COPING WITH FORECLOSURES

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The housing foreclosure crisis in the U.S. persists, and according to reputable housing and banking industry experts, it is likely to get worse before it gets better. Through August 2008 more than 2 million properties nationwide received a foreclose filing, up more than 50 percent from the same period in 2007, according to the RealtyTrac U.S. Foreclosure Market Report. RealtyTrac projected that if this trend were to continue, as many as 1 million Americans could lose their homes to foreclose by the end of the year. This compares to about 400,000 who lost their homes in 2007. Based on figures released in early January 2009, Florida has earned the dubious distinction of having the third-highest level of foreclosure activity in 2008, trailing only California and Nevada.

While answers to what is driving the crisis are not simple, there are several things we do know. First, the factors responsible for it predate the current economic downturn. What we are really seeing is the after-effect, especially in the case of Florida, of overbuilding in the condominium sector and hyper-valuation of home prices, which skewed affordability. This situation was exacerbated by bad lending practices, where people were getting into loans they should not have. People were overextending themselves with loans they really could not afford. The economic downturn, ironically, will probably lead to a second wave of foreclosures of a different nature and magnitude. The foreclosures that we are seeing now, and contrary to similar periods, are foreclosures on higher-end properties, thus resulting in more severe losses for banks. A second wave of foreclosures is likely to follow and conform to traditional patterns—foreclosures among blue-collar workers who live from pay check to pay check.

Property tax collections of local governments have and will continue to be negatively impacted by home foreclosures. Although financial institutions will inherit responsibility for maintaining property tax payments on properties they have assumed, foreclosures are likely to lead to a decrease in the value of surrounding real estate, and in time, likely result in a reduction in the value of a jurisdiction's tax base. It is also conceivable that the fallout from escalating foreclosures could further depress the housing market, and hence property tax, impact fees, and other fee and tax collections, as some developments under construction may be left uncompleted because other units are foreclosed or not selling. Furthermore, these sets of events along with a faltering economy could trigger the closing of building material, home improvement, and furniture businesses, thus escalating a ripping effect with lowered assessed value of commercial property and eventually lower property tax collections. At that point, the crisis which continues to "snowball" takes on an added dimension as workers from these businesses lose their jobs and then may face the prospect of losing their homes to foreclosure.

The picture gets worse when considering the spillover costs associated with foreclosure. Individuals and families displaced by foreclosure must finding housing or become part of the growing homeless population. The lucky ones may find a place to live in public housing, where the waiting lists are usually quite long in many communities, while others will move in with relatives or friends, thereby creating another set of problems with more people crowded into a smaller spaces. The less fortunate will face the prospect of becoming homeless, thus putting a strain on publicly and privately operated shelters. Then, there is the reality that public assistance and unemployment rolls will increase, as well as the need for other types of social services (alcohol and drug abuse programs, psychological counseling, job training, spouse abuse, juvenile delinquency). Crime rates are also likely to increase with attendant costs associated with increased expenditures for police, judicial system, and incarceration.

What can city and county (and even special and school district) officials do to make ends meet during this period of fiscal stress and social dislocation that will probably be of long- rather than short-duration?

At the outset, it is imperative that officials seek to devise long-term strategies rather than adopt band-aid approaches, as well as be willing to deal with the real prospect that they will be expected to "do more with less" for a longer period of time than is customary during economic downturns. As mentioned above, the current period of revenue instability, although running concurrent with a deep, painful recession, was not for the most part caused by it. In fact, it is reasonable to speculate that the revenue uncertainty caused by the foreclosure crisis will force governments at all levels to change permanently the way they do business.

With that being said, it will be vital for local officials to look inwardly and determine how they can maintain the quality and level of a large menu of services while reducing the cost of service provision. Several approaches may be taken here. First, a candid reassessment of the importance of the current stock of services should be undertaken and local officials and their residents should ask themselves if there are some services that local government should shed permanently. To accomplish this task, local officials should make greater use of citizen surveys where citizens are asked a series of tough questions about sundry services: How important is this service to you? Should the level of this service be increased, decreased, or kept the same? And if wanting the service increased, would residents be willing to pay more in taxes/fees? Related and after careful study, local officials should identify services that could be provided by a private sector or non-profit vendor or wholly or partially by volunteers. As seen repeatedly over the years, local governments are not necessarily the most effective and efficient producers of various services or even the preferred provider.

But perhaps of greatest importance is the critical need for local government officials to search for ways to conduct the public's business in a more cost effective and economical manner. That is, if the decision is made to keep the provision of services in-house, is there a better and less costly way to do it? While it is not suggested that we subject local bureaucracies to the likes of Frederick Taylor's "time and motion" studies in the search for efficiencies and cost savings, it is nonetheless incumbent on local officials as responsible stewards of the public's money to determine if one worker can be trained more broadly so as to enable her/him to be a more productive worker or even do the job presently done by two or more individuals. It is also important for local officials to demonstrate a greater willingness to borrow more ideas from successful private sector entities. We should never reject outright the private sector's way of doing business because Appleby argued that "government is different" or that business, unlike the public sector, is driven by the private motive. Furthermore, given the exigencies of the times, "thinking outside the box" is needed more than ever. Indeed, it is indispensible.

I have always found it ironic and disappointing—if not somewhat amusing in a perverted sort of way—that it takes a crisis for public officials in a democracy to take seriously the imperative or solemn obligation to vigorous and constantly search for the most cost effective and efficient manner to spend the citizenry's money. It is really a no-brainer. While there is some truth to the old axiom that "there is no gain without some pain," this does not necessarily have to be the case. You ask, how so? The gains made in productivity and efficiency—not to mention the cost savings—can become permanent fixtures and produce a win-win scenario not only for citizens of today but also for future generations. How can we lose?