WHAT DOES RECESSION FEEL LIKE AT CITY HALL?

What do the years 2008-2009, 2000-2001, and 1990-1991 have in common? These are periods of recession, economic downturns, right? Do you remember what it felt like at City Hall during these recessions, if you lived through any of these?

During my lifetime, I experienced those three recessions plus two others. The recession of 1980-1982 and 1973-1975, but these were prior to my working career in local government which I started in 1990.

How many economic downturns have you lived through? How many did you experience while working at City Hall? Please share your experiences with me by commenting on the blog or podcast.

Do you remember what a recession "feels" like?

What a recession "feels" like to you or me depends. Depends on what? It depends on the "severity" of the economic downturn and the financial "preparedness" of our parents, our City, or even ourselves.

When I was in my 20s and 30s working at City Hall, I used to know a lot of City Council members and City Managers who had lived through the Great Depression of the 1930s. Most of these guys have since passed away, but it was a treasure trove of experiences that helped shape my conservative economic thinking and fiscal preparedness.

If you grew up with a silver spoon in your mouth, your financial decisions later in life will reflect that thinking as you make decisions. If you grew up in an upper-class environment, the economic recessions were just an opportunity to become even more wealthy. The opposite is true for those of us who grew up in poor or middle-income environment.

Of course, if you're working at City Hall, it is not likely you come from wealthy, upper-class families, but this is not always the case. Regardless, the less pain you "feel" during economic recessions, the less likely you are to worry about future recessions.

But speaking of the older ones I worked with years ago, because of the great pain and sorrow they "felt" and experienced during the Great Depression, these older ones tended to make financial and budget decisions which were more "austere" that those made by us younger ones. Their fiscal policies were more focused on financial "preparedness", saving as much as possible in the "rainy day" fund because they felt that another economic depression could happen again.

But most of us who today work at City Hall have likely lived through at least one economic downturn. That is why I ask if you remember what a recession "feels" like, or felt like when you were working at City Hall during that recession.

Do you remember the sights, sounds, and the comments making their way through the grapevine at City Hall during the last recession? Do you remember the budget facts and figures, and the political rhetoric surrounding the financial issues facing your City and the layoffs forced by the recession?

I personally still have vivid memories of what recession felt like at the City Hall I worked at during the three economic downturns in my career in local government.

WHAT DOES RECESSION MEAN TO YOU?

If you're a long-term thinker, you have likely spent the greater part of your working life preparing for your financial future. Remember our previous CitySpeak podcast where we talked about how "Thinking long-term results in greater rewards". Yes, if you're a long-term thinker, at "best", your goal is to achieve financial independence before you reach 55 years old. And at "worst", your goal is to hold onto a stable job at City Hall and save enough "rainy day" funds to make it through the next recession should you lose your job, or face an economic shock.

As a CPA, I have to remind you that your goal should be to save enough cash to sustain you and your family for "six to twelve months", that means you need $30,000 to $60,000 in the bank if you need $5,000 a month to live. Of course, you need to keep in mind that there is also an unemployment check that will cover part of your base monthly budget cost. And hopefully, you don't need to touch your 457 or 401k plan that should be saved for your retirement. Remember that social security is not as certain as your public employee pension, so keep adding to your deferred compensation plan when possible.

Also, don't count on too much more economic "stimulus" relief from Uncle Sam, they've already printed more money than they can count in anybody's lifetime! Count on yourself and keep simplifying your cost of living to maximize your long-term plan, including funding your 6-12 month "rainy day" emergency reserve account".

And remember, this economic recession won't last forever, but when we're in it, you'll be happier you planned for it.

WHAT RECESSION MEANS TO YOUR CITY OR TOWN

You have heard that City Hall is the last to feel the effects of the economic downturn, but is also the "last" to recovery from it. There's a saying my uncle Daniel always told me, "cuando mires tu vecino rasurandose, pon tu barba a remojar", which loosely translated is, "when you see your neighbor shaving, put your unshaven face in warm water".

Yes, when we see our neighbors in the private sector doing layoffs, employees at City Hall should start preparing for the inevitable.

The revenues at your City Hall will not totally dry up during an economic downturn, but find out how long your City's revenues (cash flows) can fall in a given quarter or fiscal year before it faces a liquidity financial crisis and job layoffs begin?

Sales Taxes and Hotel Taxes make up a large percentage of your City's General Fund budget. The business closures caused by Coronavirus has hit this local tax revenue source hard, and it continues to do so in the foreseeable future. There is simply no light yet at the end of this Coronavirus economic tunnel.

Regardless of the definition of what an economic recession or depression is, keep in mind the saying of our former US President Harry S. Truman, **"you're in a recession when your neighbor is out of work, but you're in a depression when you're out of work"**!

Bottom line, your main focus really is on whether or not YOU will still have a job City Hall during the next economic downturn.

There's much we can do to plan for the next recession…and are we in a recession now?

ARE WE IN A RECESSION IN 2020?

A year ago, I wrote an article about the "next recession" because we have been in the longest running expansion in history, more than 10 years. But nobody has a crystal ball to foretell exactly when a recession will happen. Yet everybody knows recessions happen and we were way "past due" for another recession in 2019.

In the middle of March 2020, the Coronavirus outbreak "tipped" our American economy, way overdue for a recession, into a recession.

Yes, we are now officially in a recession, especially because "my neighbors are out of work" as our President Harry S. Truman said. I'm not running for office, so I can speak what I really see around me.

Many are trying to remain optimistic about the economy to avoid the "self-fulfilling" prophecy factor that could further exacerbate an economic downturn, however, there is no sugar coating our existing economic reality that continues to be made uncertain by business closures due to Coronavirus.

To make matters worse, we are living through the most politically, racially, and economically divided time in our modern history. These are all colliding together to create a "perfect storm" of financial and economic chaos that will destroy a lot of City jobs and create massive uncertainty that will require all of us to go back to the basics of conservative personal financial planning.

We will become more oriented towards being "savers" rather than "spenders". This will further hurt our economies at the local, regional, national, and even global level.

But in the interest of personal interest and to protect our families, we need to save for the "rainy day" which could well be accompanied by unemployment, even at City Hall where we always enjoyed job stability.

So, if we think and do what is best for ourselves and those who depend on us, during this 2020 economic recession, you will really only say that YOUR City "survived" the downturn to the extent that YOUR job was spared from layoff. If your co-workers lose THEIR job, you may still "feel" YOUR City survived the economic downturn because YOUR job was spared.

You may say to me, "you sound like self-interest is all we care about". And I would ask you if there were two people who were going to be laid off, and you both will lose your house if you get laid off, who would you honestly say you prefer loses their job?

You may have a hard time answering that question, but it's also not you who will make the decision of who gets laid off. That is the job of the City Manager and the Director in your Department.

WHAT'S WRONG WITH THINKING SELF-INTEREST IN A RECESSION?

In the end, self-interest is a basic tenet in the economic theory followed in our capitalist system in America, because the rational expectation is that the economy will always be "better off" if individuals do what is in their own "self-interest". Learn more about this economic concept of rational self-interest by clicking here: Rational Self-Interest in Economics

At the end of the day, the definition of recession is really all about the individual self. The question is really about whether "I" will still have my City job to define if we're in a recession.

Is MY Department's budget being fully funded. That is the "real" budget that must meet the test of an economic downturn (recession).

And what's wrong with self-interest?

As I said before, that's the foundational assumption in our modern economics Capitalism.

Self-interest refers to actions that elicit the most personal benefit and results in the greatest good for our society, according to the smart economists who help shape fiscal and public policy at the federal government level.

Adam Smith, the father of modern economics, explained in 1776 that the best economic benefit for all people should be accomplished only when individuals act in their own self-interest.

Do you believe this? Well that is what we were taught in economics in college. That is also what is followed in our capitalist society in America.

Uncle Sam has an annual federal budget deficit exceeding $1 trillion a year, so he should be cutting expenditures to balance his budget, right? That is the self-interest decision for self-preservation, right?

But wait, Uncle Sam, for reasons self-interest himself, has decided you should not "feel" too much pain from this 2020 economic downturn, so he has decided to overspend and run federal budget deficits never before seen in our country's 244 years of history.

Let's examine how Uncle Sam is able to do this?

NATIONAL DEBT STANDS AT $27.2 TRILLION…AND GROWS BY $1 MILLION EVERY 20 SECONDS

The national debt as of Monday November 2, 2020 at 8:23am stood at $27.2 trillion. That $27.2 trillion debt grows by $1 million every 20 seconds, and is growing exponentially by the second. Watch the clock tick the national debt up into the stratosphere every 20 seconds. Click here: National Debt Clock

Remember our last **CitySpeak** podcast where we discussed "compound interest"?

Do you know what a balance sheet is?

A balance sheet is a financial statement that shows the "net worth" of an individual, a business, or even of any of the various levels of government. Let me briefly describe this balance sheet.

The balance sheet lists the Assets, Liabilities, and Equity (Net Worth). The Assets section of the balance sheet is basically a list of anything you "own". The Liabilities section of the balance sheet is a list of all obligations, basically anything you "owe".

And the Equity section of the balance sheet is what you have left over. **Assets – Liabilities = Equity** (net worth). Or we can rearrange the balance sheet and algebraically solve for Assets so we can present it using the *Accounting Equation* format **Assets = Liabilities + Equity.**

When looking at a balance sheet, always make sure nobody is "cooking the books" to make the numbers (fund balance) look better than they are.

Go to my CitySpeak blog where I discuss how important it is for the City Manager to look at and understand their City's balance sheet. Click here to read it: [Review City's Balance Sheet]

EVERY AMERICAN FAMILY OWES $200,000 OF THE $27.2 TRILLION NATIONAL DEBT

Every family in America who knows how to prepare a basic balance sheet should include $200,000 in the Liabilities section to determine their family's "true" financial position (net worth).

Yes, this debt obligation that you and I have to pay back as part of the American people, is enormous, or rather ginormous as my children say!

You don't believe me?

Who else is going to pay back the $27.2 trillion national debt obligation that grows by $1 million every 20 seconds and faster with every second that ticks on the national debt clock?

How does the federal government pay back the principal and interest on its debt? One word: **TAXES**!

Yes, you and I as working individuals and business owners will have to eventually pay back that $27.2 trillion national debt. *That's the price for having the greatest economy in the world.*

Whoever wins the White House, pray for them as they will have to craft aggressive economic solutions and a pay down schedule for the greatest debt obligation the world has ever seen.

And we will all need to be a part of the solution, whether it is through our ideas we put in the "suggestion box" of our Congressman or through "deductions" in our paycheck in the form of tax withholdings.

But life is not that easy. There is a huge monstrous uncertainty facing us all as indirect holders of the $27.2 trillion debt obligation: Rising interest rates!

BIGGEST RISK TODAY: RISING INTEREST RATES!

The Federal Reserve Bank thinks it can continue to control the "price of money", what we call interest rates charged on the commodity known as money.

It surprises me that the Federal Reserve Bank is well aware of what happens when government tries to "control" any commodity in the markets: Bad things happen.

It doesn't matter if we are talking about government controlling the "price" of pork bellies, wheat, soy, or even money. And the "price" of money is "interest rates".

Bad things will happen when the Federal Reserve Bank, *which is now more affected by politics than ever*, tries to control the price of money! Bad things will happen.

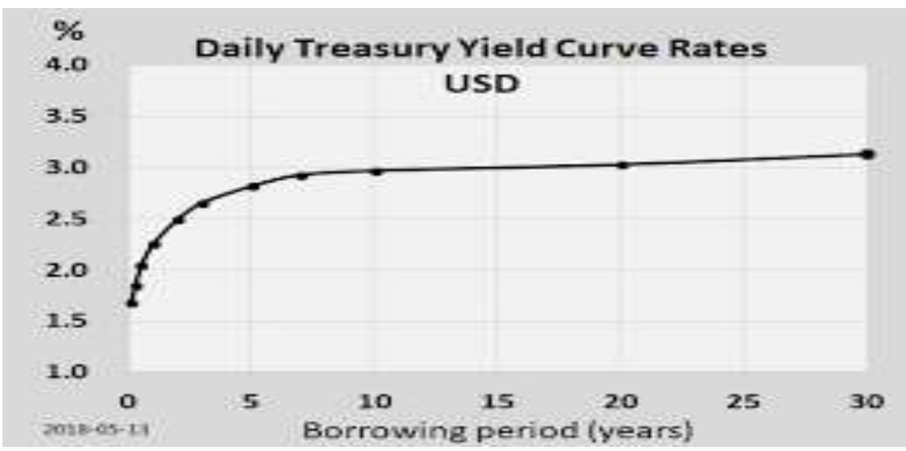
You end up with inefficiencies in the market, with huge liquidity shortages or surpluses, which can **spike interest rates in ways we have seen many times in the last 30 years.**

God help us is interest rates go back to the "normal" levels of the past 30 years!

I believe the Federal Reserve Bank is playing Russian roulette with our money supply and the gigantic debt obligation the US Treasury is creating right now. This is not a political statement, it is an academic statement based on the basic economic theory I was taught in the public universities I attended.

The $27.2 trillion national debt might seem "manageable" to the architects in Washington today. However, this is an illusion.

It is only because the Federal Reserve Bank keeps promising they can keep interest rates at the



artificially low level they are today. *This is no more sustainable that the "money machine" scheme some smart people think they can play long-term for short-term gains.*

There is a reason the yield curve for interest rates should always show an upward ramping line. The rate of interest borrowers demand for loaning their money out goes up every year into the future. Look at a sample yield curve for our discussion purposes:

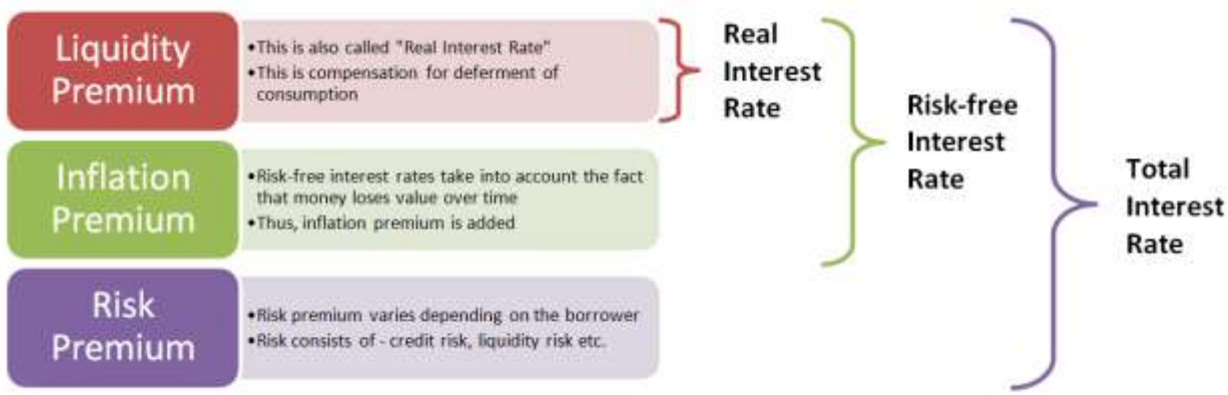
Even if the loan is to the federal government, which is considered a zero-risk borrower, the interest rate (price of money) goes up the longer the individual or business buying the government bonds has to wait to receive their money at the stated interest rate.

The 30-year US Treasury Bond is paying about 1.5%. This results in a price of about $405 billion a year in interest costs. If you look at historical interest rates, and the 8.5% interest rate the 30-year US Treasury Bond was paying in 1990, the total annual interest costs would total about $2.3 trillion. That is an unsustainable level of debt service, even for the largest economy in the world!

What federal programs would have to be cut if the interest rates on the 30-year US Treasury Bond went from 1.5% to even a modest 3%? What if interest rates went from 1.5% to 5% or to the level they have been historically? You can do the math, it's simple multiplication.

Granted, US Treasury debt is considered "risk-free" investments. However, when the interest rates do not even cover the inflation premium or a liquidity premium for the long-term investment horizon associated with 30-Year debt obligations.

That is a huge red flag somebody should be talking about. Here is a picture of the segments that make up the interest rate:



Now I realize we're talking about risky behavior playing with "artificially low" interest rates in our American economy when our government is the a borrower, however, a similar analogy can be made by looking at the mistakes when government "plays the market" with taxpayer dollars.

How many of you remember Robert Citron, Treasurer for **Orange County, California**?

This man looked like a genius, as he was "beating the market", making "magical millions" and above-market returns for the municipalities who were lured in by his investment strategies that defied fundamental economics regarding interest rates and the price of money.

This dude was cool and local government Treasurers who bamboozled by the "opportunity" to beat LAIF (Local Agency Investment Fund) or other investment yields did not see the red flag: Higher yields are only earned by taking on higher risk!

As municipal finance officers, we have always followed the "SLY" investment strategy:

- S = Safety
- L = Liquidity
- Y = Yield

Yield is the last objective when we are investing taxpayer dollars. Safety and liquidity are more important, yet there are optimal investment strategies that municipal finance officers can follow to maximize investment yields without sacrificing safety.

Email me at John@munitemps.com or go to www.munitemps.com to get my contact information so I can tell you more about this subject, especially if you work for a small City or municipality.

It was so embarrassing and disastrous when Orange County went bankrupt due to this highly-leveraged investment strategy of its Treasurer Robert Citron. The same could be true, in reverse manner, if Jerome Powell continues to "loosen the spigot" to the money supply valve to keep interest rates "artificially low"?

What could happen to America if it continues on its' highly-leveraged strategy of playing the money market with taxpayer dollars as a way to balance the budget and keep the economy and stock market looking good?

There needs to be a balance between the monetary policies of the Federal Reserve Bank with the fiscal policies of the White House. Right now it seems to be that the American economy and the stock market are being mostly propped up by the "cheap money" monetary policies of the Federal Reserve Bank. This is just not sustainable.

In a future CitySpeak podcast I will delve deeper into the term structure of interest rates, and I will present further what makes up the interest rates you see in the markets today.

But there are people way smarter than me in Washington and up in the Ivy League universities who should be saying something.

So, what difference should all of this mean to the budgets that you and I who work at City Hall building conservative financial plans to weather this 2020 and future economic downturns?

CAN STATE & FEDERAL GOVERNMENTS AFFECT THE BUDGET AT CITY HALL?

I recall working as Finance Director for various City governments in California during the last 30 years. It was SO frustrating watching how futile our financial management efforts were at times when the State of California would take State budget actions ("redirect" local dollars) that would erase years of City budget-saving strategies and the establishment of economic stabilization funds for the "rainy day" and economic recessions.

Also, the flurry of "unfunded" State mandates was an indirect way to take money way from local government coffers, making budget-building a constantly challenging and uncertain task at City Hall.

But we can't forget that the City is a local government agency that is a "creature" of the State government. Our City organization exists "only because" the State allowed us to be created and formed as a municipal corporation. Therefore, the State can enact legislation that can supersede and override (or rather "raid") local government coffers and the budget at City Hall.

So, our City organization is dependent on the State government. Yet the State is also dependent on the Federal government. This is what is known as the "federalist" system of government that we live in.

This is why I ask, can the State or Federal governments hurt the Budget make at City Hall? The answer is yes of course they can!

Yet, although the actions of the State we live in and the Federal government as a whole will impact our local government and individual planning efforts, that is no reason to throw our hands up and stop thinking long-term.

We need to plan and factor in “State and Federal Government Actions” in our City Budget legislation as local government organizations. This is no different that planning for economic recessions or any other event that can and should be consistently planning for.

Conservative budget practices that promote a theme of fiscal discipline should be followed just like the “prudent person” theory should be followed when making investments with taxpayer dollars.

Unfortunately, during times of economic uncertainty, austere or Draconian measures are sometimes needed as a stopgap measure. Yet consistent long-term conservative financial planning needs to be continually advanced when talking money and the economy at City Hall. This is what allows us to plan for economic uncertainties and to weather the economic downturns that come periodically.

Depending on our risk tolerance for uncertainty in our long-term financial and budget planning, this will determine the level of short-term sacrifices we will make to secure the fiscal sustainability our City wishes to achieve in the long run.

What does conservative financial and budget planning mean?

LIVING WITHIN YOUR MEANS

Who can define when you are “living within your means”? The City? No. The State? No. The Federal government? No. Yet, there is a saying that change needs to come “from the top”.

The top of the hierarchy of government in America is supposed to be setting the example of what prudent financial management should be practiced at the State or the City government level.

And this should cause each of the 330 million Americans, or rather the 160 million working adults who must pay their bills and must plan for their spending and adopt their own budgets to also “live within their means”.

What example is Uncle Sam setting for us today?

We said earlier, Uncle Sam is printing trillions of greenbacks, getting the country into levels of debt obligations the world has never seen.

This action is being taken not just to stabilize the economy, but to lessen the pain we “feel” at City Hall or as individuals during this economic downturn that has been in progress long before Coronavirus reared its ugly head in March of 2020.

I am not making a judgement call on anybody’s decision to live beyond or within their means, however, in my family, if you didn’t have cash to pay for things, we didn’t go into debt to buy it.

Of course, I am not including a car or a home. These are longer-term assets that require a loan as few people would be able to buy such things without debt.

The obvious problem we have had in America is that people don’t live within their means because the American economy now depends on all of us to keep buying more and more “things”, whether we need them or not, to keep the economy running in high gear.

But consumers, you and I, area exhausted from the non-stop spending advertisement that now flashes through our eyes every minutes of every waking moment. We are tired of the non-stop demands to keep spending.

This about it, why do we do this?

Of course, we know that to achieve the high standard of living in America we need to buy more and more on credit, going into debt for everything from bicycles to fancy name brand clothing. And Uncle Sam sets the example by consistently printing money, issuing greater debt and in my opinion, kicking the can further and further down the road to the point that we are mortgaging our grandchildren's children's future.

As I said above, every working family has over $200,000 in liabilities on their personal financial statement, the balance sheet, as their "individual" share of the $27.2 trillion (and growing) national debt.

We should all "feel" the weight of this debt on our family's budget.

We may not have to pay it all back today, but do not be misled, the $27.2 trillion debt obligation of our country has to be paid back eventually (through **TAXES**), and each of us have over $200,000 as our individual share of that debt, our piece of that obligation.

That is the price to enjoy the "economic" life we have as Americans in the USA, but I believe that if we spend a little less and live within our means, we can enjoy as a higher "quality" of life to go along with this great economy.

CONCLUSION

Bringing it back to the local government level, recession at City Hall feels like any unsettling uncertainty and challenge we need to work through. We will get through this 2020 economic recession. We always have. Working together as an organization and as a community, we can get through anything.

I am still dumbfounded how the budget architects and financial wizards in Washington can justify such massive overspending, living beyond their means (our means) as Americans, but the problem belongs to all of us…all 330 million of us. We have to work together to get out of this overspending mess to leave a better future for those who come after us.

This financial management strategy of going into debt every time you want to buy something you cannot now afford sets a poor example for everybody, for the millions of American individuals who work hard to balance their budgets to live within their means.

As individuals, businesses, and local government employees at City Hall, we KNOW what an economic recession "feels" like, so we must prepare now to survive and to thrive through long-term financial planning decisions as we work ourselves out of this recession.

You can hope for Uncle Sam to pull another "rabbit out of the hat" to lessen the pain of the 2020 recession, but this will likely only come through printing more money, borrowing more money, or some other serious fiscal or monetary policy to lessen the "pain we feel" as individuals.

The optimistic forecast is that we will be out of this 2020 recession in 3 to 6 months, but personally, I would encourage all of you to plan for an economic recovery that takes 12 to 36 months.

If we come out of this 2020 Recession sooner, super! If not, then we will not be stressed that the economic recovery is delaying, which reduces the stress level in ourselves and those who depend on us for sustenance.

This is John Herrera from MuniTemps, thanking you for joining me for today's CitySpeak podcast and video blog.

See you next time!