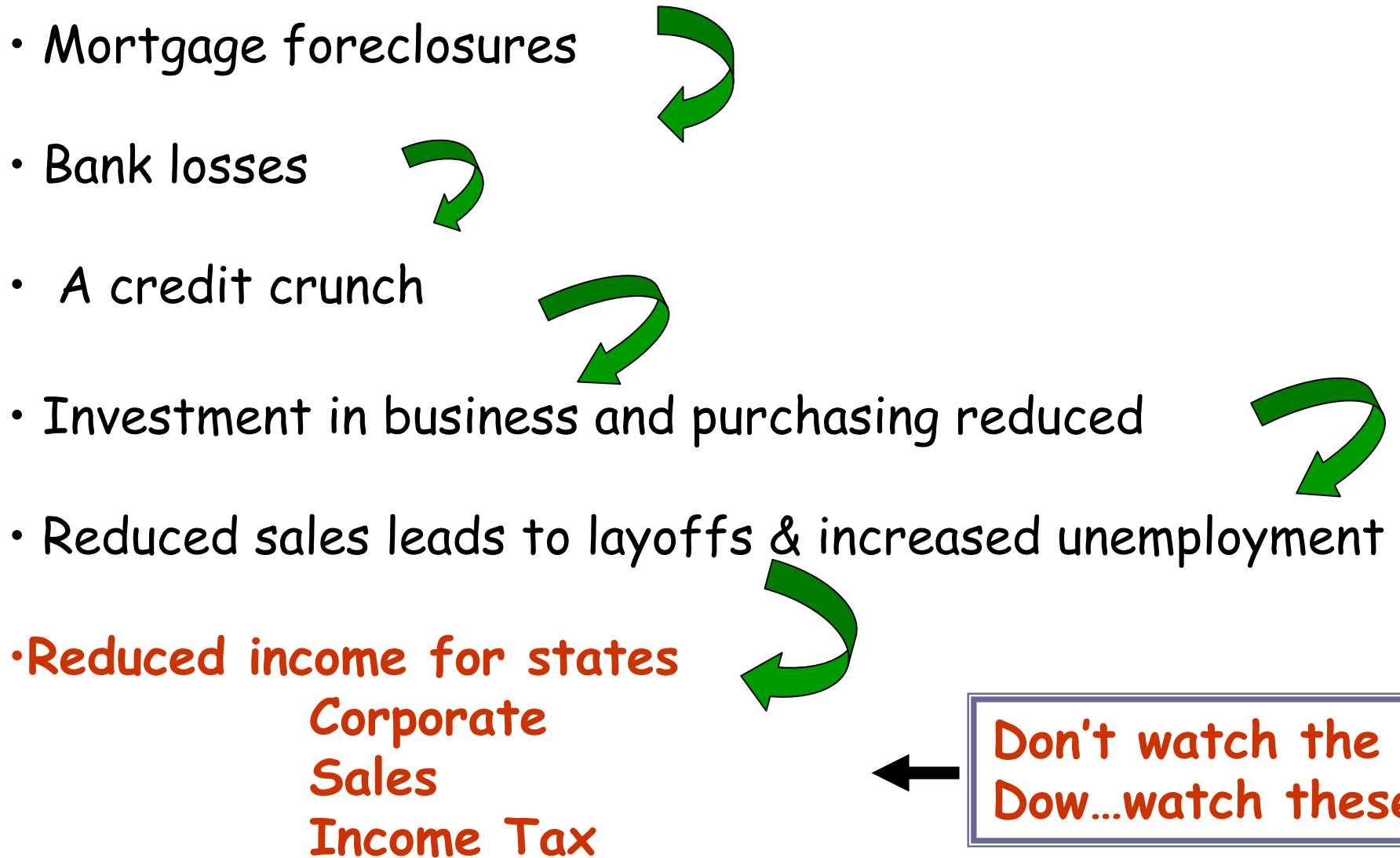
Nov. 12, 2008

Nancy Thaler

As if it Wasn't Bad Enough



As if That Wasn't Bad Enough

- Mortgage foreclosures
 - Bank losses
 - A credit crunch
 - Investment in business and purchasing reduced
 - Reduced sales leads to layoffs & increased unemployment
 - **Reduced income for states**
Corporate
Sales
Income Tax
- Don't watch the Dow...watch these
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- ```
graph TD; A[Mortgage foreclosures] --> B[Bank losses]; B --> C[A credit crunch]; C --> D[Investment in business and purchasing reduced]; D --> E[Reduced sales leads to layoffs & increased unemployment]; E --> F[Reduced income for states
Corporate
Sales
Income Tax]; G[Don't watch the Dow...watch these] --> F;
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# The data point to watch will be unemployment

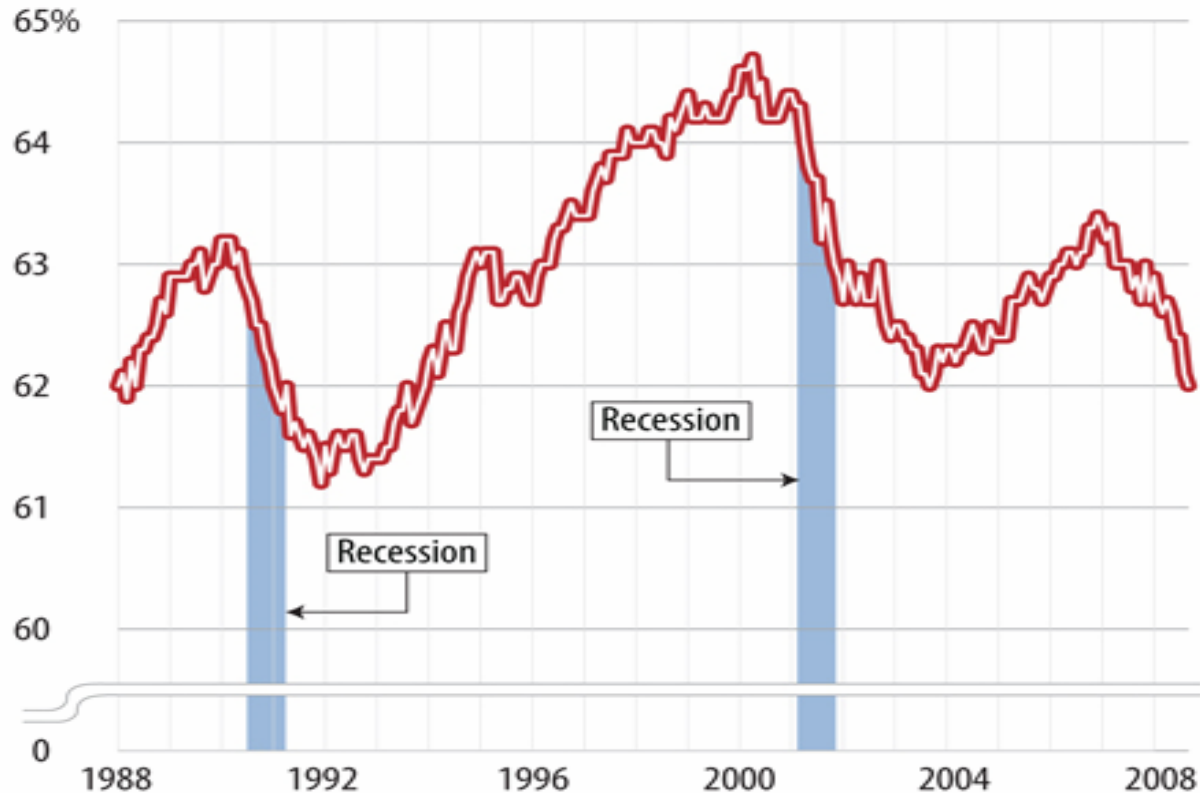
- The real danger economically, socially or politically speaking in the '30s was loads of young men without jobs.
- Unemployment leapt up to 25% in a very short amount of time between the stock market bust in 1929 and 1934 ... the end of the official recession.
- Even adjusted for modern methods, unemployment climbed to 23% in 1933. Oct. 2008 rate is 6.3%.
- By that account, we haven't even begun to see a retraction in the economy yet. The market has already priced in over 200,000 lost jobs in October.



Adjusted for current times

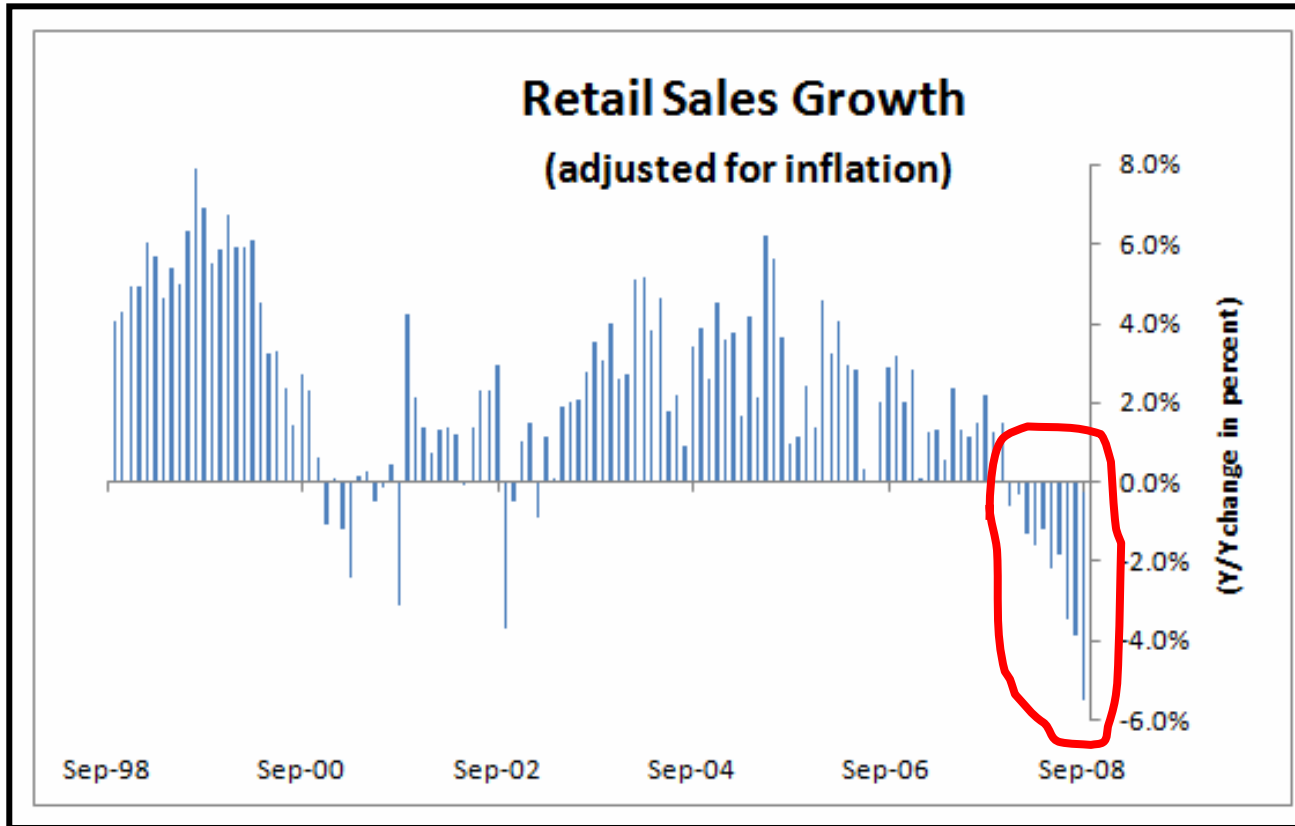
# Employment Rates are Falling

**Percentage of Employed Americans  
Has Not Been Lower Since 1993**



Source: *Employment-Population Ratio*, Bureau of Labor Statistics

# Retail Sales Falling

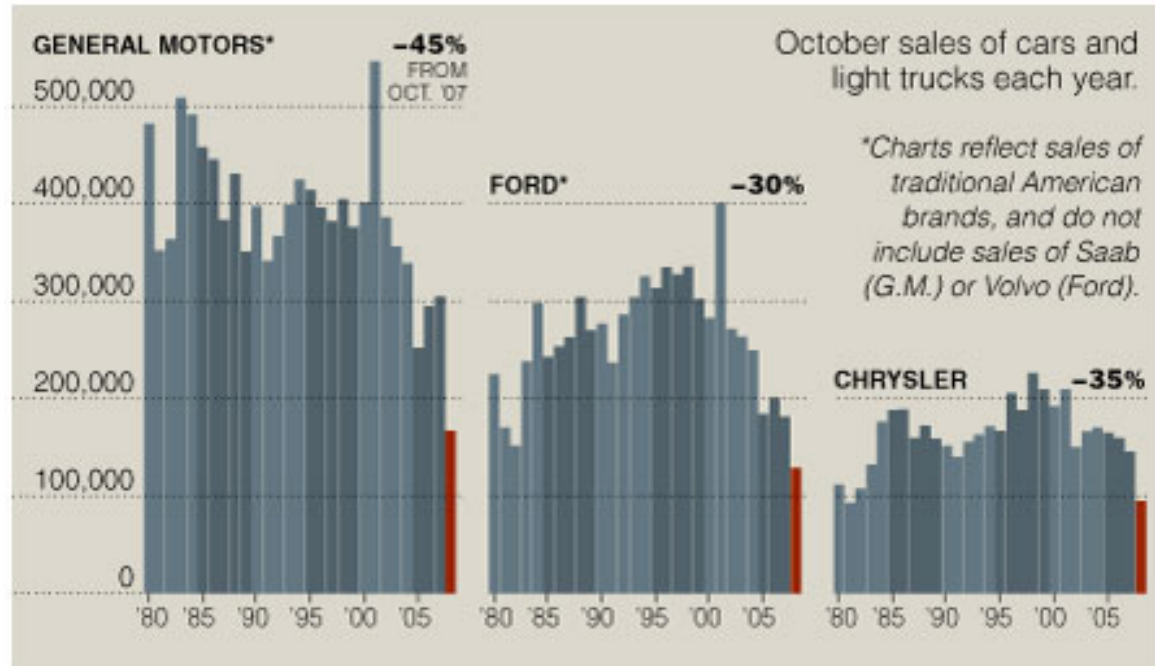


**Circuit City filed for bankruptcy.**

After losing money in 5 of the last 6 quarters, Circuit City will shutter 155 stores in order square up with more than 100,000 creditors. They plan to eliminate 17% of their US based workers.

The October level is the lowest since early 1980, and it is also the first time since then that more than half the companies reported orders were falling, as opposed to rising or remaining about the same

# Car Sales are Falling



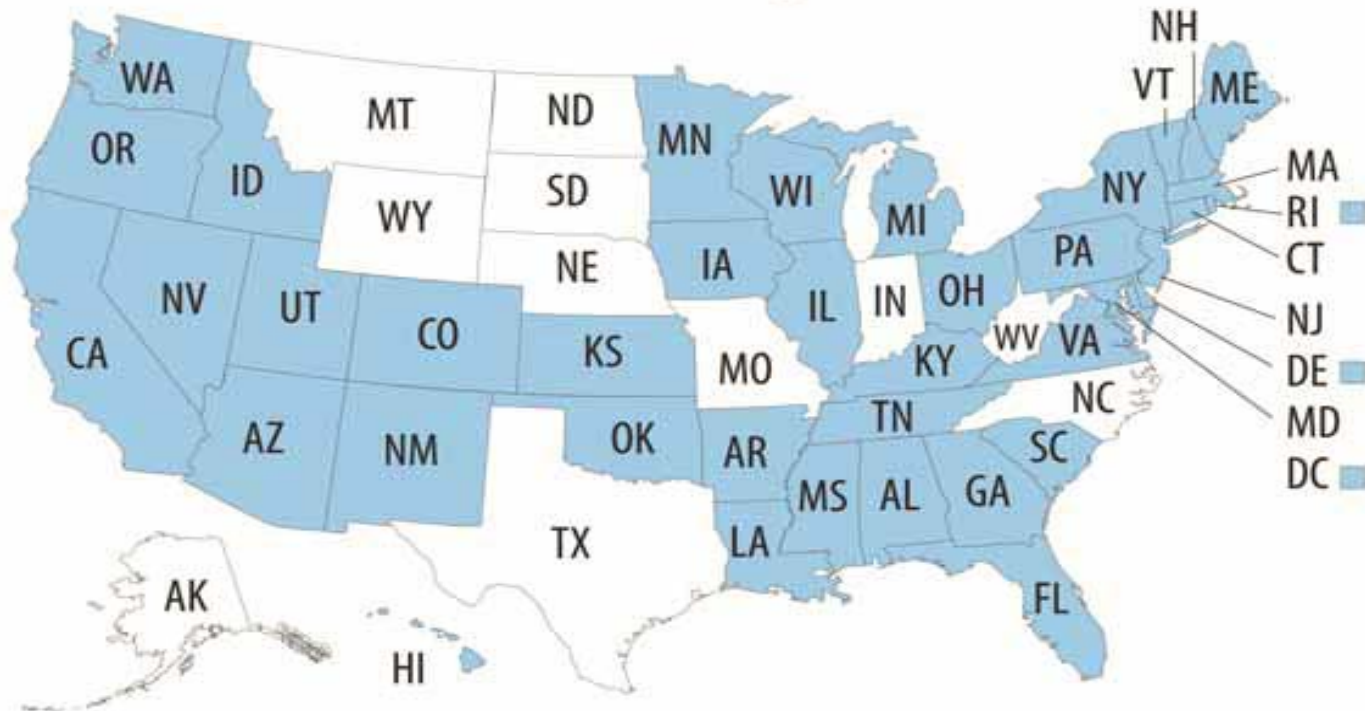
Source: Autodata

THE NEW YORK TIMES

The grim results — particularly for General Motors, whose sales dropped by **45 %** during the month — raised new concerns about the chances of survival for Detroit's troubled Big Three.

# *Impact on States*

## 39 States Face Budget Shortfalls



Note: Includes states with shortfalls in fiscal 2009 or projected shortfalls for fiscal 2010.

Source: Center on Budget and Policy Priorities

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# *Impact on States*

- **California:** This year's deficit - **\$3 billion** could probably grow to at least **\$10 billion**.
  - **Connecticut:** State of Connecticut government agencies must submit proposals to cut up to **10%** from upcoming biennial budgets.
  - **Maine:** citizens with developmental disabilities may lose **\$50 million** in services due to program funding problems.
  - **Massachusetts:** The deficit of **\$1.4 billion** in the FY 2009 state budget calls for spending cuts and cost saving initiatives. The Department of Mental Retardation cut is **\$7.336 million**.
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# *Impact on States*

- **New York:** current-year shortfall is **\$1.5 billion** and 2009-10 is **\$12.5 billion**. Over the next four years, the cumulative budget gap is **\$47 billion**. Gov. Patterson said that he would almost certainly seek billions of dollars in cuts to Medicaid.
- **Ohio:** Gov. Strickland ordered **\$540 million** in budget adjustments. .. a 4.75% across-the-board reduction for all agencies.
- **South Carolina:** South Carolina Gov. Mark Sanford will allowed **\$488 million** in state spending cuts to go into effect without his signature. The budget cuts will take effect health care programs and colleges taking the hardest

# Cities too...



Mayor David Nutter  
Philadelphia

The mayor will cut his own salary by **10 %**. Senior aides, including the police and fire commissioners, will also see pay reductions and 2,000 exempt employees face mandatory unpaid furloughs.

To bridge a five-year **\$1 billion** budget gap the city will close 11 libraries and 68 pools; small residential streets will no longer be plowed when it snows; and collection of curbside leaf piles, bulk trash, and tires will be discontinued.

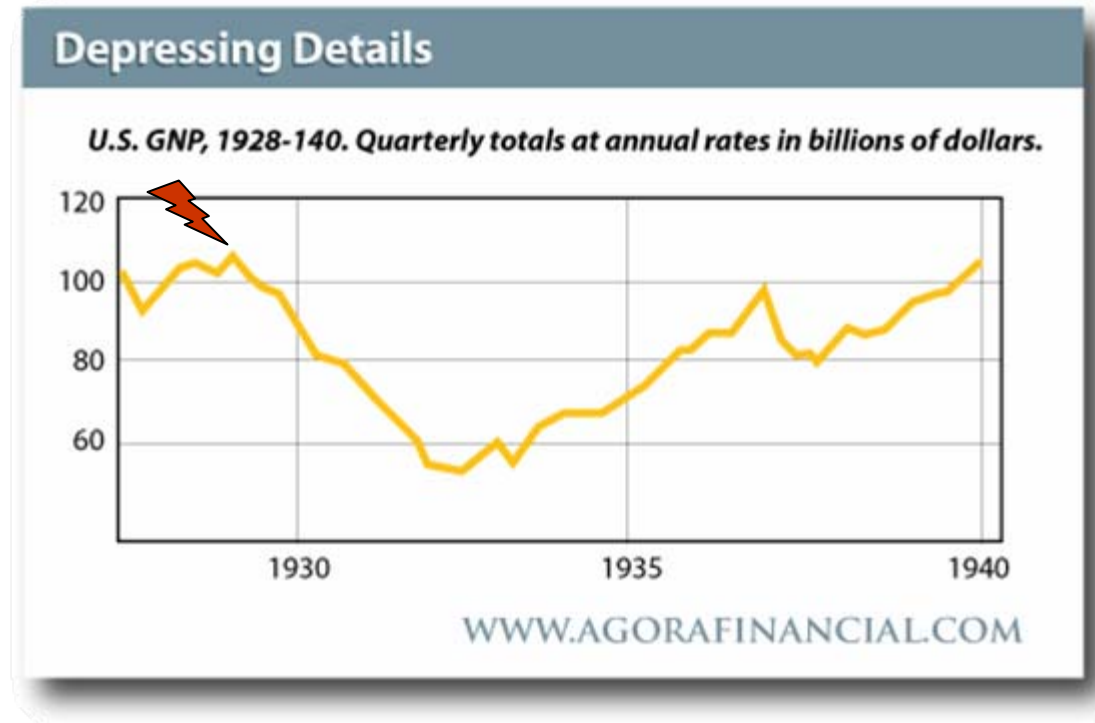


Mayor Bloomberg  
New York City

New York City will need to reduce its labor force by 3,000, including firing 500 workers, as part of a plan to eliminate a \$4 billion revenue gap over the next 18 months, a city administration official said.

# Here's what happened in the '30s:

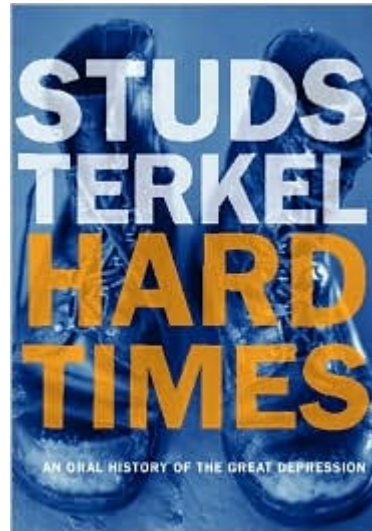
- An “official” recession is two quarters of negative growth. A depression is five quarters of negative growth.
- The U.S. economy was officially in recession from 1929-33 . Followed by four years of stagnant to limited growth. Then 13 months of recession again, in 1937 and 1938.
- In terms of GDP (or GNP) it took 10 years to return to pre-1929 output.



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# Hard Times

“With optimism, you look upon the sunny side of things. People say, 'Studs, you're an optimist.' I never said I was an optimist. I have hope because what's the alternative to hope? Despair? If you have despair, you might as well put your head in the oven. “



Studs Terkel

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