

October 18, 2007

Belt-tightening over slower growth awaits area governments

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The Press-Enterprise

The housing slump has local governments keeping a close eye on their own bottom line.

After years of double-digit property-tax revenue growth in Riverside and San Bernardino counties, single-digit increases are now expected, forcing local officials to start tightening belts to keep their budgets balanced.

Riverside and San Bernardino county officials aren't yet predicting doom and gloom, but say they aren't waiting around to put in place measures to weather the slowdown, either.

While officials predict high single-digit growth in the upcoming fiscal year, that's likely to tail off more, possibly to low single digits in the following years -- territory the two counties haven't seen since the tough economic times of the mid- to late-1990s.

"We are not in a panic mode," San Bernardino County

Administrative Officer Mark Uffer said.

Riverside County Finance Director Bill Luna is keeping an eye on revenues.

"It's a ski run," Luna said. "That means you don't hire someone to lay them off next week. It requires prudence and control."

Tax growth lags behind the housing market, so the worst years could still be ahead, said Jean Hurst, a legislative representative with the California State Association of Counties.

"What we will see is a gradual decline as opposed to dropping off the cliff," she said. "You are going to see belt tightening and some pretty significant budget cuts."

City and county governments rely heavily on property taxes to fund basic services such as police and fire protection and trash pick-up.

Riverside County saw double-digit increases in assessed

valuation, which determines how much governments receive in property-tax revenue, for eight straight years. The county had a robust 22.5 percent increase in 2006 and 16.6 percent in 2007.

Now, early estimates show an 8 percent growth rate for the fiscal year beginning July 1, said Paul McDonnell, Riverside County's treasurer-tax collector.

Meanwhile, San Bernardino County saw a 15.9 percent increase in assessed valuation in 2007. But now, the county is seeing that slow down by a half of a percent each month.

Sobering Estimates

Local officials have few ways to deal with less revenue, McDonnell said.

"The stark reality, in most local general government for cities and counties, your primary tool to manage your budget is cutting expenses," he said.

The 8 percent growth rate in Riverside County is based on the drop in home prices, foreclosures and the trends in supplemental property assessments, McDonnell said. Supplemental assessments are done outside the annual review period when property is reappraised after a sale or major construction.

For the next two fiscal years, although harder to predict, the growth rate will be slower at 4 percent and 2 percent, McDonnell said.

For local governments, that means conservative budgeting, he said.

"Basically, if you err, you err on the conservative side. What's the downside? You have little extra money," McDonnell said. "If you err on the high side, you come in low and you are drawing down reserves. You end up lurching toward a situation none of us want to be in."

In San Bernardino, officials don't have a solid estimate on what next year's growth rate will be in assessed valuation.

Assessor Bill Postmus' staff met last week and found growth in the tax roll is dropping off at rate of 0.5 percent to 0.75 percent each month, Assistant Assessor Jim Erwin said in an e-mail.

Erwin said that decline does not take into account property-tax reductions issued through Prop. 8, meaning it

might prove tough to reach even 8 percent growth.

Forecasting Budgets

Riverside and San Bernardino county officials say conservative fiscal policies in the past few years, during boom times, means they are better prepared for the revenue slowdown.

Riverside County this summer received an upgrade in its credit rating and has a reserve of more than \$400 million, Luna said.

"It's a best-times, worst-of-times problem," he said. "You have ongoing revenues starting to tail off. On the other hand, you have one-time money in reserves built up to the highest levels the county has ever seen."

Luna said he already is advising various county departments to "lower your expectations" on what to expect for next year's budget. And Luna normally provides forecasts for the next fiscal year in a mid-year report in January. Now, he'll do it this week, he said.

How quickly the county is able to incorporate budget controls, such as closely monitoring spending, choosing not to immediately fill vacancies, and looking for ways to make government more efficient all will provide clues about how the county will do financially with slow

revenue growth in future years, Luna said.

Nearly half of Riverside County's general-fund revenue, where supervisors have the most control, comes from property taxes.

In San Bernardino County, two-thirds of the county's general-fund revenue stems from property taxes. County officials based their current fiscal year budget on 12 percent growth. The county needs 8 percent growth to maintain current spending levels, officials said.

But San Bernardino County also has a large reserve fund - currently about \$240 million. Uffer, the county's top executive, said he is not making any recommendations to supervisors at this point.

Dean Arabatzis, San Bernardino County's chief financial officer, said the county also has tried to pre-finance major new projects, including setting aside \$20 million a year for a new government center. That's built into the county's base budget and won't be affected by a slowdown in revenue growth, he said.

"Let's charge all the way to the cliff and jump -- that's not how (supervisors) do things," Arabatzis said.

Cities are facing a similar situation. The city of Riverside budgeted a 10 percent increase in property-

tax revenue for the fiscal year ending June 30. Next year: just 5 percent to 7 percent growth, Finance Director Paul Sundeen said.

Already, Sundeen said he has asked departments to make sure all spending is "very much needed," and not to replace vacancies as quickly as in the past.

"The smaller the entity -- take a smaller city -- they have seen major swings," he said. "They could fall just as dramatically. They all need to pay real close attention to what is going on."

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Other Growth

While the housing slump is taking its toll, commercial and industrial development remains strong, keeping the growth in property-tax revenue from slowing to a trickle, local officials say.

"Everywhere you look, there are huge office buildings going up," Uffer said, citing a new Wells Fargo regional headquarters in San Bernardino.

Sundeen, with the city of Riverside, agreed.

"At this point, we are not too concerned because the commercial and industrial growth is so strong," he said. "At the same time, we are looking at physical growth" through possible annexation, which would increase the city's property-tax base.

Still, officials are urging caution.

"The larger the entity the more diverse the tax base, the less volatile that revenue stream," McDonnell said.