

Housing crisis not all to blame for budget ills

By Dan Walters / The Sacramento Bee

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Vallejo, a one-time industrial and military city that evolved into a bedroom town, has been teetering on the brink of bankruptcy, and city officials are blaming revenue losses from the declining housing industry.

The city began the fiscal year last July with a \$4.4 million reserve but later found that a \$13.5 million drop in projected revenues, mostly related to construction, would leave it \$9.2 million short of its spending obligations for the year.

It seemingly echoes the state government's budget travails, which Gov. Schwarzenegger also blames largely on the housing decline, and could be, many fear, a harbinger of a widespread municipal meltdown.

Yes, cities large and small -- and some counties, too -- are seeing unwelcome flattening of housing-related revenues, from sales taxes on building materials and furniture to development fees and property taxes, and are being forced to adjust their budgets.

Los Angeles, the state's largest city, faces a \$155 million shortfall, for instance. And they could be hit again by cutbacks in state aid, such as the program that underwrites local police costs.

But while it's tempting for politicians and other government officials to blame the housing industry's decline for their budget woes, it is, in large measure, a way of shifting responsibility from themselves. Vallejo, it would appear, is merely an extreme example of a widespread syndrome -- promising more, especially to public employee unions and other powerful pleaders, than is prudently affordable.

A clue to Vallejo's culpability is that it devoted 80% of its budget to police and fire operations, which placated both the popular desire for safety services and the demands of police and fire unions for ever-larger salaries and ever-fatter pensions and other fringe benefits. From its earlier days as a center of industrial and military activity (Mare Island Naval Base), Vallejo always has been a strong union town and that tradition remained as it evolved into a suburban enclave.

Vallejo's commitment to police and fire is much heavier than that of other cities, locking it into contracts and pension commitments that are very difficult to change after the fact. Indeed, the city moved toward bankruptcy because its unions refused to modify their contracts and benefits before finally agreeing to some money-saving steps to avert immediate insolvency.

It's evident, too, that Vallejo made its heavy commitments on the assumption that the taxes and fees from housing expansion could continue to fill city coffers indefinitely, and that it set aside inadequate reserves for the contingency of a serious downturn.

That's what got the state into fiscal trouble, too, with a deficit for the remainder of this fiscal year and all of next still pegged at \$8 billion even with some emergency actions. Former Gov. Gray Davis and the Legislature squandered a one-time income tax windfall on permanent spending and tax cuts eight years ago and the state has struggled with deficits ever since.

Schwarzenegger, elected as Davis was recalled, failed to make good on his promise to clean up the state's finances, even when the state was enjoying hefty revenue gains, and the recent housing downturn just made it worse.

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