



Editorial: Coming budget pain

Governments must hold line on expenses -

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May is the month that local governments are supposed to be finishing up their spending plans for the coming fiscal year, which begins July 1. The news this time around mirrors the overall economy.

The drop in the housing market that is hurting many homeowners, and causing an overall drop in consumer spending, is hurting the wallets of local governments, too. For city councils and boards of supervisors, this is a particularly important moment to avoid making the mistakes of the past, such as locking in pension formula increases that governments can't afford. But simple restraint alone won't be enough to deal with the red ink that is likely ahead.

In a recent survey of local government finances by The Bee's Loretta Kalb, the findings were similar to a tide that is beginning to turn. The coming budget year will have some pain, but nothing like what could loom in 2008-2009.

Local governments run most of their basic services out of a central kitty known as the general fund. The fund gets money mostly from property and sales taxes. In Sacramento County, revenues for the general fund may decrease by \$35 million (from a 2006-2007 base of \$655 million) this coming fiscal year. General fund revenues may dip slightly in Citrus Heights. Where the revenues are rising (Roseville and Elk Grove) the rates of increase will be well below the rate of inflation.

What is happening? The big change is the housing market. And the big impacts go back to the inner workings of the state's voter-approved property tax law, Proposition 13. This law limits property tax increases by restricting the increase in a home's appraised value to 2 percent a year, so long as the homeowner continues to own the residence.

However, if that homeowner sells the home, the new owner pays taxes based on the sale price, and the government's appraised value of the home finally catches up with the market. So when the market is hot and a lot of homes are selling, property tax revenues flow in well beyond the basic inflation rate. That is what has been happening in recent years.

But as the housing market has slowed, prices have dropped and sales activity has declined. The changing market is affecting consumers' spending behavior as well. Less spending means less sales taxes and less money for government.

In places such as El Dorado County that were accustomed to lots of construction, the initial response for this coming fiscal year is to suggest a 35 percent increase in building permit fees to pay for the staff of building inspectors that don't have as

much work as before. That's not exactly a winning long-term strategy. Neither is a proposal by Sacramento County to consider selling "surplus" land and using the money for an operating shortfall. Land is a valuable asset, and selling this asset should only be done to secure another asset of greater public importance, not to deal with a structural deficit.

The local governments that will survive this in the best shape will be the ones that are the most honest about their problems and deliberate the real choices that could bring their budgets better into balance. So the short-term fixes under consideration this year aren't encouraging.
