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To: California News Media
From: Cal-Tax (Ron Roach 916 930-3104)
Subject: Local Government Budgets

Following from the May 6 issue of *Caltaxletter* is a sampling of local government budget problems, based on newspaper reports. As the headline says, the wounds are self-inflicted. It isn't surprising that much of the grief – and pressure to cut services or raise taxes – is due to generous public employee compensation and benefits.

Local Budget Woes: Self-inflicted Wounds

From San Jose to San Diego, a number of local agencies are forecasting budget problems ahead. However, this time the blame can't be shifted elsewhere. With Proposition 1A in place, the state can no longer be a whipping boy for local fiscal problems. And with a sound economy and spectacular property tax growth, local officials can't pass the buck to inadequate revenues. As Pogo once said, "We have met the enemy and they are us."

Here is a look at city and county budget developments around California:

- **San Jose Budget Would Cut Spending 8 Percent.** The San Jose city manager's proposed budget would cut spending by \$67 million, or 8 percent, to deal with a projected \$58 million shortfall in a \$745 million operating fund. According to the *San Jose Mercury News*, Del Borgsdorf on May 2 proposed to deal with the shortfall next year mostly by eliminating 140 jobs, 21 of them in the police department, and reducing library hours, raising garbage and water rates and reducing spending to maintain parks and roads.

Mr. Borgsdorf said the budget problem could grow to \$93 million, forcing the City Council to eliminate 333 positions, if arbiters give police and firefighter unions significant pay raises and richer pension benefits based on what other jurisdictions provide around the state.

- **San Diego Budget: 355 Fewer Jobs.** More money to cover increased wages and other personnel expenses will require the San Diego City Council to chop 355 of 11,000 city jobs and reduce services, such as park and recreation and library hours.

Mostly for personnel costs, police and fire department budgets would increase \$34.9 million, according to City Manager Lamont Ewell in his May 2 presentation of a \$2.37 billion budget for the year starting July 1. The city's beleaguered pension fund, with a nearly \$1.4 billion shortfall, requires a \$163.5 million payment in the coming fiscal year, the *San Diego Union-Tribune* reported.

Mr. Ewell said the budget "returns our focus to core services, thus eliminating those services we can no longer afford." San Diego also needs \$3.2 million in new fees, the city manager said. He plans to outline fee proposals at a June 7 hearing. Meanwhile, fees being studied include charging non-city residents to park at city beaches, as well as possibly charging more for trash collection and increasing taxes on property transfers.

It also was noted that San Diego does not levy taxes on utilities. Seven of the state's largest 10 cities raise revenues through utility user taxes, which require voter approval.

This "fresh start" budget proposal will be subjected to six weeks of public hearings before the council takes final action by June 30.

Meanwhile, Carl DeMaio, president of the Performance Institute, a for-profit business advocating for government accountability, said he will try to place an initiative before voters to enact an alternative budget if the City Council doesn't consider his recommendations. He wants the city to retire pension debt in five years, retool employee benefits and dedicate funds for infrastructure.

- **L.A. County Proposed Spending Up \$565 Million.** Flush with growth in property tax revenues, Los Angeles County officials have proposed to spend \$565 million more in 2005-06 than the current year. The \$18.5 billion budget would start restoring critical programs that have felt cuts in the past three years, reported the *Los Angeles Daily News* (April 18).

The county's improved budget picture results from additional property tax revenues – growth of 9 percent is forecast in the year ahead – as well as voter approval last November of Proposition 1A, which protects local coffers from raids by the state. Chief Administrative Officer David Janssen said he was concerned that the housing market is starting to slow a bit, which could make that 9 percent forecast somewhat high.

The budget also includes a \$115 million increase in retirement system costs on July 1, boosting the employer's liability to a record \$1.2 billion a year. County supervisors want to restore \$79 million to the Sheriff's Department to hire more than 900 employees and reopen several jails over the next two years. The county also faces a court order from a federal judge blocking reductions of health services.

Jon Coupal of the Howard Jarvis Taxpayers Association questioned the wisdom

of spending all projected revenue. “The policy of spending all your money simply to make sure you don’t have any left at the end of the year reflects the horrible incentives in public government finance,” he said. “The notion to spend it or lose it is ill-advised at best.”

Mr. Janssen said the county doesn’t expect to be bailed out, since the “federal government is cutting Medicaid. The state is broke. We don’t have a lot of options. Either we find new money, or we reduce services.”

The *Daily News* reported that the county’s health system is collapsing, according to critics, and Mr. Janssen warned that in one more year it will exhaust reserve funds and face a \$435 million deficit. Health services options are to be presented to supervisors in June, the newspaper reported, and they could include closing of hospitals and clinics and restricting non-emergency care to U.S. citizens.

- **Petaluma: Higher Pay and Benefits, Reduced Services.** A 12.3 percent increase in general fund spending proposed for 2005-06 in Petaluma is mainly to pay higher costs for city employee pensions, health benefits and workers’ compensation insurance, not higher levels of service.

According to the *Santa Rosa Press Democrat* (May 3), the budget proposal presented by City Manager Mike Bierman will impact service levels, but they will remain adequate. City staff estimates a \$4 million annual need to maintain streets, but the proposed budget is \$1 million, down \$724,000 from the current year. The budget is proposing to hire four police officers, replacing those who were lost in the past two budget cycles.

A major brouhaha looms over the \$1.134 million in hotel room taxes expected next year, since the city manager is proposing to take \$1 million of it for the general fund and leave just \$134,000 for promotional and cultural organizations. The city’s visitors’ program, for example, got \$300,000 in hotel tax money this year. The total city budget is proposed to grow from \$126 million to \$164 million, mostly due to construction of a waste treatment plant (\$36.7 million).

- **Santa Barbara Budget Pummeled by Pension Debt.** Santa Barbara’s pension debt has more than doubled in three years, requiring the city to pay \$14.5 million in the coming fiscal year. The *Santa Barbara News-Press* (May 2) reported that “skyrocketing pension costs are pummeling” the budget and worsening the city’s fiscal woes. The projected budget deficit is \$7.3 million.

It was reported that in addition to pension costs, the City Council, with three members running for re-election, approved pay raises for everyone and put a measure on last November’s ballot that tripled council members’ salaries, and it passed overwhelmingly. The newspaper quoted Robert Stern, president of the Center for Governmental Studies: “Local governments are going to have a tougher time because labor unions have become very powerful in local elections.”

Soaring pension costs (public safety members retiring with as much as 90 percent of salary) require the city to pay 44 cents for every dollar in salary to the state pension fund for police and fire; 21 cents for other employees.

A retired police lieutenant interviewed by the newspaper said: "My pension is serving me well. I am not hurting for money." He had been making nearly \$100,000 a year and retired with 84 percent of it at age 53 after 28 years on the force.

The American Riviera, as the city is known, now plans to spend nearly \$10 million in budget reserves to help balance the budget, along with cuts or revenue increases totaling \$2.3 million over two years. A city report says that by 2009 there will be only \$1.7 million left in the budget reserve.

- **Rohnert Park has \$2.5 Million Deficit.** In Sonoma County, the city of Rohnert Park has a "bleak" fiscal outlook, according to Mayor Jake Mackenzie, with a projected deficit of \$2.5 million in a preliminary operating budget of \$24.8 million.

While the city anticipates additional revenue from sale of some land, as well as funding from a revenue-sharing deal with an Indian gaming tribe, the *Santa Rosa Press Democrat* (May 2) reported a ticking time bomb in the form of unfunded commitments to retiring and retired employees' medical benefits. The paper said Rohnert Park has to come up with about \$38.5 million over the next 30 years -- \$3 million a year -- to cover soaring medical insurance premiums and generous lifetime medical coverage for employees who retired prior to 1993.

The city has a \$6 million general fund reserve, so no staff cuts or reductions in services are contemplated for the 2005-06 budget year, the newspaper reported.

- **Lodi Expects Layoffs and Cuts.** With costs driven up by higher employee-related expenses, Lodi expects to bridge a budget gap with a proposal that includes layoffs and fewer city tax dollars for libraries, the *Stockton Record* reported May 3. The budget gap has been projected to be \$3 million. People are feeling sorry for the city's finance director, Jim Krueger. Council Member Bob Johnson: "Poor Krueger. It seems every time he opens a drawer it's another bag of manure. He's the angel of doom." City Manager Blair King said 29 jobs are being left unfilled or eliminated, including the fire department's paramedic coordinator, in a \$43.8 million spending proposal for 2005-06.
- **Santa Clara County: \$126 Million Gap Triggers More Cuts.** In a budget proposal released May 4, Santa Clara County is proposing to cut 200 vacant jobs, among other things, to eliminate an estimated \$126 million deficit in its 2005-06 budget, the *San Jose Mercury News* reported May 5. In addition, County Executive Pete Kutras is proposing to raid the reserves and refinance employee retirement. Mr. Kutras said, "What were doing is continuing to shrink and reduce services to live within our resources."

- **Budget Cutting Pedal Power in Berkeley?** Even in Berkeley, city officials are having to take unpopular actions to close an estimated \$8.9 million structural budget gap. According to the *Berkeley Daily Planet* (May 3), the city has terminated a contract with Pedal Express to deliver inter-office mail to outlying city offices by bicycle. The action is expected to save \$30,000, but has raised hackles in the environmental community.
- **Oakland Budget Cuts Would Close City Jail.** Oakland Mayor Jerry Brown released a proposed \$2 billion budget Friday that calls for closing a \$32 million shortfall with cuts that include closing the city jail and the Henry J. Kaiser auditorium and convention center. Jim Herron Zamora in the *San Francisco Chronicle* (May 7, 2005)