

TRADEOFFS AND OPPORTUNITY COST

The recently elected mayor has inherited a budget deficit. He has asked you as budget director to cut \$300,000 from the city's budget. The areas targeted for budget cuts and their current appropriations are below.

PROJECT EXPENDITURE TABLE: SUMMARY DATA

Categories	Project	Cost	Total Project Cost
Firefighters	Station #1	\$30,000	\$90,000
	Station #2	\$30,000	
	Station #3	\$30,000	
Day Care Center	Day Care Center	\$60,000	\$60,000
Street Lights	Bramblewood	\$15,000	\$60,000
	Carlisle	\$15,000	
	Cleveland	\$15,000	
	Paxton	\$15,000	
Police Officers	Downtown business district	\$120,000	\$240,000
	Five adjacent neighborhoods	\$120,000	
Youth Programs	After school tutorial program	\$60,000	\$120,000
	After school athletic program	\$60,000	
Parks	Douglas Park	\$15,000	\$30,000
	Sbrochi Park	\$15,000	
Total			\$600,000

Your task is to prepare a recommendation for the mayor. Your recommendation should:

- 1) State which areas of the budget should be cut.

- 2) Describe the tradeoffs involved.

- 3) Identify the opportunity cost of your recommendation.

PROJECT DESCRIPTIONS

Firefighter at Station #1; Firefighter at Station #2; Firefighter at Station #3

Because of last years opening of the new station #3 (which was badly needed), each of the city's three fire stations is short one firefighter. The problem is playing havoc with the fire chief's personnel scheduling. At present, some of the firefighters are pulling back-to-back shifts on a rotating basis, a possibly dangerous situation for which the city must pay time-and-a-half overtime. Each added firefighter would cost \$30,000 in salary, benefits and equipment.

Day Care Center

A city-funded day care center for low-income families has been proposed in order to allow single parents who are poor to get off welfare and find jobs or to go back to school to get vocational training. Center advocates say that getting people off welfare will save taxpayers money in the long run. The center would be available only to single parent, low-income families. Staffing and equipment will cost \$60,000. Space is available in one of the city's elementary schools.

Street Lights: Bramblewood, Carlisle, Cleveland, Paxton

Four streets (Bramblewood one the north side, Carlisle in the east, Cleveland near downtown, and Paxton in the south side) are without streetlights. The residents and the police are concerned about crime, especially in Cleveland and Paxton (high crime areas). Many youngsters play outdoors in the evenings on Bramblewood and Carlisle, which are residential areas. One little girl was badly injured when hit by a car in Carlisle last September. Each street light project will cost \$15,000.

Police Officer Precincts in Business District and Neighborhoods

Recent reports show that a 10% increase in the size of a police force decreases the rate of homicide by 9%, robbery by 6% and vehicle theft by 4% each year. And crime is expensive to communities, businesses and victims. Each homicide costs a community an average of \$8 million, including the obvious costs of crime: adjudication, coroners, medical costs and incarceration. The high cost of crime to society suggests that adding police officers may give our city a sizable return on the investment. Each precinct will cost \$120,000.

After School Youth Services

Effective afterschool programs bring a wide range of benefits to youth, families and communities. Attending afterschool programs can improve students' academic performance. These programs can improve classroom behavior, school attendance, academic aspirations, and can reduce the likelihood that a student will drop out. Participation has been associated with reduced drug use. These programs can play an important role in encouraging physical activity and good dietary habits. Working families and businesses also derive benefits from afterschool programs that ensure that youth have a safe place to go while parents are at work. Parents concerned about their children's afterschool care miss an average of eight days of work per year, and this decreased worker productivity hurts businesses greatly. Each after school program will cost \$60,000.

Douglas Park; Sbrochi Park

For some time it has been evident that the present park systems is inadequate because of the many new families with young children living in this city. Douglas and Sbrochi parks have been delayed three times due to lack of funds. The city has two federal grants of \$15,000 each to develop the two parks. But the grants depend upon the city matching the grants with the equal amount of money. Thus, if funding for one park is eliminated the \$15,000 grant for the park is lost. Each park costs \$30,000 of which \$15,000 would come from the federal grant.