Shaky housing market dashes any wishful thinking that a SF City could stay afloat

The conclusion from this article in the Wall Street Journal points out that the current nationwide housing slump will mean that the proposed new city of South Fulton will not be able to collect the fees and permit funds that have been projected for the near term.

South Fulton's disproportionate reliance on residential growth and property taxes would hit the new city even harder than those new cities in north Fulton. Additionally projected sales tax revenues will diminish from delays in new construction as will revenues from property taxes as a result of lowered property values long term.

With the meager surplus the "so called" feasibility study projects, the result of these circumstances would leave a new city with no choice but to raise property taxes, cut essential service or both.

Back in the day when you could not afford to do something, you didn't do it.

It's abundantly clear now that a City of South Fulton will require huge tax increases just to stay afloat. Unless you want to pay the piper for someone else's political science experiment, make sure you come out and Vote NO to the City of South Fulton, GA on Tuesday September 18th.

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Housing Slump Strains Budgets Of States, Cities

By AMY MERRICK
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Tremors from the housing market's slump are straining the budgets of state and local governments from coast to coast, sending officials scrambling to plug gaps. Rising defaults on subprime home loans are boosting the inventory of unsold homes and driving sale prices lower. That's cutting into housing-related revenues from building-permit fees, taxes on contracting and recording property transfers, and even sales taxes.

As a result, legislators in Florida, which was at the forefront of the housing boom, plan a special session this month to consider deep budget cuts to offset a projected $1.5 billion funding gap. California forecasts a shortfall of at least $5 billion in next year's budget. And Chicago faces a $217 million gap in its $5.6 billion budget for 2008.

In the Kansas City, Mo., area, more than two dozen agencies that serve the homeless are likely to lose at least some of their funding this year. Meanwhile, the tiny town of Sultan, Wash., near Seattle, has had to lay off the janitor at City Hall, forcing office workers to take over bathroom-cleaning duties.

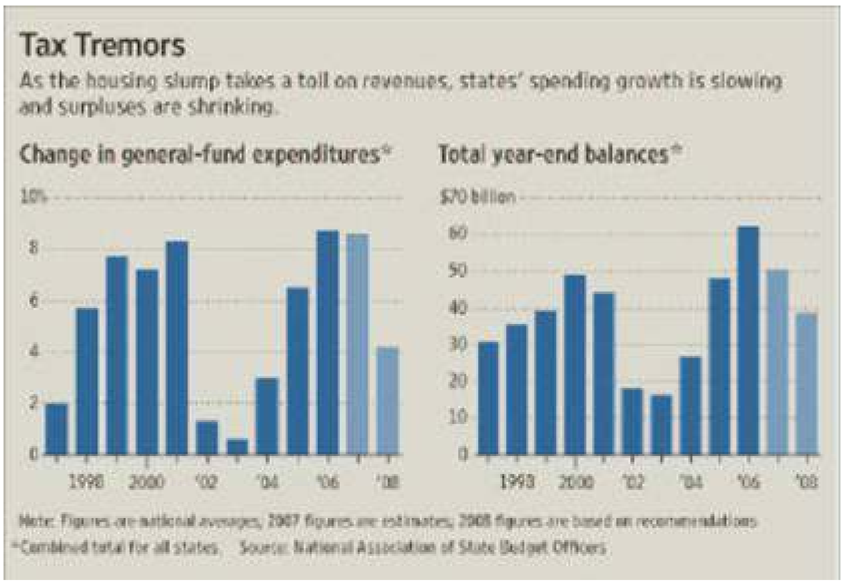
In many cases, budget officials knew that the fast pace of housing-related revenue growth in recent years wasn't sustainable, but the extent of the slowdown has sometimes surprised them. Unlike the federal government, states and local governments generally balance their budgets. That means sudden revenue shortfalls can translate into serious cutbacks in spending plans. "Our forecasts for the last couple of years have been building in a decline" of revenue as the economy headed toward a soft landing, says Amy Baker, coordinator of the Florida Legislature's

Office of Economic and Demographic Research. "What we discovered, when we met in 2006 and then spring 2007, is that the decline was actually occurring more rapidly than we thought."

Among other effects, the housing slump has caused a decline in revenue from real-estate transaction taxes, which are based on sales prices.

Such taxes typically account for a small percentage of state income, but can contribute enough for a sudden shortfall to turn a surplus into a deficit. Collections are down amid a decline in the overall number of home sales and an increase in houses in foreclosure, which typically are sold for less than homeowners might otherwise have received.

Sales-tax revenues have also declined, a side effect of the housing slump that has blindsided many states and municipalities. States are collecting less in sales tax -- which can account for as much as 15% to 20% of their total revenue -- partly because builders have cut back on buying construction materials and fewer homeowners have been withdrawing equity from their homes to remodel or buy furnishings.



Homeowners struggling to pay mortgages have even less incentive to splurge.
States blame weak real-estate sales for lower-than-expected spending on cars and other big-ticket items.

Their budget problems could worsen when property-tax assessments catch up with the rapid decline in housing prices over the past year or so, something that hasn't yet happened in most parts of the country.

Still, the outlook for states doesn't appear as dire as in 2002. Then, following recession and the Sept. 11, 2001, terrorist attacks, 37 states had to slash a total of $13 billion from their budgets. Some even saw their annual budgets decline from the previous year. The fiscal problems were largely resolved by 2005, helped by a general economic rebound, a real-estate boom and higher revenue from corporate income taxes.

More than half of states recorded higher-than-expected revenue last year, allowing them to undertake new spending projects and build up rainy-day funds. Much of the spending increase has gone toward health care, which accounts for about a third of state expenditures in various forms.

States also had been reversing significant, across-the-board cuts made from 2002 through 2004. This year, however, many state budget officials have been preparing for slower growth and recognize that rising expenses for such things as health care, education, employee pensions and infrastructure may get tougher to meet, according to a June report from the National Governors Association and National Association of State Budget Officers. In most places the next stage is more likely to be slower spending growth than an outright spending cut. In the longer term, however, leaner times may lie ahead.

Even though some data show home prices are falling sharply, homeowners in most parts of the nation have yet to see their property taxes decline. In states like California and Indiana, some counties already are seeing a record number of homeowners protesting their assessments. Residents are upset that their property taxes are still rising as market prices decline.

In the Indianapolis area, disgruntled homeowners have held rallies outside the Indiana governor's residence to protest property taxes. In response, the governor has set up a commission headed by a former state Supreme Court justice to try to streamline local government and fix problems with property-tax assessments, which residents complain can seem arbitrary and inconsistent.

"For its size and population, Indiana has far too much local government," and thus too many people collecting property taxes, according to a report from the governor's office. The state has more than 1,100 officials responsible for property-tax assessments.

Lower assessments would cut into property-tax receipts, a crucial source of funding for local governments but which rarely account for more than 10% of state-level tax collections. "As a nationwide trend, you'll probably start to see property-tax revenues begin to fall next year or the year after," says Gerald Prante, an economist with the Tax Foundation, a nonpartisan research group in Washington.

Reduced assessments are already causing budget problems in some areas. In Virginia's Fairfax County, where almost 60% of county general-fund revenue comes from real-estate taxes, housing prices fell last year for the first time in 10 years.

Foreclosures have jumped, and the county wants to hire more appraisers to perform new assessments. Chicago, meanwhile, is grappling with lower-than-expected revenue from real-estate sales, rising personnel costs and expenses stemming from a harsh winter. As home sales have slowed, Chicago has fallen short of its projections for its real-estate transaction tax, a levy of 0.075% on property sales that is paid by a buyer. Collections of this tax jumped to a record $242 million in 2006 from $108 million in 2001. Though the city had expected a slowdown this year, revised projections show the tax raising only $204 million, $31 million below plan.

In May, Chicago announced a broad hiring freeze, a furlough day for managers making more than $55,000 and a cut in nonpersonnel spending. In July, the city ordered an additional 2% spending cut. Last week, Mayor Richard M. Daley told 2,000 city managers who earn more than $75,000 to take another unpaid furlough day this year. Because these steps saved the city just $17 million,

Chicago has to go much further to balance its budget, as required by law. "While we can't control the housing market, there are other things we can control," city budget director Bennett J. Johnson III says. "Right now we are looking at everything on the table to find out how we can close this gap."

In Kansas City, agencies that serve the homeless get funding from a $3 surcharge Jackson County collects on real-estate sales documents. The county awarded $750,000 to the agencies in February, but revenue is falling far short of projections. A legislative auditor warned the fund could exhaust its balance by the end of the year and face a $135,000 deficit, which would force drastic cuts. He suggested increasing the fee by as much as $10, a move that would require a public vote.

Smaller locales are getting hurt, too. Sultan, a city of roughly 4,500 people about 40 miles from Seattle, had been expecting three new subdivisions this year, producing fees from 70 building permits.

But instead, Sultan has issued just three permits. All three subdivision projects have been delayed, so the city is likely to receive $280,000 less in building-permit fees than it had expected. In the Northwest, housing prices have been stable or rising, but Sultan city administrator Deborah Knight says she is hearing about a large supply of homes on the market.

Sultan cut back its building-inspector position to part-time to save money, but that alone didn't bridge the gap. Now Sultan can't afford to employ a custodian at City Hall, either.

On June 30, Virginia ended its 2007 budget year with tax collections that were $234 million below its target, and the state is expected to miss its current-year estimate by $407 million. Virginia Gov. Tim Kaine, in a recent address to the state legislature, said taxes levied on property-transfer records fell 16% below the previous year's level. He asked state agencies to draw up plans for a 5% spending cut.

Sales taxes, too, have been affected. In Virginia, one-quarter to one-third of all sales taxes is connected to housing, such as taxes on construction expenses and furnishings, says state Secretary of Finance Jody Wagner.

After meeting with housing-industry executives this summer, she said she doesn't expect a quick recovery. "If we thought we only had to deal with '08 and then go back to normal, we wouldn't be as concerned," Ms. Wagner says. "But we think it's going to be a prolonged slowdown."

Some of the states facing the largest shortfalls are those that had the biggest housing booms over the past few years. In Florida, the $1.5 billion shortfall -- $400 million for the last fiscal year and $1.1 billion for this year -- is nearly all due to the weak housing market, says Ms. Baker of the Florida legislature's research office. Though economists knew the state's housing run-up over the past five years wouldn't continue forever, the decline now appears to be sharper and longer-lasting than they had expected.

In the three-week special session scheduled to convene Sept. 18, state senate committees would like to cut the state's $71 billion budget by 4% in big-spending areas such as education and social services. Meanwhile, **local governments in Florida are considering everything from laying off elementary-school crossing guards to raising bus fares. "People kept hoping that the good times would continue," Ms. Baker says. "When the bubble has burst and we're returning to more normal levels, and even a little below -- it's just a rude awakening."**

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