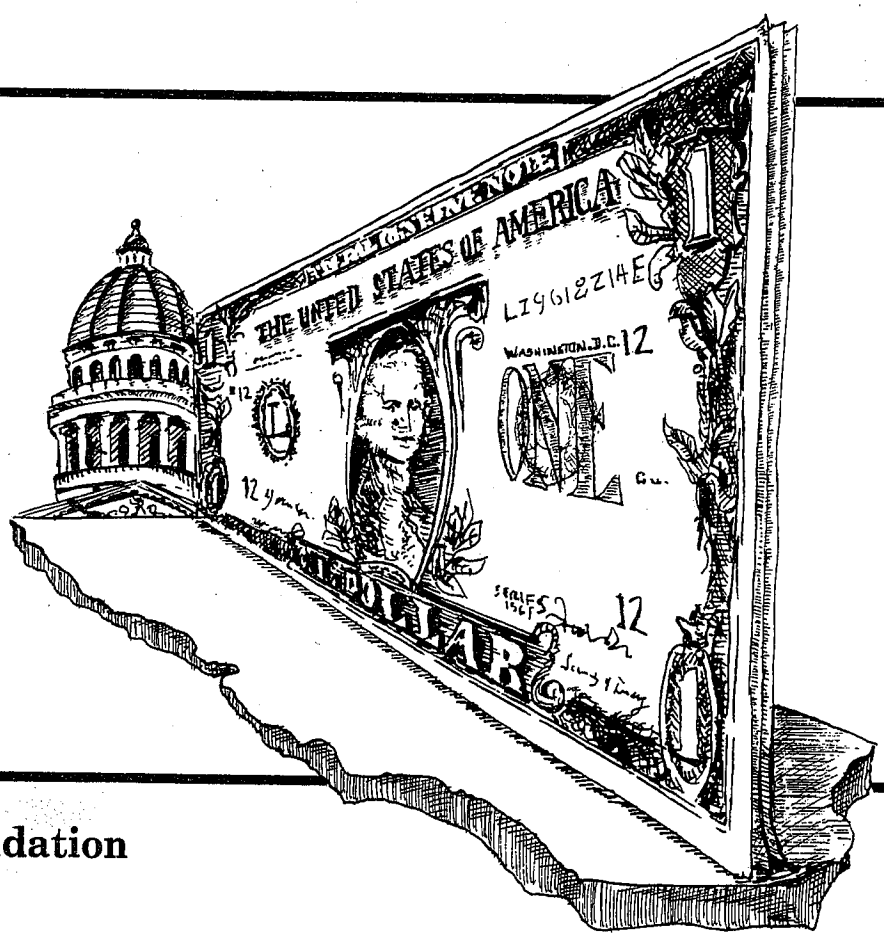
California Local Government Finance:

Issues For The 80s



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CALIFORNIA LOCAL GOVERNMENT FINANCE: ISSUES FOR THE 1980'S

REPORT OF THE
CALIFORNIA TAX FOUNDATION'S
LOCAL GOVERNMENT FINANCE STUDY PROJECT

APRIL 4, 1984

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CHAPTER I

INTRODUCTION

Ask typical Californians to name a government service they rely upon regularly, and chances are they will name a service provided by a city or county. Police and fire protection, public health and welfare aid, libraries, parks, and public works, such as streets and water supply -- all are delivered to the great majority of California's 25 million residents by a city or county. Given the critical role these local services play in the personal well being and economic life of all Californians, the continued health and well-being of the units of government which provide them are of critical importance.

When we think of problems facing government today, we tend to focus on those of federal or state government. Threats of war, massive deficits, development of natural resources, crime, and other large issues tend to monopolize our attention. Local government finance is rarely high on an agenda of mass media, state and federal decision-makers, leaders of the business community, or the general public. However, in California -- particularly in recent years -- problems of local government finance have received a great deal of attention.

Local government's prominence in California public policy issues can be traced to that political earthquake known as Proposition 13 of 1978. While popularly thought of as a taxpayers' revolt against all government (local, state, and federal), Proposition 13's most direct impact was on local government and schools -- governments closest to the people. Proposition 13 permanently and deeply reduced local governments' biggest local revenue source, the property tax. In so doing, Proposition 13 began a revolution in the way cities and counties finance those very activities that most Californians would describe as the most essential government services.

One direct result of Proposition 13 was state government's more direct involvement in financing local services. State leaders realized that while Proposition 13 did not directly cut state revenues, its message applied to state government as well. A sweeping package of state-funded fiscal assistance to local government, generally known as the state "bail-out", was enacted to help maintain essential local services. Permanent funding legislation (AB 8 of 1979), passed to address the local fiscal implications of Proposition 13, marked a major turning point in California local government finance. This legislation had a provision that automatically reduced state aid to local governments if state revenue growth failed to meet specific targets. Known as the AB 8 "deflator", this clause formally linked the fiscal fates of state and local governments.

During each of the past three fiscal years, the state has reduced aid to local governments in lieu of allowing the full deflator to operate as a means of closing the gap between its own revenues and expenditures. During the first two rounds of these deflator cuts, local governments, faced with very strong legal and political limits on their own taxing powers, were unable to respond by increasing local revenues to compensate for lost state money. Hard pressed local officials protested that the state was balancing its budget on the backs of local government.

Recent California Supreme Court rulings (the Carman and Farrell decisions) have given local goverments (particularly cities) more freedom from Proposition 13's two-thirds vote requirement to increase local non-property taxes. As a number of cities and counties exercised powers available under these Supreme Court rulings some observers protested that court loopholes were threatening to destroy Proposition 13. Local officials countered by pointing out that many such local tax increases would not have been required, but for state budget cuts in aid to cities and counties.

All of these separate threads came together during the Legislature's deliberations over the 1983-84 state budget. The budget was delayed long past the constitutional deadline as the Governor and the Legislature struggled over the appropriate way to provide a long-term solution to fiscal problems of local governments. The long delay angered local officials who felt local finances were merely a pawn in a partisan struggle over the future course of state spending. The 1983-84 budget debate ended with a continuation of state cuts in aid to local governments and a promise by both parties that a permanent solution would be a top priority of the Legislature in 1984.

THE CALIFORNIA TAX FOUNDATION

In surveying 1983 legislative debates over local finance, directors and staff of the California Taxpayers' Association observed a lack of first-hand factual data about actual conditions and day-to-day problems and opportunities facing local governments in California. Looking ahead to 1984 discussions, the Association foresaw not only continuing debate but also the possible qualification of a new Howard Jarvis-authored ballot initiative. This measure would once again force the public to reexamine questions of how local government is financed and what rules should apply to decisions to raise revenues to finance state and local services. All of these debates would be enriched by better factual understanding of conditions, opportunities, and constraints facing local governments, as well as by a review of the most important actions local agencies have taken to cope with major changes caused by Proposition 13. The association turned to its research association, the California Tax Foundation, for a study of these related issues.

A CASE STUDY APPROACH

Recognizing the difficulty of conducting a comprehensive statewide study of local government finance with limited resources and the limited time available, the Foundation decided to use a case-study approach. Its first decision was to focus solely on city and county govenments rather than on the entire range of local agencies which include school districts and special districts. It was believed that school districts had already been examined in depth during the Legislature's exhaustive school finance and reform debates of 1983. Special districts, important providers of many services, were simply thought to be too diverse and numerous to be dealt with in this study.

The chief advantage of the case study approach was the ability to develop a deeper understanding of how individual jurisdictions made revenue and expenditure choices they faced in recent years. Consideration was given to a more traditional survey approach to the study, but it was thought that such a method would not develop sufficient information and detail needed for understanding day-to-day problems of local agencies, and how local officials view the future of local finance.

As noted in this report, California is blessed by wide diversity among its 435 cities and 58 counties. This study is based on a sample of ten cities and seven counties. While every effort was made to fairly sample the economic, demographic, and geographic mosaic that is California, it is impossible to reflect every significant variable in this sample. It is believed that these case studies have raised most leading issues facing Californians considering the future of the state and local finance.

METHODOLOGY

To conduct these case studies the Foundation retained the international auditing and consulting firm of Price Waterhouse. The study itself consisted of two major components:

- A review of local budgets and financial statements for the period 1977-78 to 1983-84, supplemented by a questionnaire covering certain non-financial data.

- In-depth interviews with local government management staff based on a structured interview questionnaire. (See Appendix I.)

The data gathered from these activities was supplemented with statistical information about local governments drawn from a variety of state and federal government sources. Where appropriate, revenue and expenditure data was adjusted to remove the effects of inflation by using the gross national product deflator for state and local government purchases.

All findings presented in this report are solely those of Price Waterhouse, and do not necessarily reflect the views of the California Taxpayers' Association, its directors or staff, or the California Tax Foundation's trustees or staff. Given the limited nature of the review of the financial information provided by sample jurisdictions, the discussion that follows should not be construed to represent the professional opinion of Price Waterhouse concerning the adequacy of the audited financial statements of the local governments studied in the course of this project.

CHAPTER II

DIVERSITY AMONG CITIES AND COUNTIES: AVERAGES CAN BE DECEIVING

There is a tendency on the part of state decision-makers and policy analysts to speak of "the cities" and "the counties" as if each were a collection of uniform organizations with similar amounts of resources and service demands from homogeneous publics. Like many other aspects of life, however, local government is not that simple. In fact, there is a wide variety of circumstances in local governments, and they have chosen to meet local service demands in many different ways.

SAMPLE CHARACTERISTICS

A. Location and Population

In selecting the sample ten cities and seven counties, the objective was to approximate the geographic, economic, and demographic diversity of California. Figure II-1 shows their locations. They stretch from Mendocino County on the North Coast to San Diego County on the Mexican border. They range in size from the small Central Valley community of Farmersville (population 5,900) to the City of Los Angeles (population 3,071,100). The seven sampled counties had 5,184,000 residents, or nearly 21% of the state's total population. The total 1983 population in the ten sampled cities was 5,581,050, some 29% of the total population of California's 435 cities.

Figure II-2 shows the populations of the sample jurisdictions in 1978 and 1983, as well as the percentage change in total population. The sample showed a wide variation in population growth rates compared with the state's total growth of 10.4% from

Fiscal 1978 to 1983. The sample cities had growth rates ranging from the slight decline in Pacifica's population (-0.8%) to the rapid growth of Irvine (+63.8%). Sample counties growth ranging from 1.7% in San Mateo County to 22.7% in Riverside County.

B. Economic Criteria

Figures II-3, II-4, and II-5 summarize a variety of statistical information about the economic and demographic diversity in the sample. The top half of Figure II-3 presents data on four features of the sample cities as well as the state average for each measure. The first measure is the amount of sales tax revenue per local resident in the 1982-83 fiscal year (1 cent of the 6 cent sales tax is actually levied by cities and counties, collected with the state tax and returned to the jurisdiction where the sale occurred). The sales tax is the largest revenue source for cities in California. The sample cities varied widely around the state average of $70.43 per capita in sales tax revenues; Farmersville fell 77.3% below the average, while Irvine was 65.9% above. The variation reflected the wide differences in taxable sales activity in these very different communities.

The next three groupings of columns in Figure II-3 describe the variation in 1983-84 assessed property values per capita, 1979 median family incomes, and percentage of local population living below the federal poverty level relative to respective state averages for each measure. The assessed value figures do not necessarily translate directly into property tax revenues, since the distribution of the remaining property tax dollar after Proposition 13 is a function of a jurisdiction's pre-Proposition 13 tax rate, as well as its assessed value. For example, Irvine had a below-average property tax rate before Proposition 13, and hence does not reap proportionately as large an amount of property tax revenues from its assessed value as its divergence from the average might indicate.

Figure II-4 displays three measures for cities presented in Figure II-3. While most cities vary consistently about the average, however, indicators for Fresno, Pacifica, and San Francisco vary in opposite directions. Fresno, for example, has sales tax revenues per capita 19.3% above the state average, while assessed value and median income figures are well below average.

The lower half of Figure II-3 presents similar data for the seven sample counties. The five measures included in the table are taxable sales per capita (the base for the sales tax not the actual revenues received), assessed values per capita, 1979 median family income, the percentage of 1979 population living below the poverty level, and the number of persons on Aid to Families with Dependent Children (AFDC) per 1,000 county residents. In the column next to each measure is the percentage variance from the state average.

There is wide variation about the state average for each of these measures. The measure of AFDC/1,000 residents reflects a demand for county services and revenues and, in all but one case, is associated with below-average median income, taxable sales, and assessed value. This helps explain one pressure that has led the Legislature to create state funded categorical aid programs to provide equal access to programs in counties with below-average resources.

Figure II-5 displays three measures for counties displayed in Figure II-3. There is less variation on the purely economic measures than was the case with cities. This could be because counties are generally larger units of population and economic activity, and will therefore tend to aggregate closer to the state average.

The largest variation shown is the number of AFDC recipients to total population ratio. This measures the proportion of local population classed as "poor" because they are on welfare. This

ranged from 80.2% above the state average in Merced to 69.8% below in San Mateo. (Aside from the below average unemployment rate in the county, one reason suggested for San Mateo's low AFDC caseload was that high housing prices make it difficult for low income families to live in San Mateo County).

C. Form of Government

The sample was also designed to select both chartered and general law cities and counties. Charter jurisdictions, particularly cities, have greater organization flexibility than general law jurisdictions. Of the seven counties, three are chartered (San Diego, San Mateo, and Santa Clara). The rest are general law. Of the 10 cities, three are general law (Farmersville, Pacifica, and Montebello) while the rest were charter cities. Charter cities were emphasized because almost all of California's largest cities have charters. Voters in those cities have had the chance to vote on measures that would have a significant impact on the cities revenues and expenditures. Such voter approved measures have played a considerable role in shaping the current fiscal conditions of some sample cities.

FINDING

The wide variation among cities and counties in their tax bases makes it difficult to design statewide revenue sources for local governments that do not result in "windfalls" for some jurisdictions and generating too little revenue to meet the needs of other jurisdictions with poor revenue bases.

This diversity implies that flexibility in managing revenues and expenditures to meet widely varying local needs may be the most efficient way to serve the public.

FIGURE II-1

Sample Counties

- Mendocino
- Merced
- Riverside
- San Diego
- San Mateo
- Santa Barbara
- Santa Clara

Sample Cities

Farmersville	(1)
Fresno	(2)
Irvine	(3)
Los Angeles	(4)
Montebello	(5)
Oakland	(6)
Pacifica	(7)
San Diego	(8)
San Francisco	(9)
Sunnyvale	(10)

FIGURE II-2

POPULATION CHANGE IN SAMPLE CITIES AND COUNTIES

JANUARY 1978 TO JANUARY 1983

City	Population 1978	Population 1983	% Change
Farmersville	4,840	5,900	21.9
Fresno	202,700	252,600	24.6
Irvine	44,500	72,900	63.8
Los Angeles	2,900,700	3,071,100	5.9
Montebello	50,700	55,400	9.3
Oakland	334,000	347,300	4.0
Pacifica	36,850	36,550	-0.8
San Diego	826,200	925,000	12.0
San Francisco	683,500	705,700	3.2
Sunnyvale	106,900	108,600	1.6

County	Population 1978	Population 1983	% Change
Mendocino	62,300	70,400	13.0
Merced	127,400	146,300	14.8
Riverside	595,800	731,200	22.7
San Diego	1,744,000	1,986,000	13.9
San Mateo	583,500	593,500	1.7
Santa Barbara	292,300	313,500	7.3
Santa Clara	1,244,100	1,343,100	8.0
State Total	22,614,600	24,959,000	10.4

Source: Department of Finance

FIGURE II-3

ECONOMIC DIVERSITY AMONG CITIES AND COUNTIES

City	Label	1982-83 Sales Tax Per Cap.	% Var. From Ave.	1983-4 A.V. Per Cap.	% Var. From Ave.	1979 Median Fam.Inc.	% Var. From Ave.	1979 % Below Poverty	% Var. From Ave.
Farmersville	Fa	$16.00	-77.3	$8,826	-72.0	$9,893	-54.1	40.9	-258.8
Fresno	Fr	84.01	19.3	25,020	-20.5	17,720	-17.7	15.7	-37.7
Irvine	Ir	116.85	65.9	78,554	149.6	33,881	57.3	3.6	68.4
Los Angeles	LA	61.78	-12.3	28,178	-10.5	19,476	-9.6	16.4	-43.9
Montebello	Mb	67.03	-4.8	22,476	-28.6	20,090	-6.7	11.9	-4.4
Oakland	Ok	58.51	-16.9	25,064	-20.4	17,651	-18.1	18.5	-62.3
Pacifica	Pa	18.73	-73.4	22,280	-29.2	26,560	23.3	5.8	49.1
San Diego	SD	62.85	-10.8	29,436	-6.5	20,134	-6.5	12.4	-8.8
San Francisco	SF	83.92	19.2	37,258	18.4	20,911	-2.9	13.7	-20.2
Sunnyvale	Sv	99.20	40.8	48,522	54.2	27,270	26.6	4.8	57.9
State Average		$70.43		$31,469		$21,541		11.4	

County	Label	1982-3 Taxable Sales Per Cap.	% Var. From Ave.	1983-4 A.V. Per Cap.	% Var. From Ave.	1979 Median Fam.Inc.	% Var. From Ave.	1979 % Below Poverty	% Var. From Ave.	1983 AFDC Persons /1000	% Var. From Ave.
Mendocino	Mn	$5,433	-14.4	$31,923	-0.1	$16,563	-23.1	15.7	-37.7	86.7	-34.2
Merced	Mr	4,335	-31.7	26,931	-15.7	16,563	-23.1	14.7	-28.9	116.4	-80.2
Riverside	Rv	5,151	-18.9	32,496	1.7	18,682	-13.3	11.3	0.9	72.0	-11.5
San Diego	SD	5,527	-12.9	30,218	-5.4	20,306	-5.7	11.3	0.9	57.1	11.6
San Mateo	SM	8,081	27.3	41,756	30.7	27,279	26.6	6.1	46.5	19.5	69.8
Santa Barbara	SB	6,105	-3.8	35,271	10.4	21,630	0.4	10.6	7.0	34.8	46.1
Santa Clara	SC	7,921	24.8	36,285	13.6	26,662	23.8	7.1	37.7	48.5	24.9
State Average		$6,348		$31,947		$21,541		11.4		64.6	

Note: Variances are calculated from the state average. A negative number reflects an unfavorable variance.

Sources: Taxable sales and assessed value (A.V.) from the State Board of Equalization.

Family income and percentage of population living below the poverty level from the Bureau of Census.

FIGURE II-4

Economic Diversity Among Cities

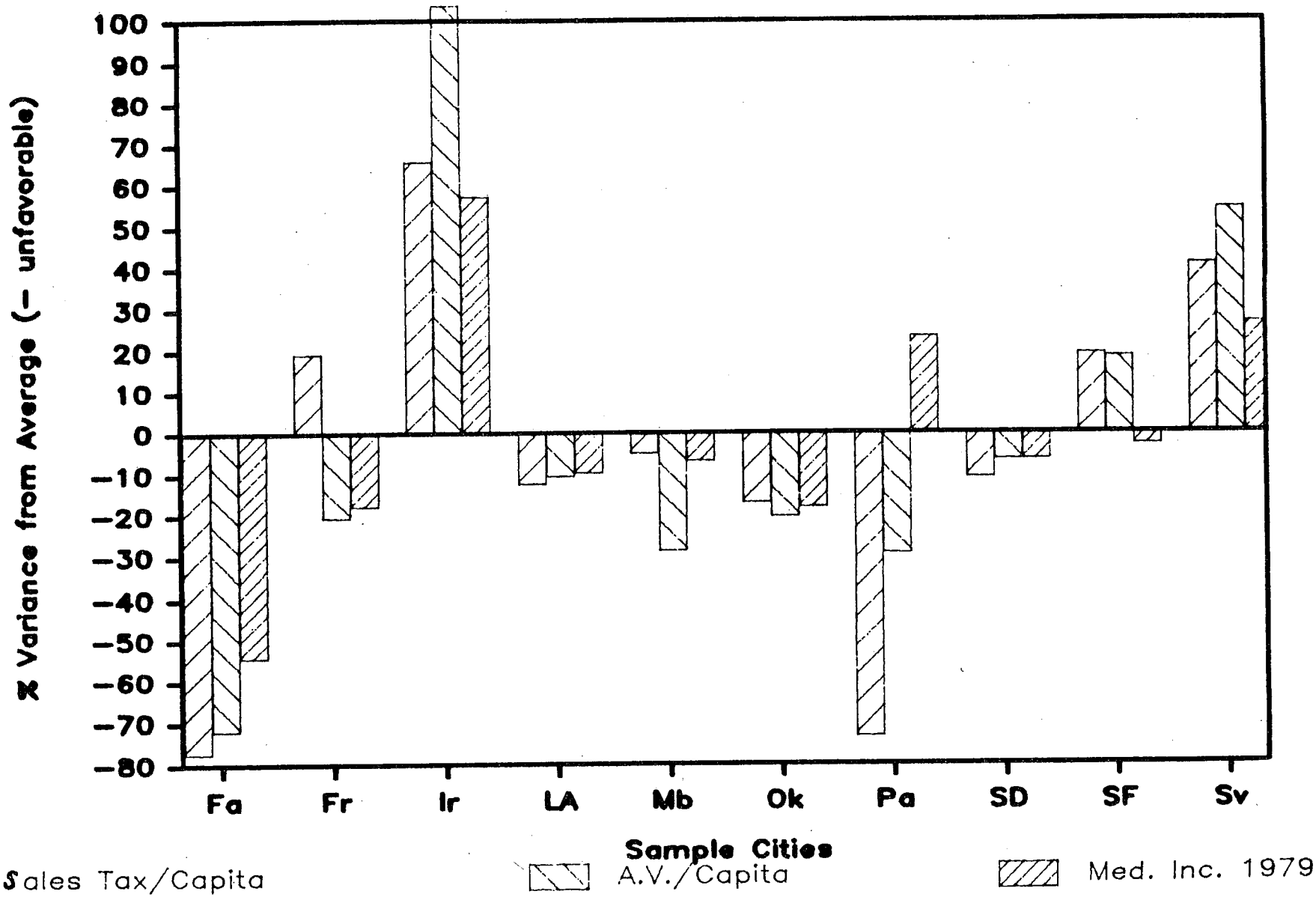
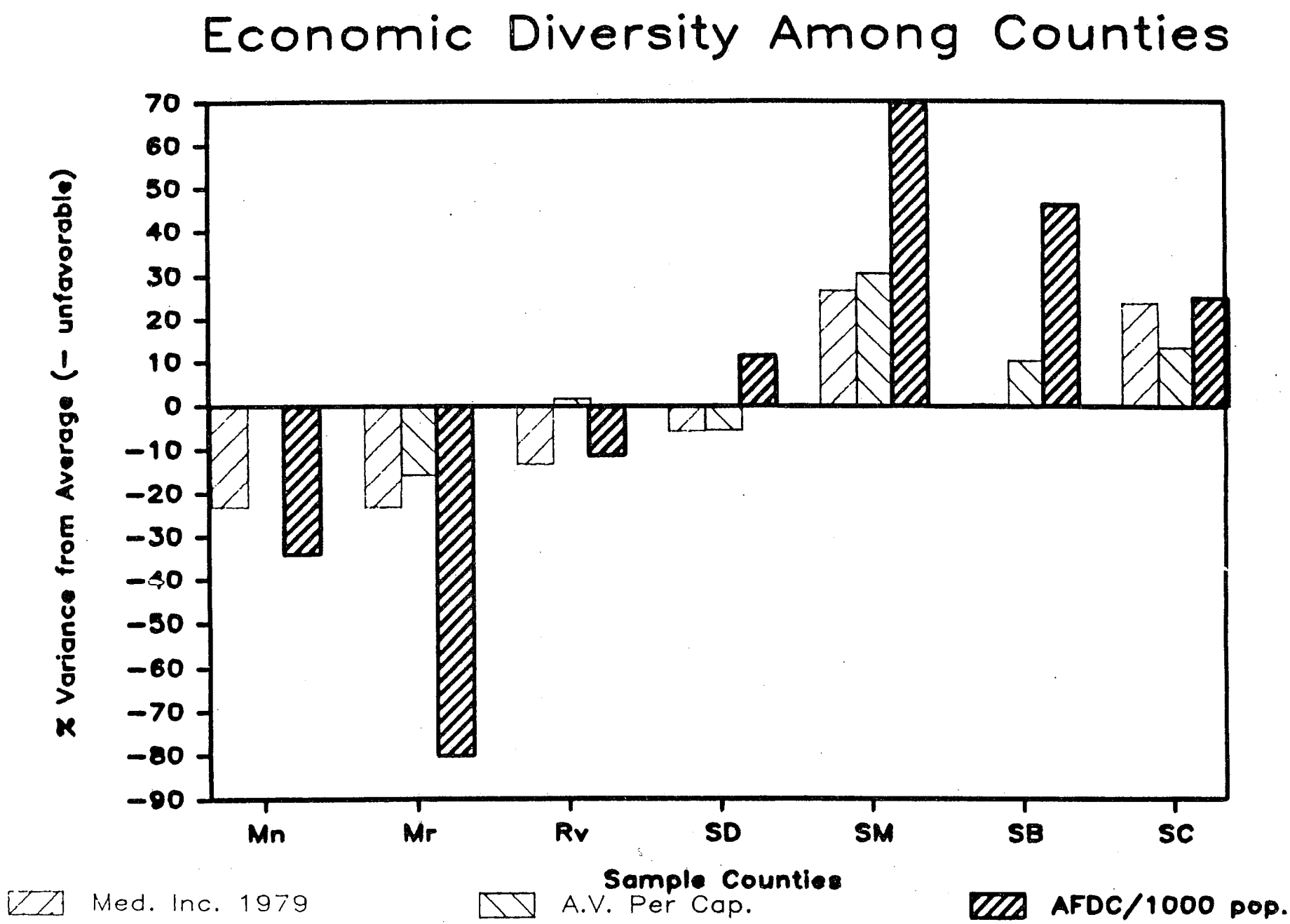


FIGURE II-5


Economic Diversity Among Counties
% Variance from Average (- unfavorable)
70
60
50
40
30
20
10
0
-10
-20
-30
-40
-50
-60
-70
-80
-90
Mn
Mr
Rv
SD
SM
SB
SC
Sample Counties
Med. Inc. 1979
A.V. Per Cap.
AFDC/1000 pop.

CHAPTER III

TRENDS IN CITY AND COUNTY EMPLOYMENT

Local government is a labor-intensive industry. With the exception of welfare benefit payments to individuals and certain capital-intensive public works projects, cities and counties are in the business of hiring staff to provide services to the public. One way to measure changes in resources available to local governments is to examine trends in staffing ratios over the last five years. In the survey questionnaire sample jurisdictions were asked to report on the actual level and distribution of employment in their jurisdictions from fiscal 1977-78 to 1982-83, and estimate the level for 1983-84. The balance of this chapter examines the experience reported in the sample.

A. Trends in Total Employment

Figure III-1 displays total employment data reported by sample cities and counties (in full-time equivalent positions -- FTE) in fiscal 1977-78 and 1982-83. For each jurisdiction, total employment is divided into three parts: (a) enterprise employment -- staff working for generally self-financed activities such as water, electric, or solid waste utilities; (b) federally-funded government workers in the Comprehensive Employment and Training Act (CETA) program; and (c) all other government employees, also referred to as non-enterprise employees. This last group is supported chiefly by local tax funds and grants from higher levels of government.

1. Cities

As the top portion of Figure III-1 indicates, seven of the ten sample cities showed no growth or declining employment from 1977-78 to 1982-83. Only Irvine and San Diego showed increases in total employment. Irvine showed the largest increase in staff (48.3% during a period when its population grew 63.8%) while the small rural community of Farmersville reported the greatest decrease (-30.0%). Of the five cities with more than 200,000 population, all but one (San Diego) showed a decline in total employment. San Diego's increase was a negligible 0.1% while its population grew 12.0%.

An important cause of decline in overall city employment in the sample was termination of the public service jobs component of the federal CETA program. With CETA-funded positions eliminated from the 1977-78 data, five of the sample cities reported increases in enterprise and non-enterprise positions (Irvine, Montebello, San Diego, San Francisco, and Sunnyvale). In no case was the increase in non-enterprise employment in these five cities sufficient to offset the decline in CETA-funded jobs.

Enterprise fund positions increased in all six sample cities reporting such data. These activities are generally user fee-supported utility operations, and as such not subject to financial constraints of recent years. Growth in this area reflects increased service demand because of rising population or expanded operation of facilities, such as ports or airports.

Non-enterprise employment declined in five cities even after excluding effects of CETA termination. Farmersville, Fresno, Los Angeles, Oakland, and Pacifica reduced the number of non-enterprise employees during this period.

A much more consistent picture emerges in ratios of city staff to population. Ratios permit adjustment for effects of population growth during the study period. All but one of the sample cities had population growth during this period. The last three columns in Figure III-1 display the percentage change in city staff per 1,000 residents during the 1977-78 to 1982-83 period for total staff, non-CETA staff and non-enterprise staff. This data is displayed in the bar chart in Figure III-2.

Figure III-2 shows each city's percentage change in total staff, staff per 1,000 residents, and non-enterprise employment per 1,000 residents between fiscal 1977-78 and 1982-83. As the chart shows, every city but one reported a decrease in the ratio of city employees to population. Declines ranged from 42.6% in Farmersville to 3.8% in San Francisco. Eight cities reported a decline in non-enterprise staff per 1,000 population, and only Sunnyvale and San Francisco showed an increase.

Irvine's large increase in total staff (48.3%) was less than its population growth, hence the decline in its ratio of city employment to population. After adjusting for CETA employees, Sunnyvale's staff increased at a greater rate than its growth in resident population. Employment there rose rapidly in recent years with the boom in the electronics industry, and city representatives said additional employees were added to cope with additional service demands resulting from employment growth and a rapid increase in retail activity in the redeveloped central business district. Even with this growth, Sunnyvale's ratio of staff to population is low, compared to similar-sized cities providing similar services.

2. Counties

The lower half of Figure III-1 and the bar chart in Figure III-3 present similar data for the seven sample counties. Four of the five counties with populations over 300,000 showed decreases

in total staff during this period, with only rapidly growing Riverside County reporting an increase. Two small counties, Merced and Mendocino, reported employment gains between fiscal 1977-78 and 1982-83, but Mendocino planned to reduce employment in 1983-84 to approximately the level of 1977-78. With CETA employment removed, the pattern is the same as above, with the large counties showing declines in employment, and the same three counties reporting increases.

Enterprise employment (chiefly county hospitals and solid waste operations) increased in five of seven counties. The large decline in Santa Barbara represented closing the county hospital as a result of contracting out indigent care to local hospitals.

The ratio of total staff to population showed a decline in every sample county, and in six of seven a decline was also registered when CETA employment was removed from the base year. The bar chart in Figure III-3 summarizes data about percentage change in total staff, staff per 1,000 residents and non-enterprise staff per 1,000 residents.

Sizable drops in total staff and non-enterprise staff per 1,000 population were reported in larger counties. A smaller decrease for Riverside County reflects data covering only the period from fiscal 1979-80 to 1982-83, because information for an fiscal 1977-78 was not available. The slight increase in non-enterprise staff per 1,000 population in Merced County may be reversed during 1983-84 as a result of a projected decline of employees over the 1982-83 level.

B. Trends in Non-Enterprise Employment by Function

In non-enterprise employment, effects of recent limitation measures on tax and intergovernmental revenues of local governments are noticeable. Non-enterprise activities of cities and counties are primarily financed with tax revenues or funds provided by federal or state governments.

Counties and cities have begun to increase user fee revenues for non-enterprise activities (see Chapters V and VI). However, because most of these programs, unlike enterprise activities, are not self-supporting, they depend on tax revenues. Exceptions to this include planning departments and some recreation programs, which receive significant fee support. The following sections discuss shifts in non-enterprise employment in sample jurisdictions.

1. Cities

Figure III-4 displays data on non-enterprise city employment by function for fiscal 1977-78 and 1982-83. The data include CETA-funded positions in five jurisdictions that were otherwise unable to separate such positions. Consequently, the percentage figures do not correspond exactly with those in Figure III-1.

This information does, however, illustrate relative trends in employment during the study period. The lower portion of the figure gives percentage changes in the ratio of employees per 1,000 residents for each of six functions: general government, police, fire, public works, parks, libraries, and other activities. The bar chart in Figure III-5 summarizes percentage changes by function over the study period.

As the chart indicates, non-enterprise employment per 1,000 residents declined in all but one sample city, with Sunnyvale again countering the general trend. Of the three functions displayed, only police programs registered gains in staffing relative to population.

Large gains in police staffing were registered in Farmersville and San Diego. Staffing ratios for all other functions, except fire protection, declined. In other jurisdictions, police staffing ratios declined, but at a lesser rate than in any other function.

Though not on the bar chart, Figure III-4 also indicates that fire protection was less likely to decline than were other functions. This confirmed field interview discussions about priority local elected officials attached to maintaining public safety programs in the face of fiscal constraints.

Large declines in public works, park, and recreation programs were consistently noticed. These reductions can be attributed to the loss of CETA workers and also the lower priority assigned these functions by local officials faced with fiscal constraints. An especially large decline in Montebello (-51.2%) resulted from the city contracting out part of its street maintenance to Los Angeles County, thereby reducing staff from 15 to 8 by fiscal 1982-83.

General government functions (central management and overhead) and "other" functions (planning, community service programs, etc.) were also subject to reductions relative population growth.

2. Counties

Figure III-6 and Figure III-7 display similar information about non-enterprise employment in seven sample counties. Included are general government; public protection; public works; health, welfare and social services; and parks and libraries employment. Some CETA positions are included in the data. The overall ratio of staff to population declined in all seven counties, particularly in the large counties of San Diego (-20.1%) and Santa Clara (-23.3%).

The staffing ratio for public protection (sheriff, courts, jails, probation) declined in five of seven counties. Only Riverside and Merced show slight increase. Where declines did occur, public protection functions had experienced less of a drop than did other functions, because: (a) local officials placed a high priority on public safety programs; or (b) rising crime rates

and stiffer criminal penalties prevented counties from cutting in this area. Staff reductions tended to hit hardest in probation programs, according to field interview information.

While health and welfare programs generally registered declines in the ratio of staff to population, no clear pattern emerged in the sample. This lack of trend can be attributed to shifts in staff from one function to other, as well as federal or state categorical program funding changes, particularly in small counties such as Mendocino. Especially sharp drops in welfare and social service staffing were reported in San Diego (-35.3%) and Santa Clara (-33.5%).

C. Findings

1. Growth in local government employment is less than population growth since 1978. Adjusting for termination of CETA, employment declined in 12 of 17 sample jurisdictions, including the four largest. Non-enterprise employment (primarily tax and inter-government grant financed) per 1,000 residents declined in 14 of 17 jurisdictions.

2. Public safety employment declined less than other functions, but generally did not remain constant with population growth. Reductions in staffing relative to local population occurred most frequently in general government, libraries, community development, and park programs.

FIGURE III-1

SUMMARY CITY AND COUNTY EMPLOYMENT DATA

City	Label	1977-78 Employment				1982-83 Employment				Total Percent Change	% Change Total Staff/ 1000 Pop.	% Change Non-Ceta Staff/ 1000 Pop.	% Change Non-Ceta Non-Ent. Staff/ 1000 Pop.
		Ent.	CETA	Non-Ent.	Total	Ent.	CETA	Non-Ent.	Total				
Farmersville	Fa	0	18	22	40	7	0	21	28	-30.0	-42.6	4.4	-21.7
Fresno	Fr	673	255	1,783	2,711	739	0	1,742	2,481	-8.5	-26.6	-18.9	-21.6
Irvine	Ir	0	0	259	259	0	0	384	384	48.3	-9.5	-9.5	-9.5
Los Angeles	LA	12,515	5,189	28,358	46,062	12,756	0	26,400	39,156	-15.0	-19.7	-9.5	-12.1
Montebello	Mb	67	37	250	354	87	0	267	354	0.0	-8.5	2.2	-2.3
Oakland	Ok	0	762	3,529	4,291	0	48	3,193	3,241	-24.5	-27.4	-13.0	-13.0
Pacifica	Pa	0	0	153	153	0	0	133	133	-13.1	-12.4	-12.4	-12.4
San Diego	SD	573	441	5,058	6,072	710	0	5,367	6,077	0.1	-10.6	-3.6	-5.2
San Francisco	SF	8,456	1,544	12,774	22,774	9,275	0	13,470	22,745	-0.1	-3.8	3.8	2.1
Sunnyvale	Sv	62	128	636	826	88	0	720	808	-2.2	-3.7	13.9	11.4

County	Label	1977-78 Employment				1982-83 Employment				Total Percent Change	% Change Total Staff/ 1000 Pop.	% Change Non-Ceta Staff/ 1000 Pop.	% Change Non-Ceta Non-Ent. Staff/ 1000 Pop.
		Ent.	CETA	Non-Ent.	Total	Ent.	CETA	Non-Ent.	Total				
Mendocino	Mn	62	0	713	775	66	0	729	795	2.6	-9.2	-9.2	-9.5
Merced	Mr	396	112	1,241	1,749	559	0	1,422	1,981	13.3	-1.4	5.4	-0.2
Riverside	Rv	950	220	4,892	6,062	1,075	72	5,416	6,563	8.3	-2.9	-0.3	-0.7
San Diego	SD	0	537	11,539	12,076	143	0	10,891	11,034	-8.6	-19.8	-16.0	-17.1
San Mateo	SM	544	200	3,827	4,571	486	0	3,306	3,792	-17.0	-18.4	-14.7	-15.1
Santa Barbara	SB	264	0	2,706	2,970	67	0	2,612	2,679	-9.8	-15.9	-15.9	-10.0
Santa Clara	SC	3,312	694	8,109	12,115	3,766	73	7,216	11,055	-8.7	-15.5	-10.9	-17.6

Source: Survey questionnaire.

Notes:

1. San Francisco data is for 1979-80, earlier data not available. Per capita analysis based on 1/1980 population.
2. Sunnyvale increase may be related to growth in private employment within the city rather than increase in resident population alone.
3. Riverside data is for 1979-80, earlier data not available. Per capita analysis based on 1/1980 population.

Key:

Ent.-- Enterprise employment
CETA -- Comprehensive Employment and Trainning Act employment
Non-Ent.-- Non-enterprise employment

Figure III-2

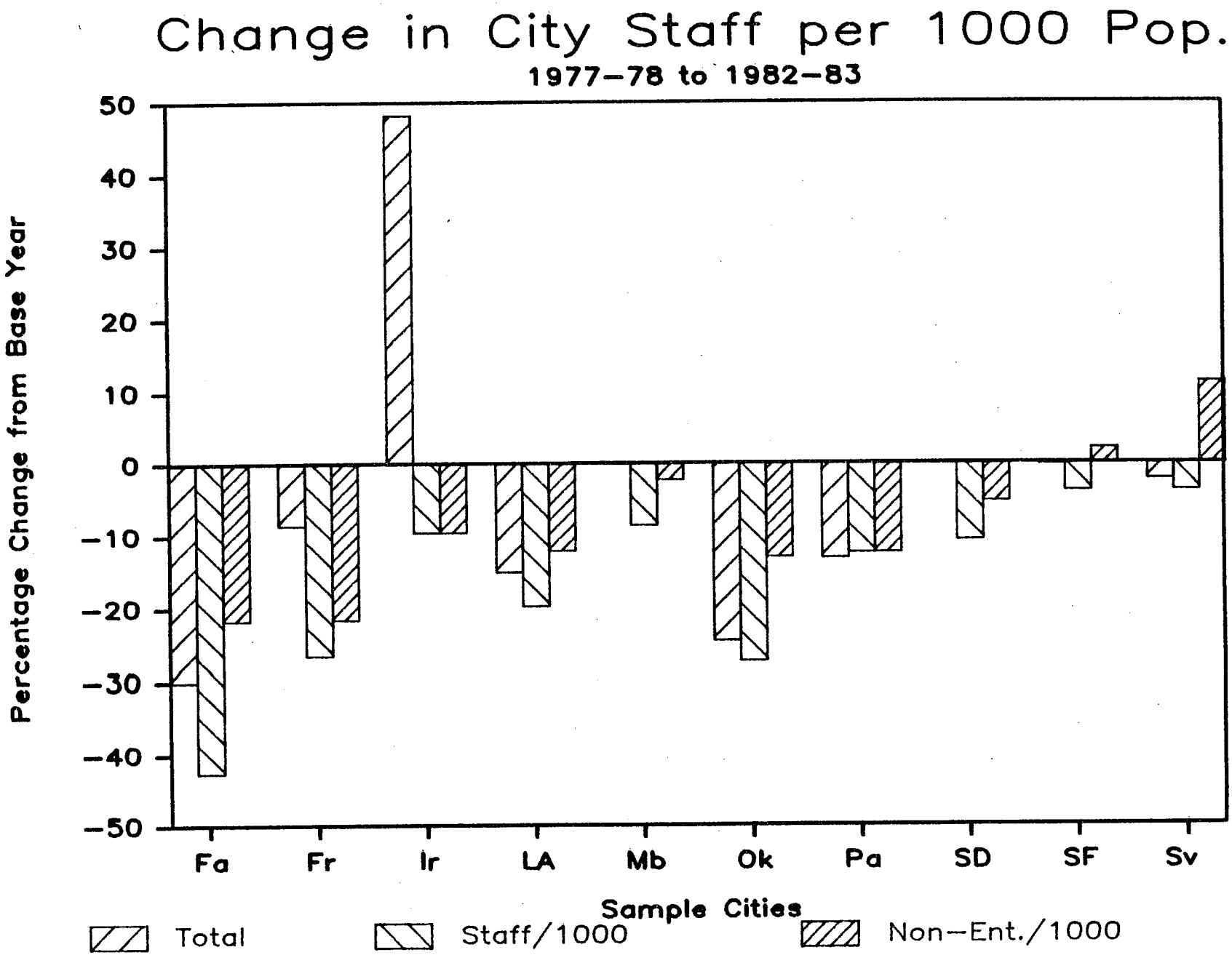

Change in City Staff per 1000 Pop.
1977–78 to 1982–83
Percentage Change from Base Year
50
40
30
20
10
0
–10
–20
–30
–40
–50
Fa
Fr
Ir
LA
Mb
Ok
Pa
SD
SF
Sv
Sample Cities
Total
Staff/1000
Non–Ent./1000

FIGURE III-3

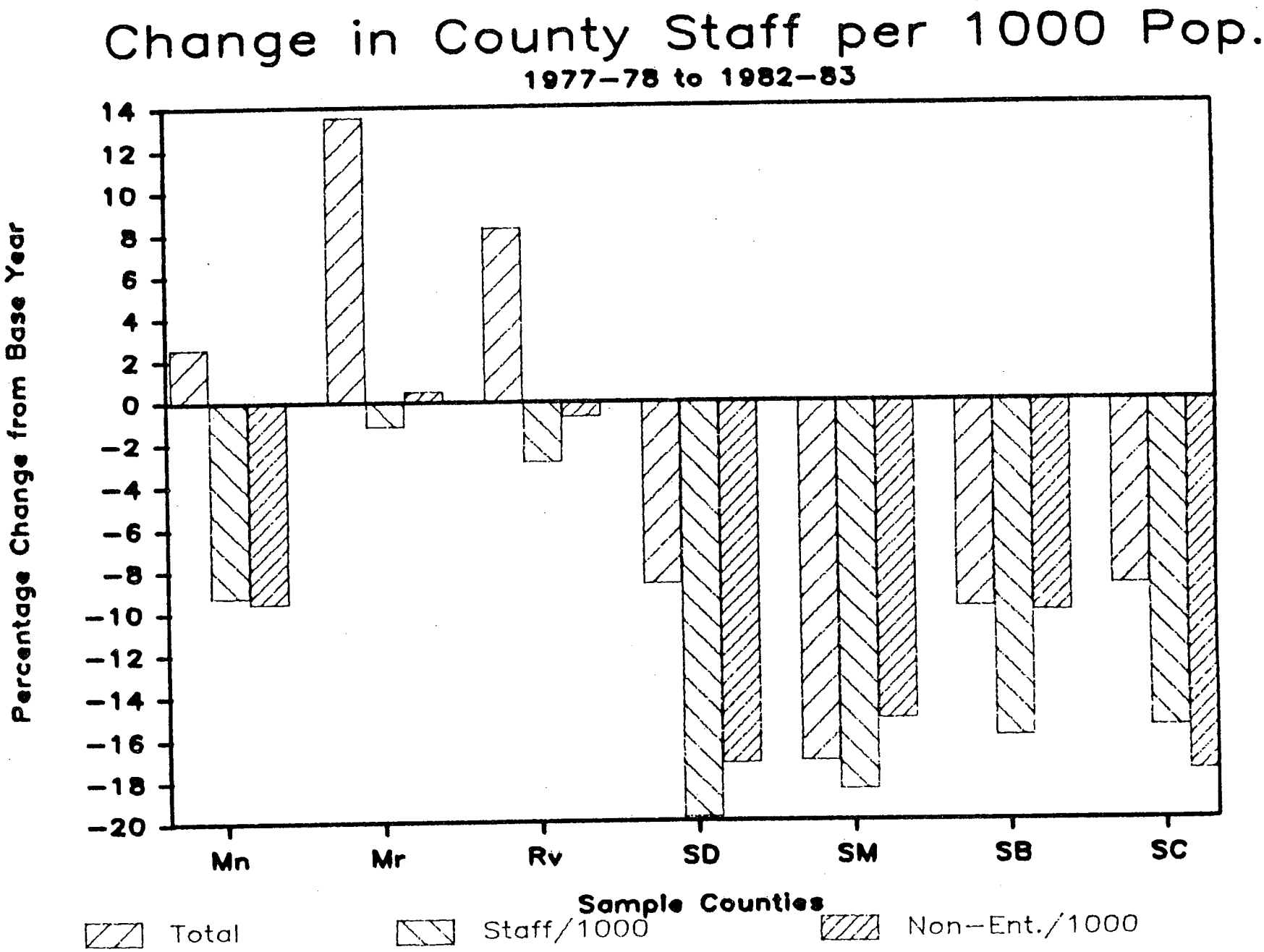

Change in County Staff per 1000 Pop.
1977–78 to 1982–83
Percentage Change from Base Year
14
12
10
8
6
4
2
0
−2
−4
−6
−8
−10
−12
−14
−16
−18
−20
Mn
Mr
Rv
SD
SM
SB
SC
Sample Counties
Total
Staff/1000
Non–Ent./1000

FIGURE III-4

CITY NON-ENTERPRISE EMPLOYMENT BY FUNCTION AND THE PERCENTAGE CHANGE IN STAFFING PER CAPITA BY FUNCTION

	1977-78 Employment							1982-83 Employment						
City	Gen.	Police	Fire	P.Wks.	Prk/Lib.	Other	Total	Gen.	Police	Fire	P.Wks.	Prk/Lib.	Other	Total
Farmersville	6	9	0	16	0	2	33	6	12	0	4	0	0	22
Fresno	200	477	301	203	351	459	1,991	178	512	311	137	307	296	1,741
Irvine	40	76	0	89	13	41	259	54	123	0	125	35	47	384
Los Angeles	4,608	10,545	4,193	7,202	6,163	2,164	34,875	3,576	9,671	3,704	5,515	3,130	1,909	27,505
Montebello	31	101	60	15	34	42	283	27	98	60	8	33	41	267
Oakland	279	946	597	496	665	1,309	4,292	287	931	524	366	531	603	3,242
Pacifica	13	53	27	37	8	15	153	10	51	25	28	7	12	133
San Diego	1,458	1,329	739	510	807	215	5,058	1,392	1,806	841	449	679	200	5,367
San Francisco	2,312	2,492	1,583	1,397	2,120	4,343	14,247	2,474	2,700	1,560	1,441	1,270	4,025	13,470
Sunnyvale	98	293	na	54	249	54	748	88	297	na	49	206	80	720

Percentage Change in Staffing Per 1000 Residents By Function
Between 1977-78 and 1982-83

City	Label	Gen.	Police	Fire	P.Wks.	Prk/Lib.	Other	Total
Farmersville	Fa	-18.0	9.4	na	-79.5	na	na	-45.3
Fresno	Fr	-28.6	-13.9	-17.1	-45.8	-29.8	-48.3	-29.8
Irvine	Ir	-17.6	-1.2	na	-14.3	64.3	-30.0	-9.5
Los Angeles	LA	-26.7	-13.4	-16.6	-27.7	-52.0	-16.7	-25.5
Montebello	Mb	-20.3	-11.2	-8.5	-51.2	-11.2	-10.7	-13.7
Oakland	Ok	-1.1	-5.4	-15.6	-29.0	-23.2	-55.7	-27.4
Pacifica	Pa	-22.4	-3.0	-6.6	-23.7	-11.8	-19.3	-12.4
San Diego	SD	-14.7	21.4	1.6	-21.4	-24.8	-16.9	-5.2
San Francisco	SF	3.0	4.3	-5.1	-0.7	-42.3	-10.8	-9.0
Sunnyvale	Sv	-11.6	-0.2	na	-10.7	-18.6	45.8	-5.3

Source: Survey questionnaire.

Notes:
1. Fresno shifted 7 Pub. Works and 10 Fire employees to enterprise in this period.
2. CETA included in 1977-78 for Farmersville, L.A.,Montebello, Oakland, and Sunnyvale.
3. S.F. data is for 1979-80 as data was not available for 1977-78. The "Other" function includes function includes county health and welfare programs.
4. Sunnyvale data is for full time employees only. It excludes part-time employee FTE. Sunnyvale has a Public Safety Department (combined police and fire departments).

Figure III-5

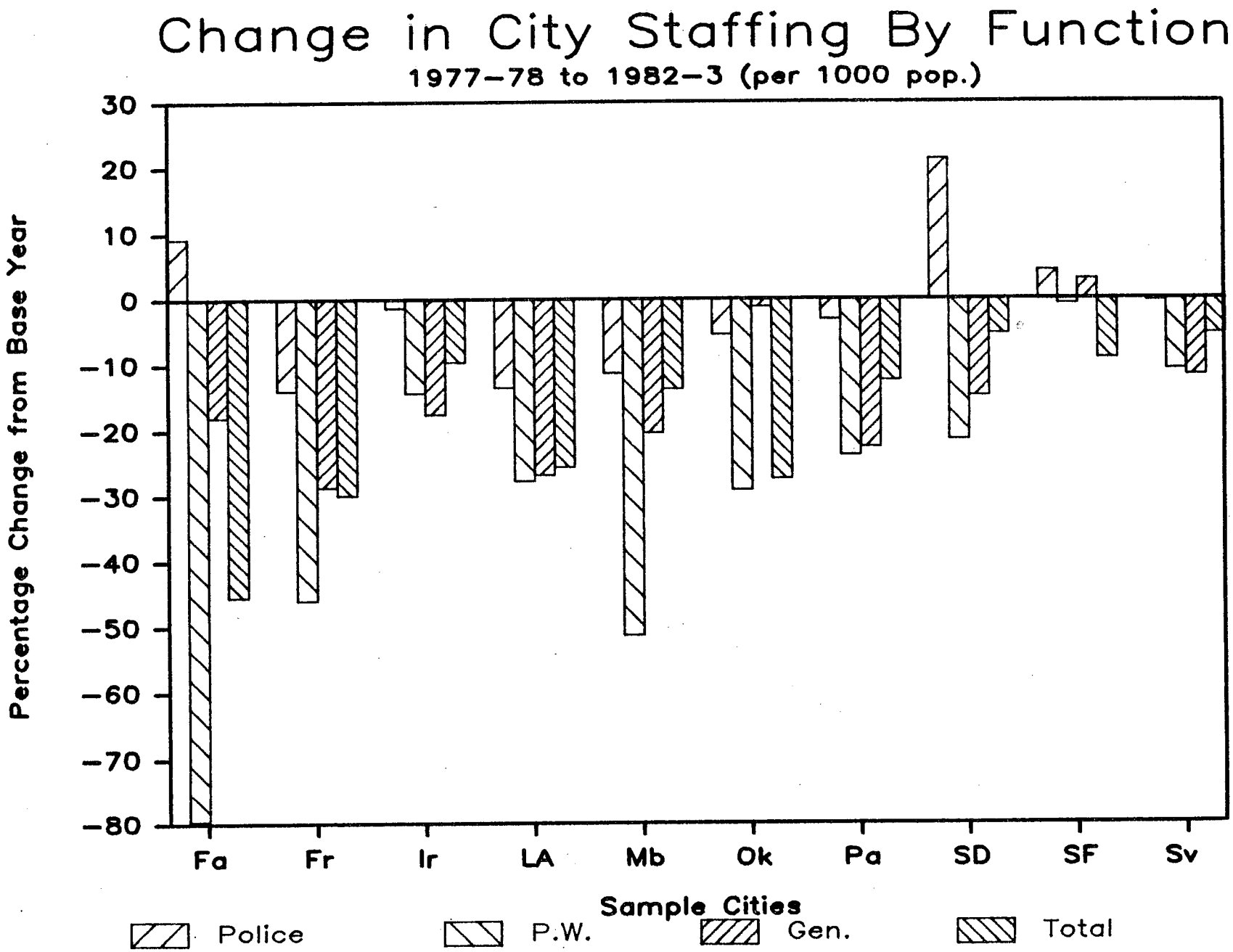

Change in City Staffing By Function
1977–78 to 1982–3 (per 1000 pop.)
Percentage Change from Base Year
30
20
10
0
−10
−20
−30
−40
−50
−60
−70
−80
Fa
Fr
Ir
LA
Mb
Ok
Pa
SD
SF
Sv
Sample Cities
Police
P.W.
Gen.
Total

FIGURE III-6

COUNTY NON-ENTERPRISE EMPLOYMENT BY FUNCTION AND THE PERCENTAGE CHANGE IN STAFFING PER CAPITA BY FUNCTION

Counties	1977-78 Employment							1982-83 Employment						
	Gen.	Protect.	P.Wks.	Health	Welfare	Prk/Lib	Total	Gen.	Protect.	P.Wks.	Health	Welfare	Prk/Lib	Total
Mendocino	154	245	115	57	116	26	713	137	266	95	83	120	28	729
Merced	206	466	144	153	305	79	1,353	216	534	101	180	316	76	1,423
Riverside	1,611	1,132	463	1,005	856	53	5,120	1,746	1,371	546	782	982	61	5,488
San Diego	2,319	4,227	653	1,473	3,011	393	12,076	1,990	4,434	542	1,500	2,217	298	10,981
San Mateo	722	1,454	162	562	703	225	3,828	641	1,393	161	417	526	170	3,308
Santa Barbara	469	1,291	0	414	413	119	2,706	409	1,319	0	434	374	76	2,612
Santa Clara	1,545	3,162	451	1,151	2,110	384	8,803	1,168	2,616	837	908	1,514	246	7,289

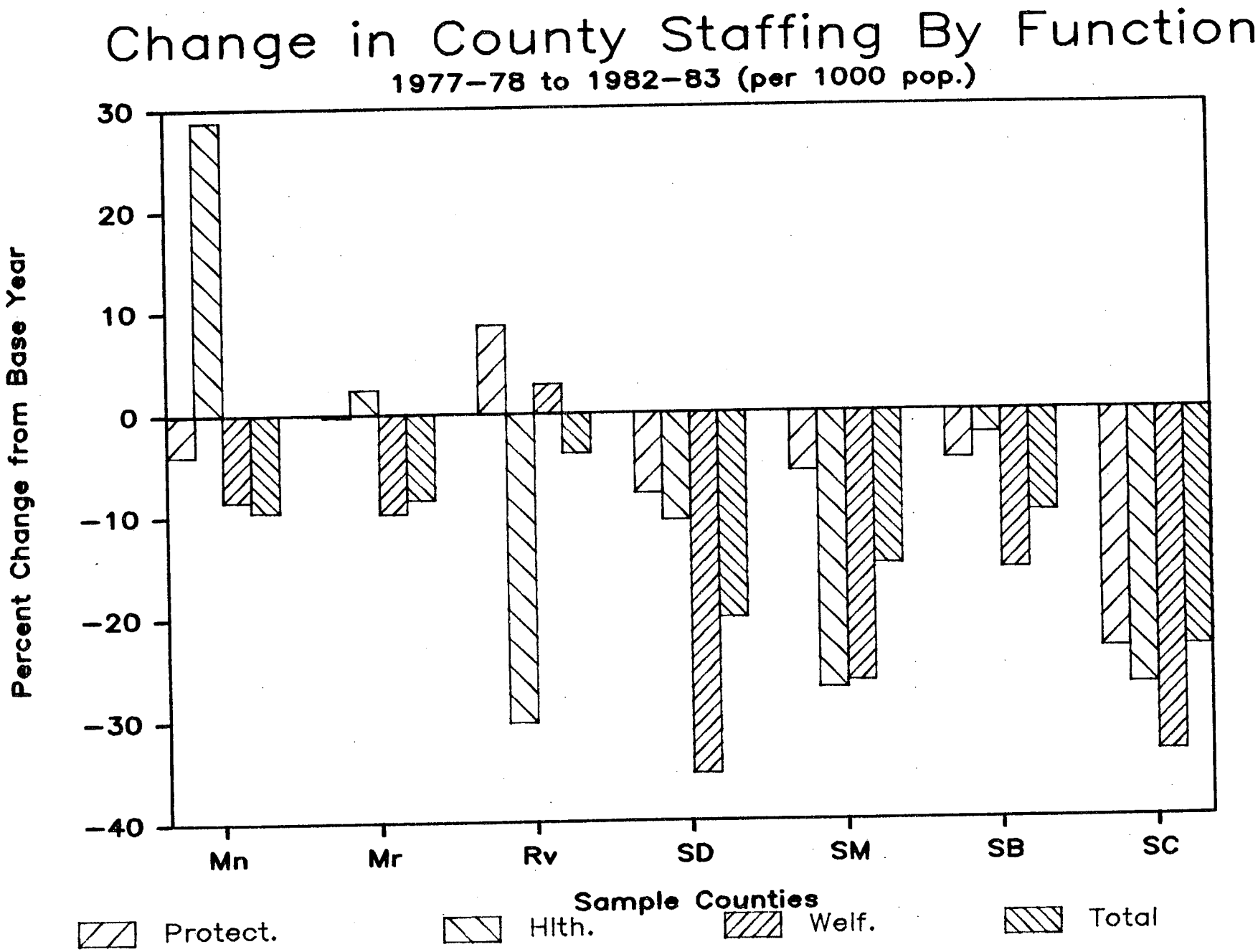
Percent Change in Staffing Per 1000 Residents By Function
Between 1977-78 and 1982-83

County	Label	Gen.	Protect.	P.Wks.	Health	Welfare	Prk/Lib	Total
Mendocino	Mn	-21.3	-3.9	-26.9	28.9	-8.5	-4.7	-9.5
Merced	Mr	-8.7	-0.2	-38.9	2.4	-9.8	-16.2	-8.4
Riverside	Rv	-2.8	8.6	5.8	-30.2	2.9	3.2	-3.9
San Diego	SD	-24.6	-7.9	-27.1	-10.6	-35.3	-33.4	-20.1
San Mateo	SM	-12.7	-5.8	-2.3	-27.1	-26.4	-25.7	-15.0
Santa Barbara	SB	-18.7	-4.7	na	-2.3	-15.6	-40.5	-10.0
Santa Clara	SC	-30.0	-23.4	71.9	-26.9	-33.5	-40.7	-23.3

Source: Survey questionnaire.

Notes:
1. CETA included in Merced,Riverside, San Diego, and Santa Clara.
2. Riverside data is for 1979-80 as 1977-78 data was not available.

Figure III-7


Change in County Staffing By Function
1977–78 to 1982–83 (per 1000 pop.)
Percent Change from Base Year
30
20
10
0
−10
−20
−30
−40
Mn
Mr
Rv
SD
SM
SB
SC
Sample Counties
Protect.
Hlth.
Welf.
Total

CHAPTER IV

PUBLIC EMPLOYEE COMPENSATION: WHAT YOU SEE IS NOT ALL YOU PAY FOR

INTRODUCTION

As noted in Chapter III, counties and cities are labor-intensive businesses, and it is not unusual for more than 60% of a city's expenditures (or more than 50% for a county's) to be for salaries and employer-paid taxes and fringe benefits. Accordingly, control of compensation is a key element in achieving major cost savings or future cost avoidance in local government.

Compensation costs can be controlled in two ways: (a) control the number of employees; and (b) control the cost of compensating employees on staff. Local governments in the sample have generally held the growth of non-enterprise employment below the rate of growth in their resident populations since the passage of Proposition 13. To examine the second option, salary and benefit trends from fiscal 1977-78 to 1983-84 were traced in the sample jurisdictions. The following discussion examines findings and public policy choices for controlling costs in this area.

TOTAL COMPENSATION

Figures IV-1, IV-2, and IV-3 present salary and employer-paid fringe benefit costs for four groups of city and county employees. County classes are deputy sheriff, clerk/typist, social worker, and road maintenance worker; city classes are police officer, fire fighter, clerk/typist, and street maintenance worker. For each job class, sample jurisdictions reported the cost of salaries and benefits for fiscal 1977-78 through 1983-84. Employer-paid benefits include retirement contributions, health insurance, Social Security taxes (where applicable), unemployment insurance,

and other fringe benefits. Not all sample jurisdictions had adequate records of this information, thus, the following analysis excludes some sample jurisdictions. However, trends discussed below were confirmed orally in those jurisdictions unable to supply complete data.

Data in Figures IV-1 and IV-2 are presented as charts in Figures IV-4, IV-5, and IV-6. Each chart depicts percentage growth in salaries, employer-paid benefits, and total compensation costs. A horizontal line on each graph at the 66.6% level marks cumulative change in the California C.P.I. (urban) from the second quarter of 1977 (immediately prior to fiscal 1977-78) to the same quarter in 1983. Increases in total compensation were generally less than the California C.P.I. during this period. Among counties, one position (deputy sheriff) in one county (San Mateo) received increases greater than the C.P.I. Among cities, three communities (Irvine -- three employee classes, Montebello -- two employee classes, and Sunnyvale -- three classes) reported total compensation increases in excess of the C.P.I. According to Irvine officials, increases were needed to keep that city competitive in the Orange County labor market. Sunnyvale reported the same for its labor market. Montebello took steps to bring two job classes up to levels found in other local jurisdictions.

SALARY VS. FRINGE BENEFIT COSTS

Figures IV-1 through IV-6 indicated rapid growth in costs of employer-paid fringe benefits and taxes. In only six out of 43 examples, salary increases exceeded the C.P.I., while benefit increases were greater in 26 instances. This trend, more pronounced in counties, was also evident in cities.

Local officials identified a number of factors that contributed to rapid growth in benefit costs:

Collective Bargaining - In several jurisdictions, employee organizations negotiated for fringe benefit increases, thereby causing greater cost increases for benefits than for salaries. The nontaxable nature of most fringe benefits contributed to this trend. Examples of this trend: employer pick up of all or part of employee retirement contributions and dependent health insurance costs.

Increased Retirement Costs - As discussed below, more frequent actuarial studies have required many jurisdictions to dramatically increase contributions for retirement benefits.

Increased Social Security Taxes - Employer taxes for Social Security have risen from 5.85% of salary in 1977 to 7.0% in 1984. The taxable wage ceiling during this period has risen from $16,500 to $37,800. Together, these increases have resulted in substantially higher employer costs.

Rising Health Insurance Costs - Like other employers in California, virtually every local government interviewed had experienced rising health benefits premiums.

EMPLOYER RETIREMENT CONTRIBUTIONS

The size and rate of change in employer retirement contributions directly impacts the fiscal condition of several sample jurisdictions. Figures IV-7 and IV-8 presents employer retirement contributions as a percentage of salary. Though a fairly short time period was surveyed, rapid growth in employer contribution rates is obvious, particularly in jurisdictions with independent retirement systems. Safety member contribution rates required the greatest increases, and cities experiencing the highest rates were Fresno (48% in 1983), Los Angeles (58% in 1983), Oakland (79% in 1981), and San Francisco (92% in 1982).

Experience in agencies contracting with the Public Employees Retirement System (PERS) is the subject of Figure IV-8. Required employer contributions are much less because benefits available through PERS are less generous than from the large independent systems. Recent PERS rate trends have also required smaller increases compared to rate increases in independent systems.

RETIREMENT SYSTEM REFORM

Local officials are acutely aware of the impact retirement costs have on a jurisdiction's fiscal health. In Los Angeles, Oakland, and San Francisco, the extremely high employer contribution rate is the ongoing cost of very generous cost-of-living adjustment provisions for safety members approved by voters in the 1960's and early 1970's. These generous benefits have since been repealed, so that each city is theoretically facing only continued benefit costs (until early in the next century) for members who had earned a vested right before the charter change. A recent Supreme Court action, however, casts doubt on whether the voters' change will stand. The court refused to hear an appeal from a Pasadena case, in which an appellate court ruled existing pension COLAs for current employees could not be capped. The City of Los Angeles is currently involved in litigation which will determine whether the capping of benefits for employees first hired under the old system will be allowed.

Among sample counties, interest in controlling future retirement costs was evident. Of the five counties which administer retirement under the 1937 Retirement Act, Mendocino, San Diego, and San Mateo have implemented a "second tier" lower benefit level with lower costs, and the remaining two counties are actively pursuing bargaining unit and legislative approval of second-tier plans. PERS contracting counties are more limited in their options, since they must await legislative authorization to offer reduced second-tier benefits.

DISABILITY RETIREMENT COSTS

Because of high costs involved, disability retirements were identified as a major concern for local governments. Disabled employees typically receive benefits for greater lengths of time than other retirees, and have contributed to the system for shorter periods. Disability costs are substantial. For example, San Mateo County has estimated that the cost to the county of each disability retirement is more than $350,000. Favorable tax treatment of disability benefits and a more litigious attitude in society in general were reasons cited for a rapid increase in disability retirements in recent year. In the City of Los Angeles, disability retirements granted annually to police officers has risen from 22 in 1970-71 to 146 in 1981-82, an increase of 563%. Also contributing to the rise in claims has been the advent of psychological-related disability claims, particularly among police employees. Such claims have risen from zero in 1970-71 to 23.3% of disability claims awarded to police officers in Los Angeles in 1981-82. This rapid growth has focused attention in Los Angeles and elsewhere on measures to control such costs.

San Mateo County has implemented a "modified work program" designed to put disabled employees back into productive work within county government. The program was implemented in June of 1980. Since June 1982, the county has not had a single disability retirement, while earlier it was approving an average of six per year. The program was developed in cooperation with labor organizations and county officials. It has not only saved the county more than $2 million annually in retirement costs, but has also reduced workers' compensation litigation. This is the by-product of the county's active commitment to return disabled employees to full productive employment. The program is an excellent example of how a local government can successfully control a major and costly problem.

Officials in other cities and counties indicated interest in programs similar to San Mateo County's modified work program. They also expressed a sense that success in their efforts would depend on the Legislature not expanding the definition of job-related disabilities in the workers' compensation system and in the 1937 Retirement Act.

PAY CUTS AND PAY FREEZES

Pay cuts and pay freezes were tools not frequently utilized by the sample counties and cities to cope with fiscal constraints of recent years. The overwhelming majority of cities and counties said they had to pay competitive wages to retain qualified employees. They also indicated that they would (and sometimes did) reduce the number of employees rather than freeze or cut pay to hold employment constant. Three reasons for this were: (a) employee organizations generally favored this approach; (b) pay freezes or cuts would drive away qualified employees capable of finding jobs elsewhere; and (c) given the uncertainty of federal, state, and local revenues during recent years, officials could not reasonably forecast when fiscal constraints would allow restoration of "normal" compensation patterns after a pay freeze.

Still, freezes were implemented in Riverside County in 1981-82 and Mendocino County in 1983-84. Reductions in pay were implemented in Mendocino County in 1982-83 and in Merced County in 1983-84. Mendocino County's pay cut involved a mandatory five-day furlough of non-emergency employees, so that a budget shortfall in 1982-83 could be met. For 1983-84, salary levels have been frozen. This freeze came after a three-year labor agreement that tied cost of living adjustments to the San Francisco C.P.I. Merced County lowered employees' salaries 5% in 1983-84, but partially cushioned this cut by reducing employees' retirement contribution rates by 3%. The retirement cost is to be made up from so-called "surplus" retirement system earnings used to lower employer and employee contributions for one year.

In spite of reductions in non-enterprise employment, no sample city implemented across-the-board pay cuts or pay freezes. For a period in fiscal 1978-79, when the Legislature prohibited local salary increases as a condition of receiving state bail-out funds, no raises were granted. The Supreme Court later overturned this law as an unconstitutional impairment of labor contracts. Sunnyvale had refused its share of state bail-out funds rather than deny employees scheduled pay raises, but after the Supreme Court ruling, Sunnyvale received its share.

BINDING INTEREST ARBITRATION AND LABOR RELATIONS

One topic on which all sample communities with their wide range of needs and political and managerial viewpoints agreed was opposition to binding interest arbitration of public safety labor disputes. Officials said that removal of local control through imposition of binding interest arbitration would be a serious blow to local fiscal self-management. They cited three reasons for their opposition:

- Removal of final decision-making power from elected representatives who would have to finance imposed settlements.
- No incentives to bargain in good faith on the part of both parties to a labor dispute.
- Arbitrators' inability to assess ability to pay costs of a given settlement.

A related topic raised by officials of several cities and counties was the desire to avoid regulation of local employer-employee relations by the Public Employment Relations Board (PERB). Local labor relations are now governed by the Myers-Milias-Brown Act. Officials said PERB would inevitably restrict local governments' ability to deal with local needs in diverse ways. This view is based on the theory that "bad cases made bad law", and that PERB would unnecessarily constrain all local jurisdictions because of possible abuse in a few cases.

POLICY IMPLICATIONS

Given the large role compensation costs play in local spending, it is obvious that attention should be given to policy changes that may impact local agencies' ability to control compensation costs. These may be summarized as follows:

1. Binding interest arbitration and giving PERB jurisdiction over local labor disputes are uniformly opposed by local officials as serious restrictions on their ability to manage compensation costs.

2. Independent retirement systems and PERS contract agencies should be authorized to negotiate new and less expensive retirement benefit packages.

3. Legislation to allow employers, including local governments, control over health care costs should be pursued.

4. A change in the definition of "work-related injuries" would significantly reduce local governments' workers' compensation and disability retirement costs.

FIGURE IV-1

CHANGE IN COUNTY COMPENSATION FOR SELECTED ENTRY LEVEL JOB CLASSES

POSITION: Deputy Sheriff

County	Label	1977-78 Compensation Salary	Benefits	Total	1983-84 Compensation Salary	Benefits	Total	Percent Change Salary	Benefits	Total
Mendocino	Mn	$12,043	$2,998	$15,041	$17,883	$6,083	$23,966	48.5	102.9	59.3
Merced	Mr	10,858	3,971	14,829	16,925	5,375	22,300	55.9	35.4	50.4
Riverside	Rv	13,790	4,755	18,545	20,363	9,859	30,222	47.7	107.3	63.0
San Diego	SD	14,025	2,665	16,690	18,950	6,604	25,554	35.1	147.8	53.1
San Mateo	SM	13,956	4,289	18,245	22,963	8,567	31,530	64.5	99.7	72.8
Santa Barbara	SB	13,584	2,229	15,813	20,664	5,307	25,971	52.1	138.1	64.2

POSITION: Clerk/Typist

County	Label	1977-78 Compensation Salary	Benefits	Total	1983-84 Compensation Salary	Benefits	Total	Percent Change Salary	Benefits	Total
Mendocino	Mn	$7,041	$1,921	$8,962	$10,577	$3,228	$13,805	50.2	68.0	54.0
Merced	Mr	6,365	1,888	8,253	9,666	2,751	12,417	51.9	45.7	50.5
Riverside	Rv	6,885	1,513	8,398	9,204	3,636	12,840	33.7	140.3	52.9
San Diego	SD	6,594	1,088	7,682	9,630	2,533	12,163	46.0	132.8	58.3
San Mateo	SM	8,008	2,452	10,460	11,856	4,749	16,605	48.1	93.7	58.7
Santa Barbara	SB	6,996	1,148	8,144	10,224	2,626	12,850	46.1	128.7	57.8

POSITION: Social Worker

County	Label	1977-78 Compensation Salary	Benefits	Total	1983-84 Compensation Salary	Benefits	Total	Percent Change Salary	Benefits	Total
Mendocino	Mn	$10,962	$2,765	$13,727	$16,650	$4,341	$20,991	51.9	57.0	52.9
Merced	Mr	10,109	2,834	12,943	15,344	3,832	19,176	51.8	35.2	48.2
Riverside	Rv	11,326	2,162	13,488	15,642	5,445	21,087	38.1	151.9	56.3
San Diego	SD	11,648	1,712	13,360	16,557	3,775	20,332	42.1	120.5	52.2
San Mateo	SM	13,125	3,465	16,590	19,386	6,792	26,178	47.7	96.0	57.8
Santa Barbara	SB	11,292	1,853	13,145	16,596	4,262	20,858	47.0	130.0	58.7

POSITION: Road Maintenance Worker

County	Label	1977-78 Compensation Salary	Benefits	Total	1983-84 Compensation Salary	Benefits	Total	Percent Change Salary	Benefits	Total
Mendocino	Mn	$9,079	$2,360	$11,439	$13,770	$3,813	$17,583	51.7	61.6	53.7
Merced	Mr	9,173	2,731	11,904	13,914	3,643	17,557	51.7	33.4	47.5
Riverside	Rv	10,244	2,002	12,246	13,843	4,786	18,629	35.1	139.1	52.1
San Diego	SD	12,750	2,512	15,262	19,219	6,361	25,580	50.7	153.2	67.6
San Mateo	SM	12,126	3,035	15,161	17,930	6,265	24,195	47.9	106.4	59.6
Santa Barbara	SB	9,972	1,636	11,608	14,568	3,741	18,309	46.1	128.7	57.7

NOTE: Santa Clara County could not supply complete data for this item.

FIGURE IV-2

CHANGE IN CITY COMPENSATION FOR SELECTED ENTRY LEVEL JOB CLASSES

POSITION: Police Officer

City	Label	1977-78 Compensation Salary	1977-78 Compensation Benefits	1977-78 Compensation Total	1983-84 Compensation Salary	1983-84 Compensation Benefits	1983-84 Compensation Total	Percent Change Salary	Percent Change Benefits	Percent Change Total
Farmersville	Fa.	$8,904	$3,508	$12,412	$11,964	$4,464	$16,428	34.4	27.3	32.4
Fresno	Fr.	16,116	8,187	24,303	24,660	15,106	39,766	53.0	84.5	63.6
Irvine	Ir.	13,968	6,834	20,802	23,484	11,571	35,055	68.1	69.3	68.5
Los Angeles	La.	15,493	4,183	19,676	24,868	5,720	30,588	60.5	36.7	55.5
Montebello	Mb.	13,872	6,026	19,898	19,332	10,639	29,971	39.4	76.6	50.6
Oakland	Ok.	18,119	5,530	23,649	26,748	7,925	34,673	47.6	43.9	46.6
Pacifica	Pa.	15,047	5,496	20,543	23,114	6,551	29,665	53.6	19.2	44.4
San Diego	SD.	12,209	na	12,209	19,032	6,147	25,179	55.9	na	na
Sunnyvale	Sn.	16,329	5,878	22,207	27,348	10,516	37,864	67.5	78.9	70.5

Note:
1. San Francisco was unable to complete data for the period under study.
2. Los Angeles data reflects entry level pension cost under second tier plan. Costs would be $14,183 higher in 1977-78 and $9,947 in 1982-83 if averaged with older employees.
3. Oakland data reflects entry level pension costs under its new pension plan (post 1976).

POSITION: Street Maintenance Worker

City	Label	1977-78 Compensation Salary	1977-78 Compensation Benefits	1977-78 Compensation Total	1983-84 Compensation Salary	1983-84 Compensation Benefits	1983-84 Compensation Total	Percent Change Salary	Percent Change Benefits	Percent Change Total
Farmersville	Fa.	$7,740	$3,245	$10,985	$10,380	$4,198	$14,578	34.1	29.4	32.7
Fresno	Fr.	10,992	3,307	14,299	14,880	5,068	19,948	35.4	53.3	39.5
Irvine	Ir.	9,252	4,058	13,310	16,311	7,065	23,376	76.3	74.1	75.6
Los Angeles	LA.	10,022	2,405	12,427	14,971	3,443	18,414	49.4	43.2	48.2
Montebello	Mb.	9,876	2,075	11,951	14,088	6,187	20,275	42.6	198.2	69.7
Oakland	Ok.	na	na	na	na	na	na	na	na	na
Pacifica	Pa.	11,256	4,041	15,297	18,440	4,811	23,251	63.8	19.1	52.0
San Diego	SD.	9,600	na		13,778	4,038	17,816	43.5	na	na
Sunnyvale	Sn.	11,194	2,351	13,545	18,891	4,957	23,848	68.8	110.8	76.1

Note: 1. San Francisco was unable to supply complete data for the period under study.

FIGURE IV-3

CHANGE IN CITY COMPENSATION FOR SELECTED ENTRY LEVEL JOB CLASSES

POSITION: Fire Fighter

City	Label	1977-78 Compensation Salary	1977-78 Compensation Benefits	1977-78 Compensation Total	1983-84 Compensation Salary	1983-84 Compensation Benefits	1983-84 Compensation Total	Percent Change Salary	Percent Change Benefits	Percent Change Total
Farmersville	Fa.	na	na	0	na	na	0	na	na	na
Fresno	Fr.	$16,284	$7,928	$24,212	$23,232	$13,870	$37,102	42.7	74.9	53.2
Irvine	Ir.	na	na	0	na	na	0	na	na	na
Los Angeles	LA.	15,493	4,183	19,676	24,721	5,686	30,407	59.6	35.9	54.5
Montebello	Mb.	13,548	5,890	19,438	19,056	10,490	29,546	40.7	78.1	52.0
Oakland	Ok.	17,904	5,305	23,209	26,328	8,035	34,363	47.1	51.5	48.1
Pacifica	Pa.	14,259	5,271	19,530	20,425	5,800	26,225	43.2	10.0	34.3
San Diego	SD.	13,968	na		20,304	6,168	26,472	45.4	na	na

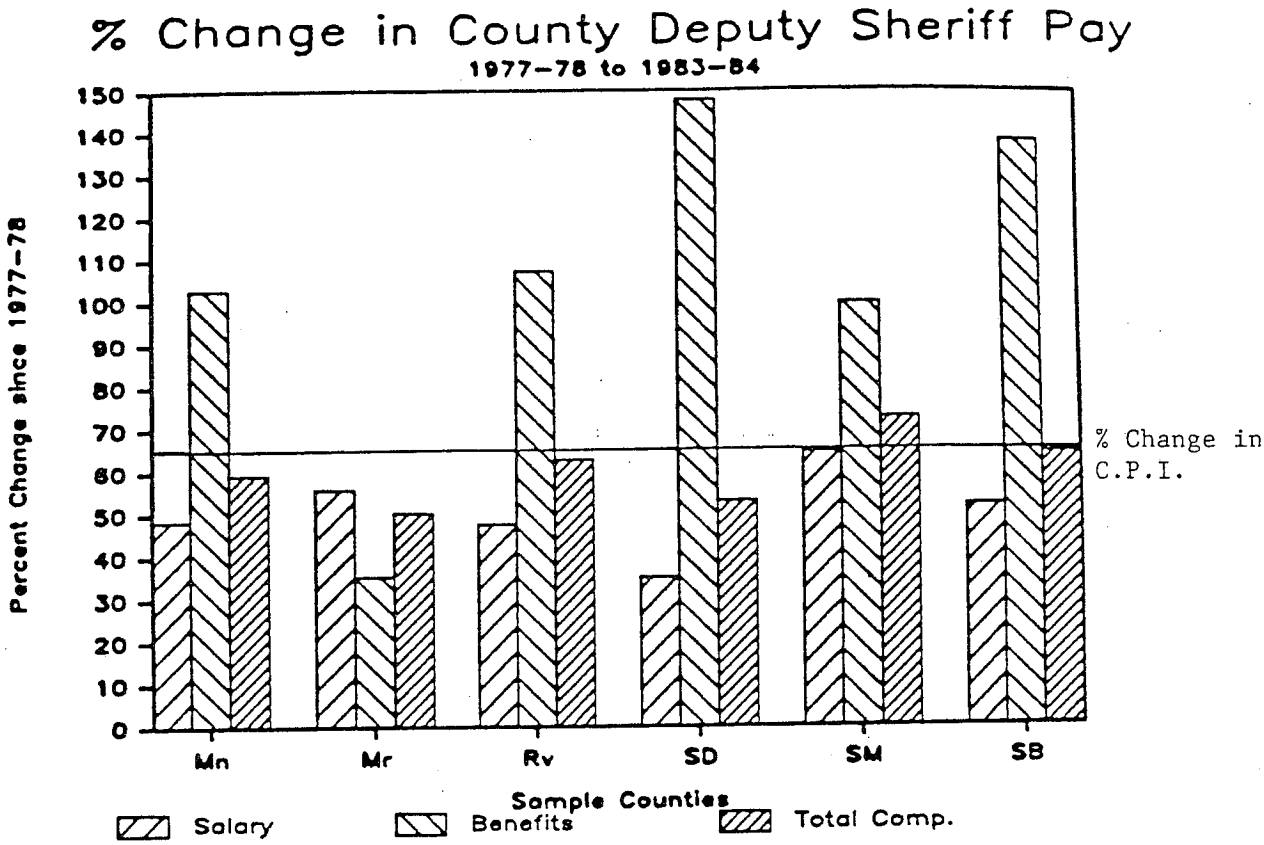
Note:
1. San Francisco was unable to supply complete data for the study period.
2. Farmersville and Irvine do not operate fire departments.
3. Sunnyvale has a public safety department. See police data above.
4. Los Angeles data reflects entry level pension costs under second tier. Costs would be $4,183 higher in 1977-78 and $9,888 in 1983-84 if averaged with older employees.
5. Oakland data reflects entry level pension costs under its new pension plan (post 1976).

POSITION: Clerk/Typist

City	Label	1977-78 Compensation Salary	1977-78 Compensation Benefits	1977-78 Compensation Total	1983-84 Compensation Salary	1983-84 Compensation Benefits	1983-84 Compensation Total	Percent Change Salary	Percent Change Benefits	Percent Change Total
Farmersville	Fa.	na	na	0	na	na	0	na	na	na
Fresno	Fr.	$6,732	$1,970	$8,702	$10,116	$3,533	$13,649	50.3	79.3	56.8
Irvine	Ir.	7,824	2,930	10,754	13,603	5,124	18,727	73.9	74.9	74.1
Los Angeles	LA.	8,352	2,004	10,356	13,676	3,145	16,821	63.7	56.9	62.4
Montebello	Mb.	8,532	1,706	10,238	12,156	5,166	17,322	42.5	202.8	69.2
Oakland	Ok.	8,483	1,643	10,126	13,044	3,678	16,722	53.8	123.9	65.1
Pacifica	Pa.	9,444	2,679	12,123	14,328	4,214	18,542	51.7	57.3	52.9
San Diego	SD.	7,032	na		10,620	2,685	13,305	51.0	na	na
Sunnyvale	Sn.	9,826	2,063	11,889	16,612	3,961	20,573	69.1	92.0	73.0

Note:
1. San Francisco was unable to supply complete data for the study period.
2. Farmersville has no clerk typists.

FIGURE IV-4


% Change in County Deputy Sheriff Pay
1977-78 to 1983-84
Percent Change since 1977-78
150
140
130
120
110
100
90
80
70
60
50
40
30
20
10
0
Mn
Mr
Rv
SD
SM
SB
Sample Counties
% Change in C.P.I.
Salary
Benefits
Total Comp.

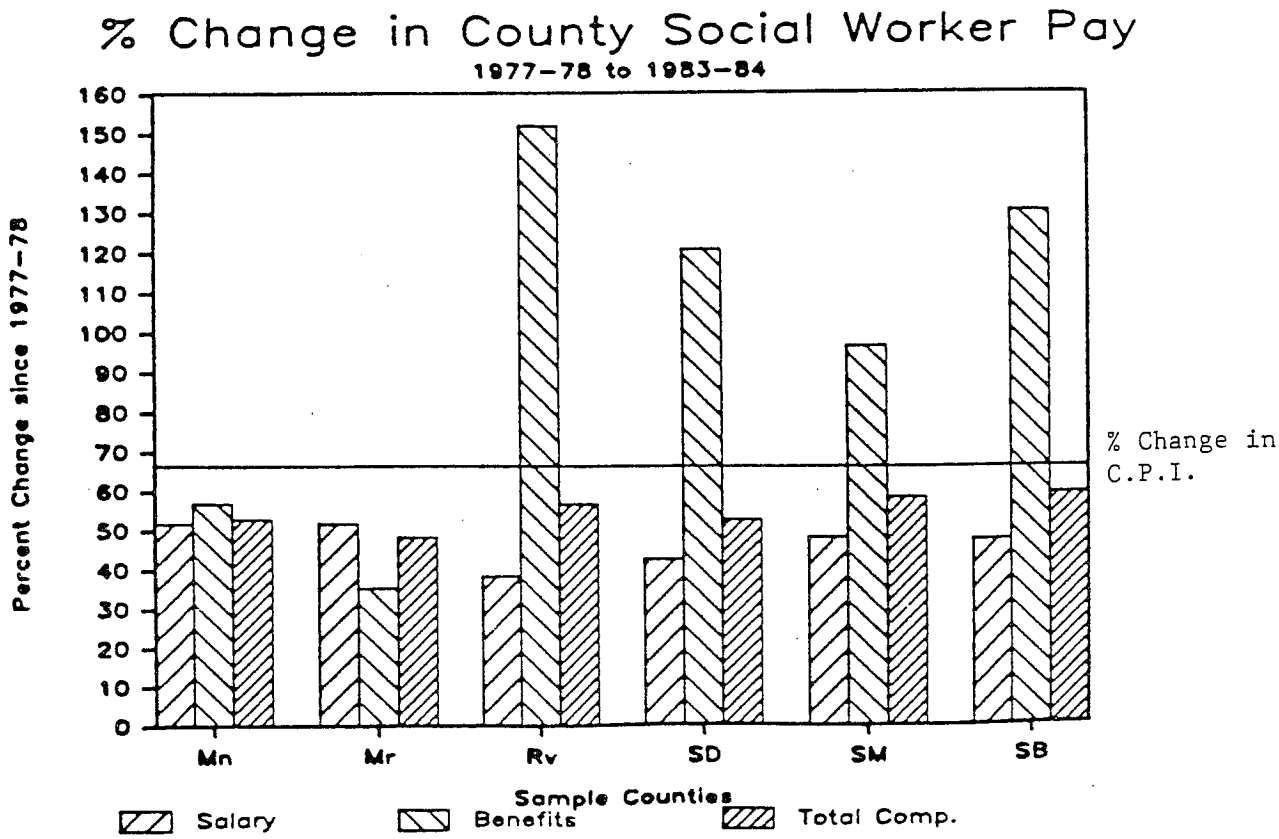
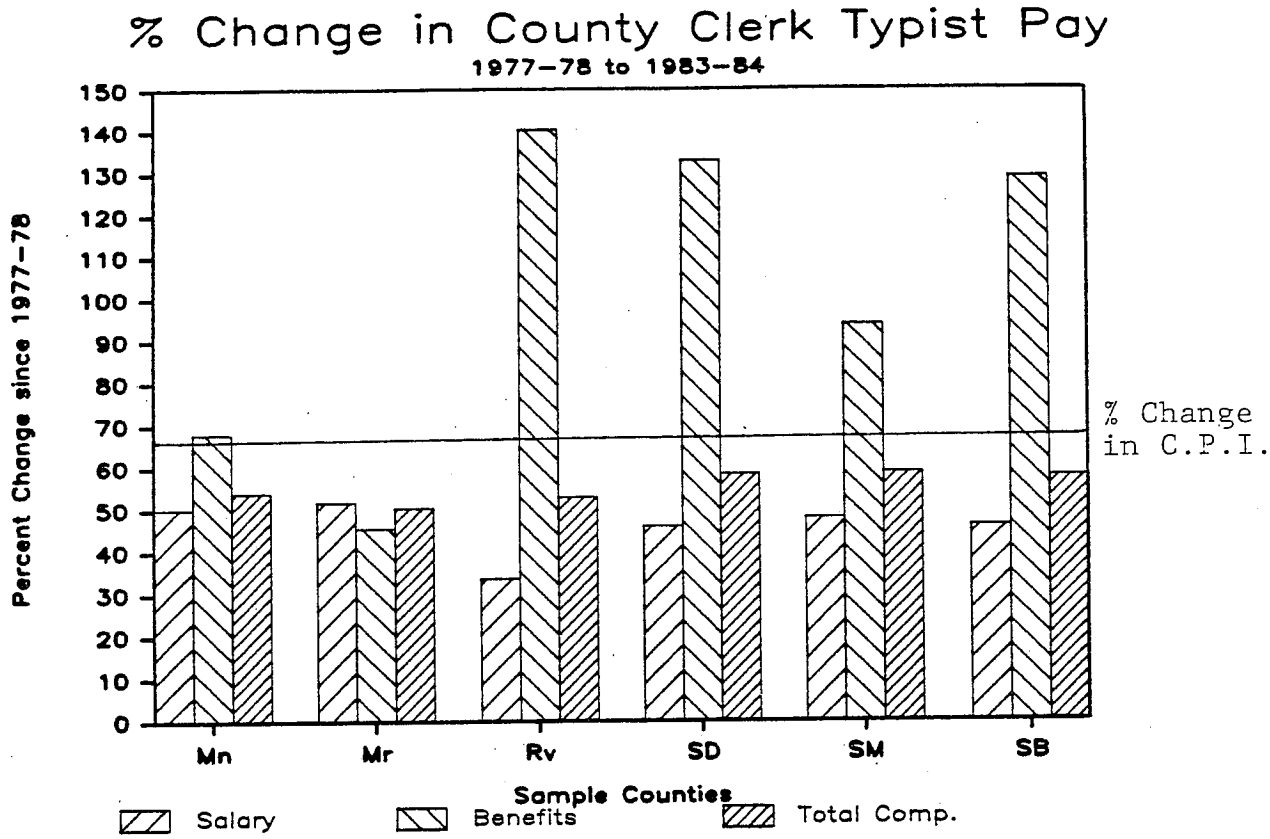

% Change in County Social Worker Pay
1977-78 to 1983-84
Percent Change since 1977-78
160
150
140
130
120
110
100
90
80
70
60
50
40
30
20
10
0
Mn
Mr
Rv
SD
SM
SB
Sample Counties
% Change in C.P.I.
Salary
Benefits
Total Comp.

Figure IV-5


% Change in County Clerk Typist Pay
1977-78 to 1983-84
Percent Change since 1977-78
150
140
130
120
110
100
90
80
70
60
50
40
30
20
10
0
Mn
Mr
Rv
SD
SM
SB
Sample Counties
Salary
Benefits
Total Comp.
% Change in C.P.I.

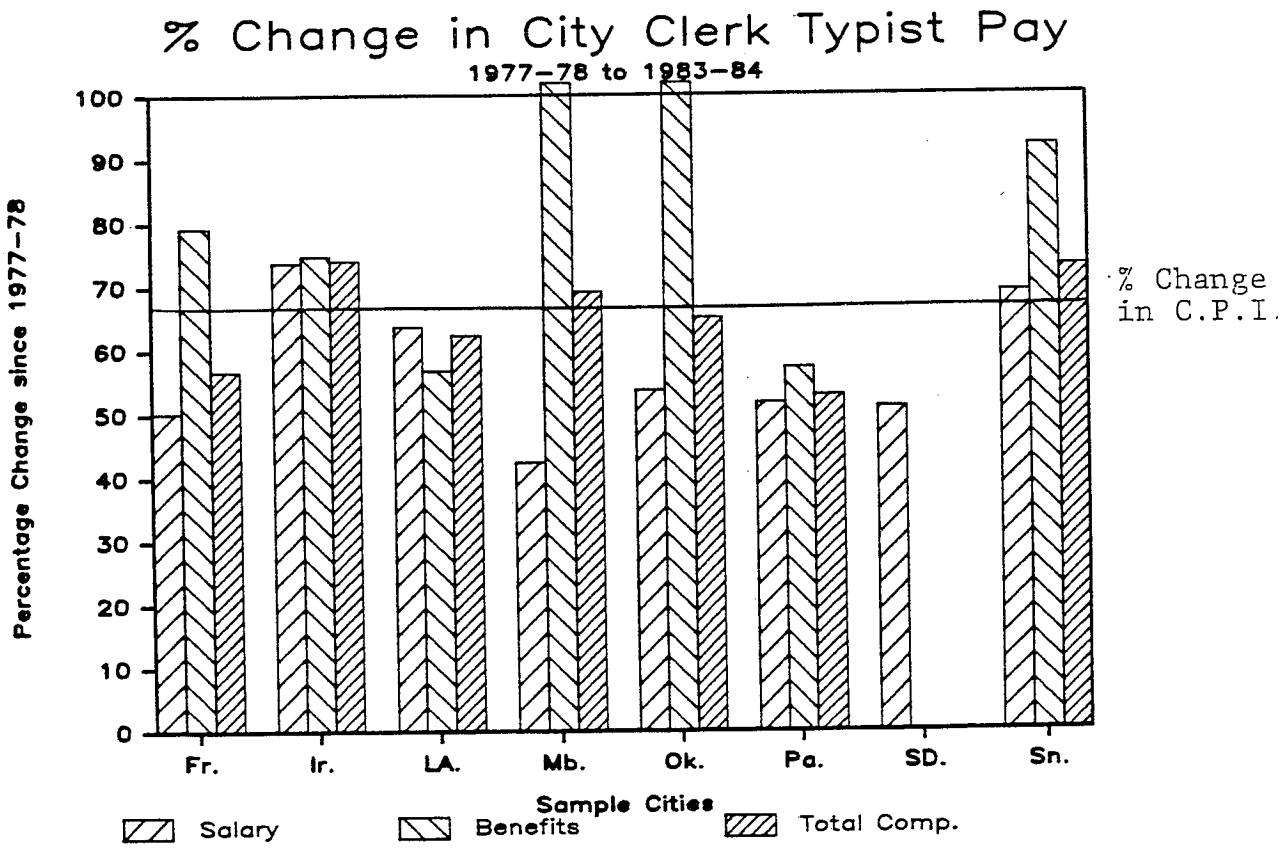
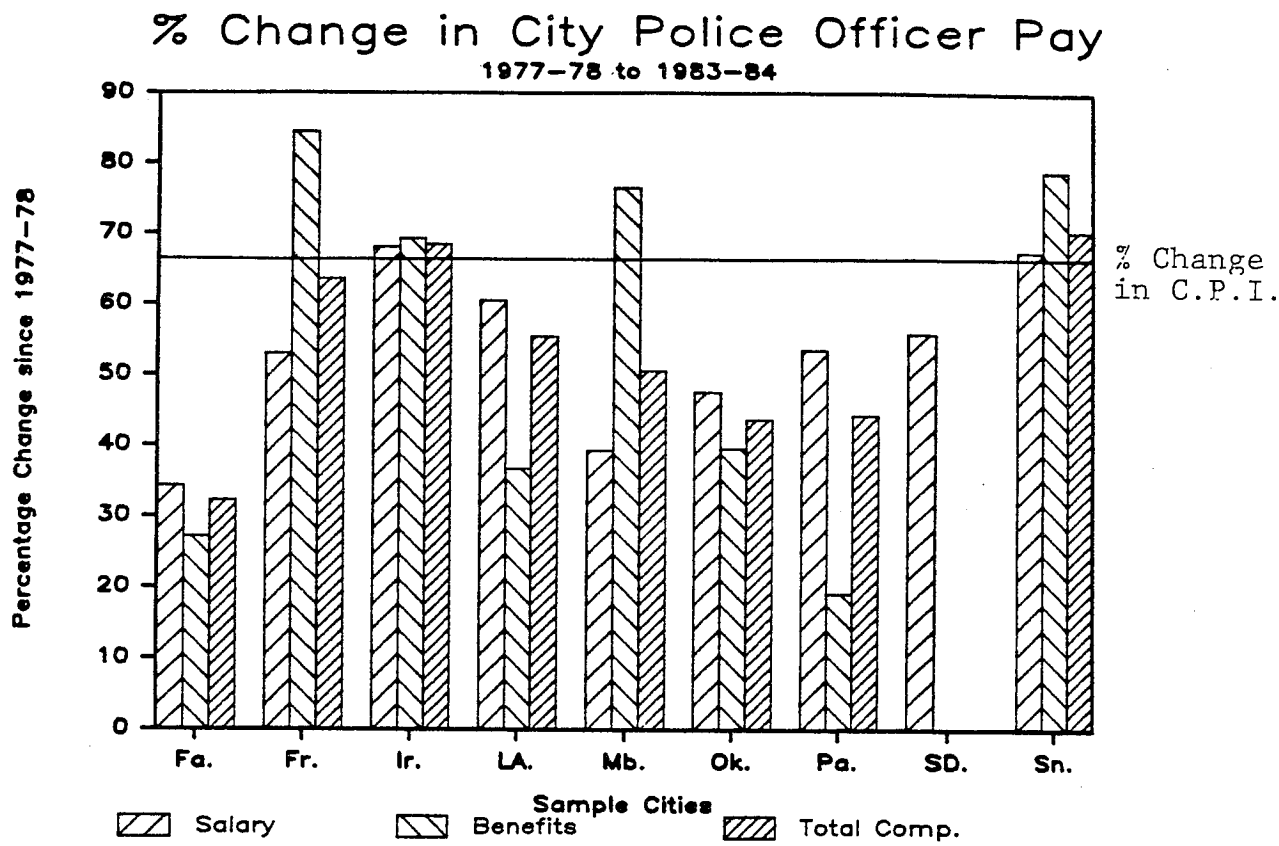

% Change in City Clerk Typist Pay
1977-78 to 1983-84
Percentage Change since 1977-78
100
90
80
70
60
50
40
30
20
10
0
Fr.
Ir.
LA.
Mb.
Ok.
Pa.
SD.
Sn.
Sample Cities
Salary
Benefits
Total Comp.
% Change in C.P.I.

Figure IV-6


% Change in City Police Officer Pay
1977–78 to 1983–84
Percentage Change since 1977–78
90
80
70
60
50
40
30
20
10
0
% Change in C.P.I.
Fa.
Fr.
Ir.
LA.
Mb.
Ok.
Pa.
SD.
Sn.
Sample Cities
Salary
Benefits
Total Comp.

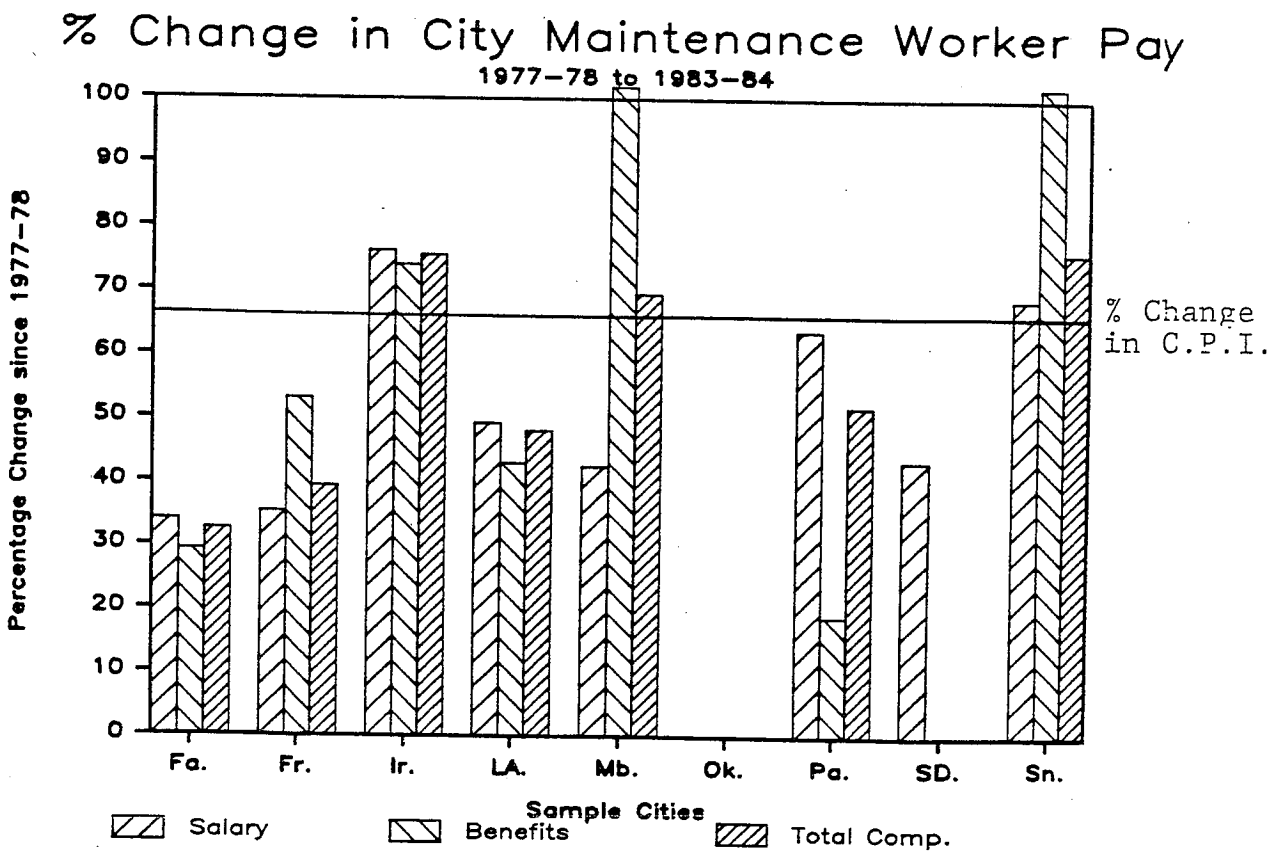

% Change in City Maintenance Worker Pay
1977–78 to 1983–84
Percentage Change since 1977–78
100
90
80
70
60
50
40
30
20
10
0
% Change in C.P.I.
Fa.
Fr.
Ir.
LA.
Mb.
Ok.
Pa.
SD.
Sn.
Sample Cities
Salary
Benefits
Total Comp.

FIGURE IV-7

EXAMPLES OF CHANGES IN EMPLOYER RETIREMENT CONTRIBUTION RATES AS A PERCENTAGE OF SALARY FOR JURISDICTIONS WITH INDEPENDENT RETIREMENT SYSTEMS

City	Label	Old Rate Misc.	Old Rate Safety	(Year)	New Rate Misc.	New Rate Safety	(Year)	Percent Change Misc.	Percent Change Safety
Fresno	Fr 6.	14.96	39.07	(1978)	17.14	47.82	(81/83)	14.6	22.4
Irvine	Ir	na	16.50	(1980)	na	20.00	(1981)		21.2
Los Angeles	LA	15.69	49.30	(1979)	12.46	58.50	(82/83)	-20.6	18.7
Oakland	Ok 1.	na	71.24	(1978)	na	79.10	(1981)		11.0
San Diego	SD	11.62	17.85	(1978)	10.29	18.39	(1982)	-11.4	3.0
San Francisco	SF 2.	17.86	71.62	(1978)	17.00	92.50	(1982)	-4.8	29.2

County	Label	Old Rate Misc.	Old Rate Safety	(Year)	New Rate Misc.	New Rate Safety	(Year)	Percent Change Misc.	Percent Change Safety
Mendocino	Mn	15.33	15.33	(1978)	11.48	19.92	(1982)	-25.1	29.9
Merced	Mr 3.	15.37	15.37	(1978)	19.4	19.4	(1980)	26.2	26.2
San Diego	SD 4.	10.19	16.37	(1978)	16.95	29.03	(1982)	66.3	77.3
San Mateo	SM 5.	8.30	14.45	(1978)	20.42	27.45	(1983)	146.0	90.0
Santa Barbara	SB	9.61	15.31	(1978)	13.7	22.74	(1982)	42.6	48.5

Source: Annual Report of Financial Transactions Public Retirement systems. Fiscal Year 1981-82. State Controller.

Notes:

1. Oakland's safety system is closed to new members. All new empolyees join PERS. Miscellaneous employees are in PERS.
2. San Francisco's safety rate is that for police officers. The rate for firefighters was 6.45% lower in 1978 and 1.6% lower in 1982.
3. Merced cut rates in 1983-84 on a one time basis using "excess" retirement system earnings. A new "tier" plan is proposed to compensate for this one-time effect.
4. San Diego has lower rates for second tier members.
5. San Mateo has lower rates for second tier members.
6. Fresno's safety rate will rise to 63.74% in 1985-86 according to currently adopted actuarial recommendations.

FIGURE IV-8

EXAMPLES OF CHANGES IN EMPLOYER RETIREMENT CONTRIBUTION RATES
AS A PERCENTAGE OF SALARY
FOR JURISDICTIONS THAT CONTRACT WITH P.E.R.S.

Cities	Label	Old Rate Misc.	Old Rate Safety	(Year)	New Rate Misc.	New Rate Safety	(Year)	Percent Change Misc.	Percent Change Safety
Montebello	Mb	12.57	34.05	(1980)	11.59	30.48	(1981)	-7.8	-10.5
Oakland	Ok 1.	17.60	na	(1980)	17.30	na		-1.7	na
Pacifica	Pa	15.91	15.75	(1980)	14.14	13.37	(1981)	-11.1	-15.1
Sunnyvale	Sv	15.13	27.57	(1980)	14.90	24.86	(1981)	-1.5	-9.8

Counties	Label	Old Rate Misc.	Old Rate Safety	(Year)	New Rate Misc.	New Rate Safety	(Year)	Percent Change Misc.	Percent Change Safety
Riverside	Rv	12.75	29.34	(1980)	11.03	23.84	(1981)	-13.5	-18.7
Santa Clara	SC	14.90	29.51	(1980)	9.87	23.72	(1981)	-33.8	-19.6

Notes: 1. The bulk of Oakland's miscellaneous employees are in PERS.

Source: Annual Report of Financial Transactions Public Retirement Systems, Fiscal Year 1981-82. State Controller.

Note: Note the time interval between reported rates.

CHAPTER V

COUNTY REVENUE AND EXPENDITURE TRENDS

INTRODUCTION

County government revenue sources and service responsibilities differ in many important ways from those of cities. Counties are administrative subdivisions of the state and responsible for health, welfare, and judicial functions not required of city governments. This chapter focuses on revenue and expenditure trends for the seven sample counties from fiscal 1977-78 to 1982-83. The purpose of this material is to give a better idea of the ways counties raise and spend money, and key fiscal trends.

A. REVENUE TRENDS

1. Total Revenue Trends

The past six fiscal years have seen great changes in county government finance. Beginning with passage of Proposition 13 in 1978, through significant changes in federal and state funding of health and welfare programs, and years of rapid inflation, county finances have been under great stress.

Figure V-1 presents data on changes in county revenues for the study period. Total county revenues, which are not insubstantial in any case, have increased rapidly over the total resources available to these counties in 1977-78, the last fiscal year before Proposition 13. Figure V-2 shows the percentage change in total county revenues from fiscal 1977-78 to 1982-83. Each county experienced growth in gross revenues, exceeding 35% in six of the seven counties sampled.

It would be misleading, however, to interpret this growth in gross revenues without considering effects of population growth and inflation during this same period. The lower portion of Figure V-3 displays the inflation-adjusted change in per capita revenues for the seven counties. Every county has seen a decline in the amount of inflation-adjusted revenues per capita. These declines range from -12.8% in Riverside County to -19.4% in San Mateo County. This decline indicates that counties have fewer real economic resources per capita than they did in 1977-78.

2. Changes in the Revenue Mix

While change in total revenues available to counties and change in inflation-adjusted revenues per capita are important, it is also important to consider the mix of revenue sources available to county government. Changes in the revenue mix are one indicator of changes in the fiscal autonomy of government entities. This mix has changed significantly over the past six years. Figure V-4 presents information on the percentage share of total county revenues from six major revenue sources during fiscal 1977-78 and 1982-83. Figure V-5 indicates that the revenue mix available to counties is very narrow, especially when compared with that available to cities as discussed in Chapter VI. In both fiscal years, the three largest sources of revenue for county governments are the property tax, state assistance, and federal grants. Other local taxes -- such as sales taxes -- fees and charges, and miscellaneous revenue sources are a relatively small portion of total county revenues. This contrasts with the situation for cities discussed in the next chapter.

Most apparent from this data is the role that the decline in property tax revenues played in county government finance during this period. In each sample jurisdiction, the property tax share of total county revenues has fallen by approximately 10% during these five fiscal years. It is also apparent that the federal government has been reducing its financial commitment to county

activities. This reduction in federal aid reflects the general phasing out of the CETA program, leveling-off of growth in federal revenue sharing, and a decline in other types of federal assistance for local governments. The one area of federal funding that appears to have kept pace with inflation and population growth has been federal assistance for county welfare.

The revenue source which has shown the greatest growth during this period has been state assistance, which has grown dramatically in each county sampled. On the average, for each jurisdiction, the state's contribution to total county revenues has increased approximately 10 percentage points since 1977-78. This increase in aid mostly reflects state assistance to county government, enacted following passage of Proposition 13. The state "bail-out" for counties took the form of the state assuming a larger portion of county health and welfare costs formerly paid from county property taxes.

"Other tax revenues" shows relatively little change during this five-year period. This category consists primarily of the county government's share of the one cent local sales tax on retail sales in county unincorporated areas. The bulk of retail sales, and hence the bulk of retail sales tax revenues in California, come within the boundaries of incorporated cities, which means that sales tax revenues to county governments are relative small. The share of county revenues from other local taxes has not, therefore, changed greatly during this period.

County revenues showing significant change during this period are from fees and charges, and miscellaneous revenues from other sources. Throughout interviews, county officials indicated that they were constantly adjusting fees and charges to recover the full costs of the related services, resulting in substantially increased fees. However, fees are a relatively minor source revenues, providing less than 10% of total county revenues, even after increases of recent years.

Miscellaneous revenue from other sources has also increased relative to total county revenues. The largest component in miscellaneous revenues is interest earnings on county cash balances. It was frequently noted by county officials that counties in recent years have greatly improved investments of revenues prior to their expenditure. This improvement in investment of idle cash has also benefitted the other local jurisdictions (primarily school districts and special districts) whose funds are handled by the county treasurer.

Another important element in miscellaneous revenues is sale and disposal of surplus county property. A number of counties, San Diego in particular, have indicated that they are pursuing an aggressive program of selling or leasing surplus county land in order to earn revenue.

Figure V-6 presents the revenue mix for the County of San Diego during fiscal 1977-78 and 1982-83, and exemplifies general trends discussed above. These include shrinking the property tax share of total revenues, the large expansion of state aid in financing county services, and the reduction in federal funding of county government. The general trend is that the counties have become more dependent on state government than prior to Proposition 13.

This increased dependence on state government helps explain why county governments are so concerned about stable and predictable funding. Given such dependence, it is not difficult to see why counties are concerned when state government faces fiscal difficulties as it has in recent years. Given the state's determinative role in financing county government, it is impossible for counties to avoid being directly caught up in the state fiscal problems.

3. Revenue Growth Rates

The data in Figure V-1 also includes information about the change in various revenue sources between 1977-78 and 1982-83. The fastest growing major source of revenue for counties has been state aid. In most counties, the property tax has returned to near the level of revenue available in 1977-78, before passage of Proposition 13. This is because property assessed values have continued to rise since 1977-78, even with reassessment restrictions of Proposition 13. It also reflects a shift of a portion of school property tax revenues to counties to replace direct state fiscal assistance.

B. EXPENDITURE TRENDS

1. Total Expenditure Trends

County expenditures have grown substantially since 1977-78. Spending growth in the sampled counties ranged from approximately 19% to slightly more than 70% during the 1977-78 to 1982-83 period. This growth reflects the unadjusted change in gross county expenditures during this five-year period (see Figure V-7). As was the case with revenues, these gross figures should be adjusted to account for population growth and inflation. As the chart in the top-half of Figure V-8 indicates, on an inflation-adjusted per capita basis, county expenditures have declined in every sample jurisdiction.

These figures do not tell the whole story, because there have been significant changes in the expenditure responsibilities of counties during the last five years. For example, the state provided counties assistance in bail-out legislation to relieve them of direct expenditures they were required to make from county funds prior to Proposition 13. Before 1978-79, counties were required to use local property taxes to pay a portion of the supplemental security income/state supplemental payment (SSI/SSP)

program and state Medi-Cal grants. These requirements involved substantial county costs.

These expenditure figures have been adjusted in Figure V-7 and in the lower-half of Figure V-8 to reflect removal of these required expenditures from the 1977-78 base year. A truer picture is thereby drawn of the change in expenditures on a comparable basis over this five-year period. Even with this adjustment, however, every county shows a decline in inflation-adjusted expenditures per capita during this period.

The 1982-83 expenditure figures also included costs to the counties of the medically indigent adult (MIA) program. Under this program counties are required to assume costs for treating medically indigent adults formerly treated under the state Medi-Cal program. This responsibility began in the latter half of the 1982-83 fiscal year, and as a result, helped to drive expenditures upward in that year. Counties were provided additional state aid for this new responsibility. Without those new program responsibilities, the decline in county expenditures on an inflation-adjusted basis would have been even larger than in Figure V-8. In the interviews, county staff generally indicated that they had been successful in operating the MIA program within the revenues provided by the state. No effort was made to ascertain whether services for the affected population were materially altered during the changeover from state to county operations.

2. County Expenditures by Object of Expenditure

County government, as noted earlier, is a labor-intensive business. Data in Figure V-9 and the graph in Figure V-10 present information on the distribution of county spending by object of expenditure. Major categories of spending include wages, salaries, and fringe benefits; debt service, supplies and expenses, capital outlay, and welfare benefit payments to individuals.

The largest single component of county spending is for salaries, wages and fringe benefits, followed by supplies and operating expenses, and for welfare benefit payments to individuals (primarily the AFDC program).

A very small proportion of county expenditures are absorbed by debt service and capital outlay. County government in California is relatively debt-free compared to local government in other states. In addition, spending on capital outlay, as a proportion of total county expenditures, has declined over this five-year period in each of the sampled counties.

The large share of county expenditures tied up in welfare benefit payments to individuals reflects county responsibility as the delivery agent for federal and state welfare programs. The counties act as paying agent for the federal and state funds allocated for welfare and social service programs. County government itself finances only 5% of AFDC grants from local property tax and other local revenue sources. The other 95% of those grants are financed with federal and state funds.

3. County Expenditures by Function (Adjusted)

Just as there were great differences in growth rates of individual components of county revenues, there are also significant differences in the growth rates of county expenditures among various functions performed by county government: These are general government and capital outlay; public protection activities, including courts; street, road and public works programs; health programs; welfare and social services programs; and park, library, and other services.

The table in Figure V-11 displays information on the proportion of the total budget allocated to each function in the two fiscal years under study. The percentage share of county budgets for general government and capital programs, roads, and park and

library programs has declined during the last five fiscal years. In contrast, the share of county budgets for law enforcement and courts has risen slightly during this period while allocations to health and welfare and social services programs have also increased. The data in Figures V-12 and V-13 -- which adjust functional spending for inflation and population growth -- tends to confirm the changes in budget shares noted above.

Total expenditures on a per capita inflation-adjusted basis have fallen in all seven sample counties. This decline occurred even after making an adjustment to reduce the 1977-78 base year to reflect removal of county expenditures for SSI/SSP and Medi-Cal programs. There is clearly a dichotomy between two groups of county activities. The first group includes those functions primarily financed from revenues over which the county exercises some discretion in how they are expended. Those functions include general government and capital outlay, a portion of street and road programs, law enforcement activities, and park and library programs. Among the four functions in this first group, the one which consistently did best was law enforcement. The other three functions generally tended to receive less increase in inflation-adjusted revenues per capita than did the other functions.

The second grouping includes health, welfare, and social services programs. These, while receiving some county revenues, are primarily financed by federal and state categorical grant programs. Funding for these services is dependent on case loads and grant or service levels prescribed at the state or federal level. Counties have little discretion over eligibility, the amounts to be awarded, or services performed for recipients. As a result, counties have less control over expenditure growth in this area than they do in the other four functions mentioned above.

In field interviews with county officials, a frequently noted subject was rapid growth, relative to other county programs, in spending for law enforcement activities. County officials pointed

out that expenditure growth in this category was difficult for county officials to manage because it was often driven by forces beyond their control, including changes in state law defining criminal penalties, and the activities of the judicial branch. They also indicated that this spending growth reflects the high priority elected county officials placed on public protection activities in response to perceived public demand for better law enforcement.

The substantial decline in inflation-adjusted per capita spending for law enforcement in San Diego County and Santa Clara County was primarily due to reduction in spending and staff for discretionary probation activities, rather than a reduction in court, jail, or patrol functions. In San Diego's case, it also reflected in part that while total county population was growing, county expenditures did not increase at the same pace. This occurred because a portion of the population growth was in newly-incorporated cities that removed population from county unincorporated service areas, and hence reduced the county's need to provide direct law enforcement protection.

Finally, a point raised frequently by county officials was the need for additional financing for jail and other correctional facilities, in many counties the only capital facilities being financed during this five-year period. This was mainly to expand or improve county jails to comply with court-ordered standards for housing inmates, and the need to keep pace with the rapid increase in the number of people sentenced to jail. Tougher sentencing laws enacted by the Legislature have contributed to this increase in jail populations.

The decline in inflation-adjusted spending for road programs in most counties was in large part due to the inability of counties to provide additional local revenues to supplement gas tax revenues earmarked for road maintenance and construction. The constraints on available local discretionary revenues to finance

non-mandated programs forced a shift in priorities away from road construction. While counties are exposed to significant liability risks from the lack of road maintenance, counties decided that it was one area where they could reduce spending or limit spending growth in order to free funds for other activities. County staff members stated they were aware that deferred maintenance often results in higher cost rehabilitation or replacement projects at a later date.

The strength of expenditure growth in the health, welfare, and social services was primarily due to mandates by state and federal governments financing separately from the locally-controlled revenues. The differences in the growth rates shown in the sample counties reflects the varying welfare case loads among counties.

Figure V-14 presents data on the ratio of AFDC recipients per 1,000 residents in each county. As the chart indicates, the statewide average ratio (64.6 persons per 1,000 residents) was unchanged between 1978 and 1983. However, among the individual sample counties, there is great variation in this rate. Several counties (including the more prosperous) have shown a substantial decline in the ratio of AFDC recipients per 1,000 residents, while other jurisdictions, particularly the small counties of Mendocino and Merced, have shown substantial increases in AFDC caseloads. This reflects the variation in the local circumstances, which gives rise to the demand for welfare services, in Mendocino's case, the poor state of the local timber industry, in Merced, not only high unemployment resulting from the recent recession, but also an influx of substantial numbers of Indo-Chinese refugees on public assistance.

These variations in demand for AFDC services show in the adjusted social service growth rates depicted in Figure V-7. While counties are now obligated to finance only 5% of cost of welfare benefits and 25% of cost of administering welfare

programs, the rapid change in demand for AFDC services can cause substantial financial hardship for small counties. This is the case particularly in Merced County, where its 5% share of welfare benefits consumes a significant portion of its own-source revenues.

Figure V-15 displays for San Diego County the distribution of expenditures by function. This county's trends illustrate the findings discussed above. The key trend is the increasing share of county government devoted to social service and health programs at the expense of spending for discretionary activities, such as general government and capital outlay, parks and libraries, and roads. Law enforcement's share of the budget remained relatively constant during this period. While no single county can show forces at work in all sample counties, San Diego County is indicative of the statewide trends.

C. GENERAL OBSERVATIONS FROM FIELD INTERVIEWS

During field interviews with county officials, a consistent theme was that where expenditure reductions were made, they were in areas that tended to be "invisible" to the general public. This is not to say that the public was unaware of cuts in county government services, but rather than counties tried first to cut those activities that did not directly touch the general public.

First among these were reductions in maintenance and capital outlay programs. Except for San Mateo and Santa Barbara counties, every jurisdiction sampled indicated that maintenance expenditures were short of what they should be to properly maintain the county's physical plant. All respondents stated that capital programs, except those paid through federal or state funds, were also falling behind needs.

Other significant "invisible cuts" involved reductions in county general government activities, such as county financial management, the assessor and tax collector, and other county "bureaucratic" activities. While there was general agreement among county officials that these reductions have made county government more efficient, in terms of utilizing fewer employees, there was also the opinion that the public has lost some of the needed analytical and management capabilities necessary to continue changing the way county business is conducted.

Several county officials interviewed noted that county government's main clientele tends to be a small and rather unpopular segment of the general public at large. These include people involved in the criminal justice system, the sick, and the indigent. While these services require substantial sums of public money, they do not touch the broad general public in a day-to-day or personal sense.

While counties have tended to focus spending cuts on things invisible to the public, it has not always been possible to avoid service reductions affecting the general public. In activities such as parks, libraries, county tax assessor and other ministerial functions, there have been reductions in service hours and availability of facilities.

These have been reduced because they are not mandated activities, and are not financed from state or federal categorical revenues. As a result, some county officials noted that the county images among the broad general public (that rarely uses the criminal justice, health or welfare systems) has continued to decline in this period, and in some cases resentment builds against the other programs which continue to serve a small and often unpopular portion of the public.

Regarding the welfare burden in California counties, the statewide ratio of people on AFDC per 1,000 residents remained unchanged between 1978 and 1983, even though there was fluctuation among sample counties. In 1983, California was caught in the worst recession since the great Depression of the 1930's. That the average case load per 1,000 residents remained stable indicates the significant changes in welfare eligibility rules enacted as a result of federal legislation adopted in 1981. Several county officials noted that in earlier times, the welfare case load would have been substantially higher, resulting in major increases in state and county costs.

D. FINDINGS

1. County revenues have grown significantly in recent years. Increases ranged from 22.7% to 60.3% in the sample. When adjusted for population growth and the increase in the cost of living, revenues have declined. Adjusted totals declined between 12.8% and 19.4% in sample counties.

2. County expenditures have also grown in recent years. Unadjusted spending growth ranged from 19.1% to 70.9%. When adjusted for population growth, inflation, and changes in program responsibilities, expenditures have declined. Adjusted spending per capita declined between 0.4% and 15.2% in the sample.

3. Growth in county revenue has been uneven among the various revenue serouces. Counties are much more dependent upon state aid today than they were in 1977-78, while property taxes provide a much smaller share of total county funding than in the past.

4. County expenditure growth has also been uneven among the various functions performed by county government. Health and welfare programs, largely funded by federal and state aid, have tended to keep pace with inflation and population growth at the expense of other county activities.

5. Among county functions financed primarily by county-controlled funds, law enforcement and courts tended to fare better than other government activities.

6. Despite a serious recession, statewide AFDC case loads per 1,000 residents in 1983 did not exceed the level of 1978. This reflected the impact of recent changes in welfare eligibility. The stability in the state average, however, disguises great variation among counties in AFDC growth rates.

FIGURE V-1

COUNTY NON-ENTERPRISE REVENUE TRENDS 1977-78 TO 1982-83

Actual 1977-78

County	Label	Prop.Tax	Other Tax	Fees	State	Federal	Other	Total
Mendocino	Mn	$ 8,073,415	$ 2,174,778	$ 1,532,308	$ 8,095,353	$ 6,344,243	$ 1,452,178	$ 27,672,275
Merced	Mr	15,336,535	2,987,465	2,487,301	12,825,208	19,988,287	2,693,074	56,317,870
Riverside	Rv	57,175,937	12,082,445	13,315,663	55,613,970	59,906,880	7,999,613	206,094,508
San Diego	SD	128,580,000	16,161,469	37,529,079	130,897,323	136,435,088	23,091,787	472,694,746
San Mateo	SM	68,675,812	7,554,490	10,754,652	38,610,389	35,467,918	9,721,249	170,784,510
Santa Barbara	SB	31,067,118	6,131,952	13,233,691	21,840,097	16,949,475	6,541,352	95,763,685
Santa Clara	SC	128,101,289	13,612,421	15,827,822	98,655,310	91,805,533	22,978,220	370,980,595

Actual 1982-83

County	Label	Prop.Tax	Other Tax	Fees	State	Federal	Other	Total
Mendocino	Mn	$ 7,642,749	$ 2,999,769	$ 2,043,414	$ 15,285,293	$ 7,777,392	$ 2,587,279	$ 38,335,896
Merced	Mr	12,168,763	5,988,488	5,255,813	30,193,786	22,234,473	5,355,788	81,197,111
Riverside	Rv	56,643,523	21,902,515	28,584,680	117,640,938	86,022,824	19,586,442	330,380,922
San Diego	SD	132,289,012	24,835,610	61,415,982	261,672,402	176,532,282	34,366,835	691,112,123
San Mateo	SM	54,739,001	13,871,324	19,313,435	69,573,975	33,762,542	18,262,095	209,522,372
Santa Barbara	SB	29,286,395	6,697,907	24,014,505	44,479,960	17,978,708	9,432,020	131,889,495
Santa Clara	SC	118,122,193	21,729,652	33,603,884	162,698,729	131,886,420	44,816,475	512,857,353

Percent Change 1977-78 to 1982-83

County	Label	Prop.Tax	Other Tax	Fees	State	Federal	Other	Total
Mendocino	Mn	-5.3	37.9	33.4	88.8	22.6	78.2	38.5
Merced	Mr	-20.7	100.5	111.3	135.4	11.2	98.9	44.2
Riverside	Rv	-0.9	81.3	114.7	111.5	43.6	144.8	60.3
San Diego	SD	2.9	53.7	63.6	99.9	29.4	48.8	46.2
San Mateo	SM	-20.3	83.6	79.6	80.2	-4.8	87.9	22.7
Santa Barbara	SB	-5.7	9.2	81.5	103.7	6.1	44.2	37.7
Santa Clara	SC	-7.8	59.6	112.3	64.9	43.7	95.0	38.2

FIGURE V-2

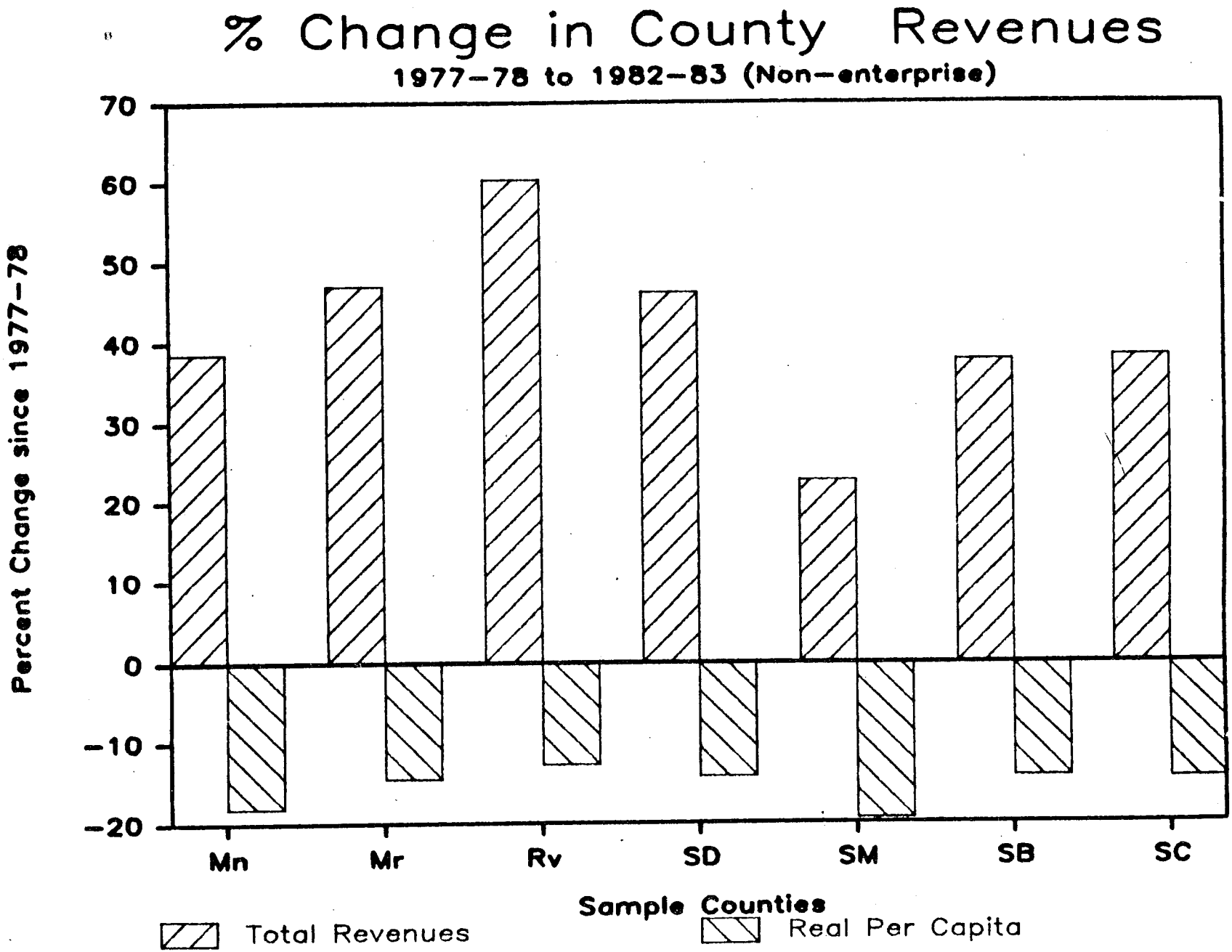

% Change in County Revenues
1977–78 to 1982–83 (Non–enterprise)
Percent Change since 1977–78
70
60
50
40
30
20
10
0
–10
–20
Mn
Mr
Rv
SD
SM
SB
SC
Sample Counties
Total Revenues
Real Per Capita

FIGURE V-3

COUNTY NON-ENTERPRISE REVENUE TRENDS 1977-78 TO 1982-83

PER CAPITA INFLATION ADJUSTED REVENUES

Actual 1977-78

County	Label	Prop.Tax	Other Tax	Fees	State	Federal	Other	Total
Mendocino	Mn	$129.59	$34.91	$24.60	$129.94	$101.83	$23.31	$444.18
Merced	Mr	120.38	23.45	19.52	100.67	156.89	21.14	442.06
Riverside	Rv	95.96	20.28	22.35	93.34	100.55	13.43	345.91
San Diego	SD	73.73	9.27	21.52	75.06	78.23	13.24	271.04
San Mateo	SM	117.70	12.95	18.43	66.17	60.78	16.66	292.69
Santa Barbara	SB	106.29	20.98	45.27	74.72	57.99	22.38	327.62
Santa Clara	SC	102.97	10.94	12.72	79.30	73.79	18.47	298.19

Actual 1982-83

County	Label	Prop.Tax	Other Tax	Fees	State	Federal	Other	Total
Mendocino	Mn	$72.52	$28.46	$19.39	$145.03	$73.79	$24.55	$363.73
Merced	Mr	55.56	27.34	24.00	137.86	101.52	24.45	370.72
Riverside	Rv	51.74	20.01	26.11	107.47	78.58	17.89	301.81
San Diego	SD	44.49	8.35	20.66	88.01	59.37	11.56	232.45
San Mateo	SM	61.61	15.61	21.74	78.30	38.00	20.55	235.81
Santa Barbara	SB	62.40	14.27	51.17	94.77	38.31	20.10	281.01
Santa Clara	SC	58.75	10.81	16.71	80.91	65.59	22.29	255.06

Percent Change 1977-78 to 1982-83

County	Label	Prop.Tax	Other Tax	Fees	State	Federal	Other	Total
Mendocino	Mn	-44.0	-18.5	-21.2	11.6	-27.5	5.3	-18.1
Merced	Mr	-53.8	16.6	22.9	36.9	-35.3	15.7	-16.1
Riverside	Rv	-46.1	-1.3	16.8	15.1	-21.8	33.3	-12.8
San Diego	SD	-39.7	-9.9	-4.0	17.3	-24.1	-12.7	-14.2
San Mateo	SM	-47.7	20.6	17.9	18.3	-37.5	23.4	-19.4
Santa Barbara	SB	-41.3	-32.0	13.0	26.8	-33.9	-10.2	-14.2
Santa Clara	SC	-42.9	-1.2	31.4	2.0	-11.1	20.7	-14.5

FIGURE V-4

COUNTY NON-ENTERPRISE REVENUE TRENDS 1977-78 TO 1982-83

PERCENTAGE SHARES BY REVENUE SOURCE

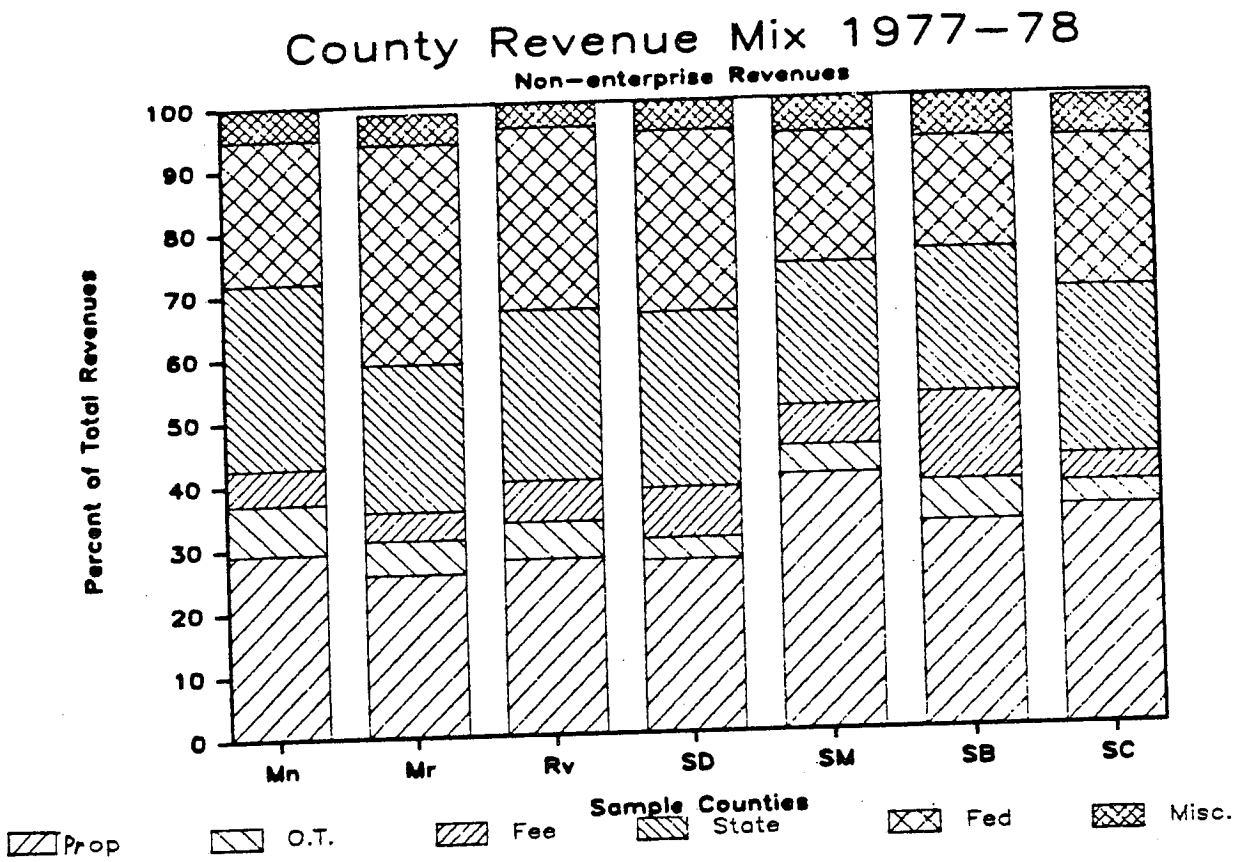
Actual 1977-78

County	Label	Prop.Tax	Other Tax	Fees	State	Federal	Other	Total
Mendocino	Mn	29.2	7.9	5.5	29.3	22.9	5.2	100.0
Merced	Mr	27.2	5.3	4.4	22.8	35.5	4.8	100.0
Riverside	Rv	27.7	5.9	6.5	27.0	29.1	3.9	100.0
San Diego	SD	27.2	3.4	7.9	27.7	28.9	4.9	100.0
San Mateo	SM	40.2	4.4	6.3	22.6	20.8	5.7	100.0
Santa Barbara	SB	32.4	6.4	13.8	22.8	17.7	6.8	100.0
Santa Clara	SC	34.5	3.7	4.3	26.6	24.0	6.2	100.0

Actual 1982-83

County	Label	Prop.Tax	Other Tax	Fees	State	Federal	Other	Total
Mendocino	Mn	19.9	7.8	5.3	39.9	20.3	6.7	100.0
Merced	Mr	15.0	7.4	6.5	37.2	27.4	6.6	100.0
Riverside	Rv	17.1	6.6	8.7	35.6	26.0	5.9	100.0
San Diego	SD	19.1	3.6	8.9	37.9	25.5	5.0	100.0
San Mateo	SM	26.1	6.6	9.2	33.2	16.1	8.7	100.0
Santa Barbara	SB	22.2	5.1	18.0	33.7	13.6	7.4	100.0
Santa Clara	SC	23.0	4.2	6.6	31.7	25.7	8.7	100.0

FIGURE V-5


County Revenue Mix 1977–78
Non–enterprise Revenues
Percent of Total Revenues
100
90
80
70
60
50
40
30
20
10
0
Mn
Mr
Rv
SD
SM
SB
SC
Sample Counties
Prop
O.T.
Fee
State
Fed
Misc.

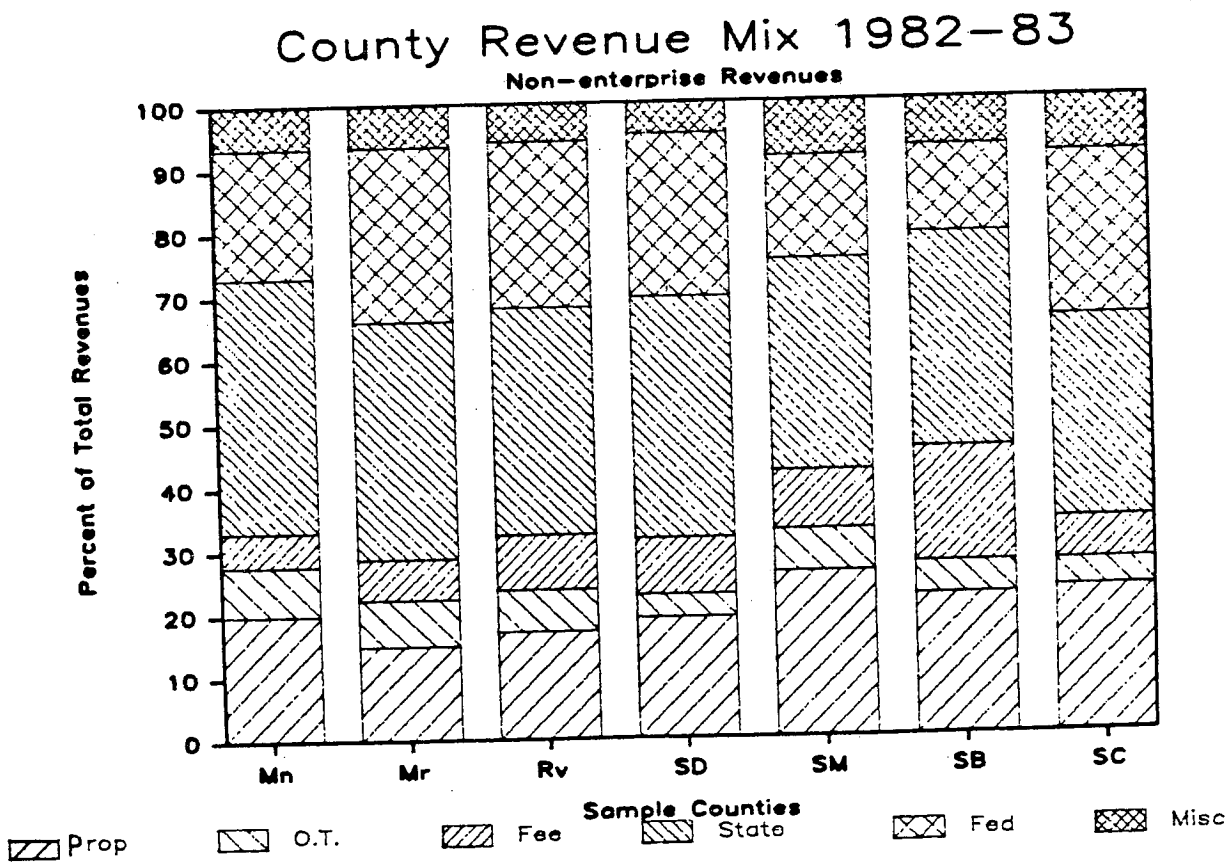
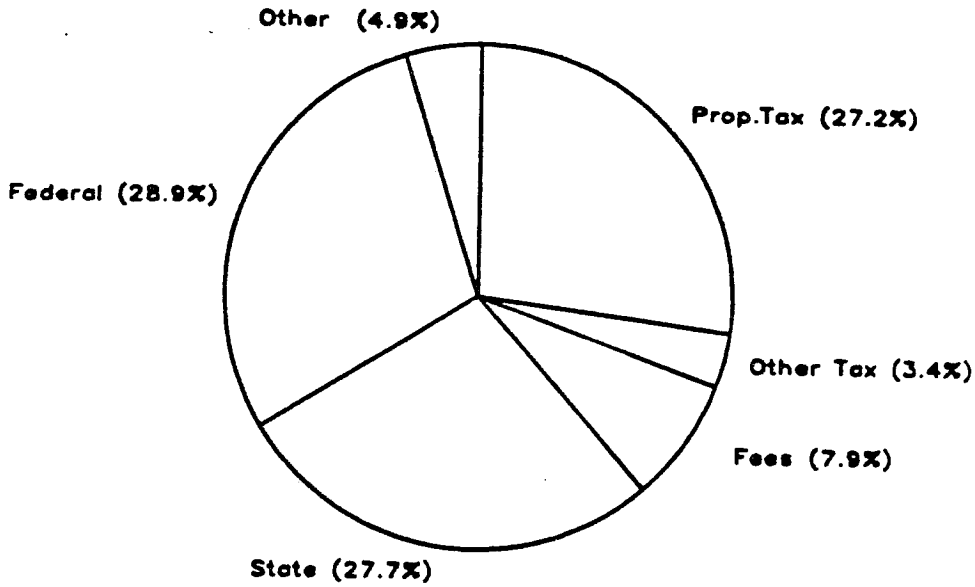

County Revenue Mix 1982–83
Non–enterprise Revenues
Percent of Total Revenues
100
90
80
70
60
50
40
30
20
10
0
Mn
Mr
Rv
SD
SM
SB
SC
Sample Counties
Prop
O.T.
Fee
State
Fed
Misc

FIGURE V-6

San Diego County Revenue Mix 1977–78

Total = $ 472.7 million



San Diego County Revenue Mix 1982–83

Total = $ 691.1 million

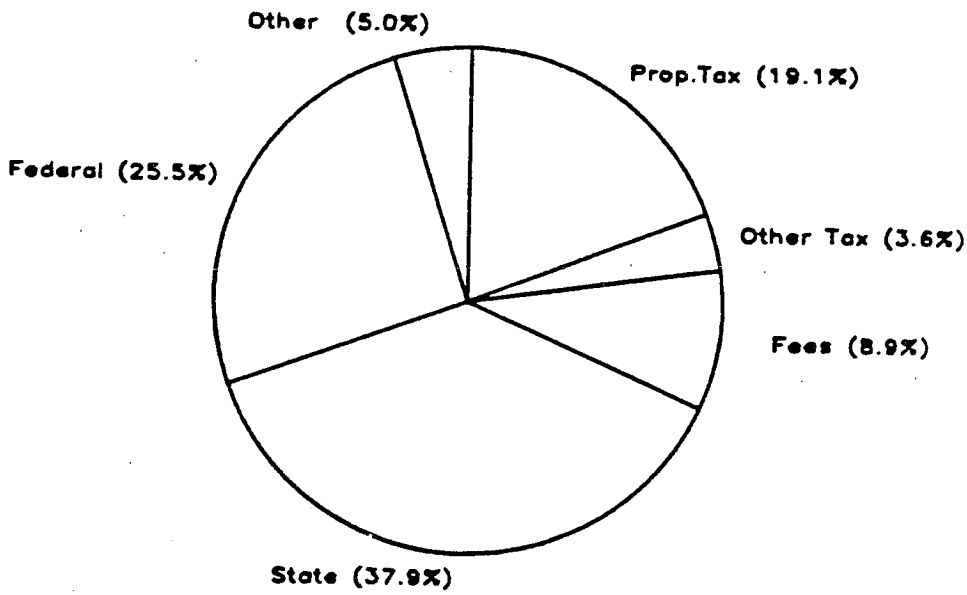


FIGURE V-7

COUNTY NON-ENTERPRISE EXPENDITURES BY FUNCTION (ADJUSTED)[1]

1977-78 AND 1982-83

Actual 1977-78

County	Label	Gen.& Cap.	Law Enf.	Roads	Health	Soc.Svc	Prk.& Lib.	Total
Mendocino	Mn	$7,227,752	$4,835,419	$3,423,864	$1,920,569	$8,104,336	$586,926	$26,098,866
Merced	Mr	5,594,186	9,718,747	4,203,038	3,654,051	24,086,235	1,488,379	48,744,636
Riverside	Rv	33,344,597	47,163,911	10,700,890	19,987,174	72,596,350	3,813,884	187,606,806
San Diego	SD	100,087,822	92,600,879	26,666,526	42,956,327	177,066,231	8,524,340	447,902,125
San Mateo	SM	23,923,594	47,020,760	7,775,124	26,367,072	43,873,837	5,439,318	154,399,705
Santa Barbara	SB	12,339,073	31,347,964	5,017,151	16,457,731	20,448,331	3,714,577	89,324,827
Santa Clara	SC	70,818,832	84,012,031	15,197,185	41,138,011	136,000,622	7,507,019	354,673,700

Actual 1982-83

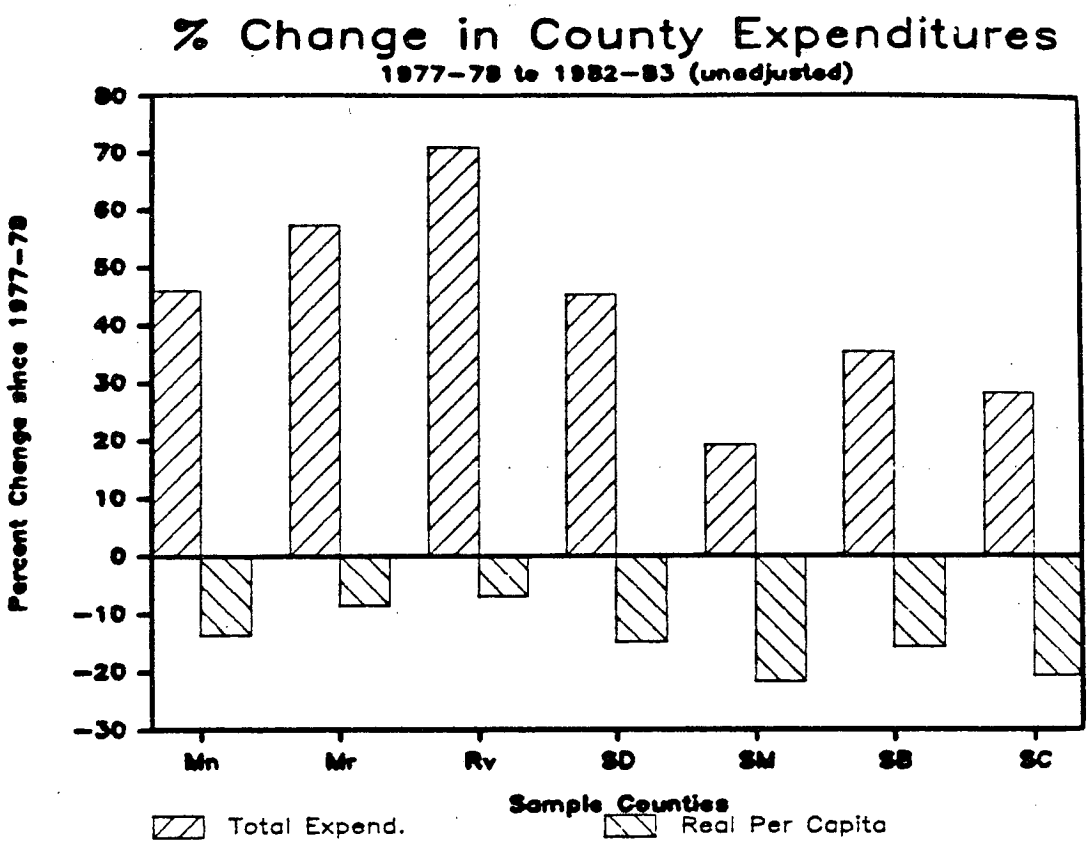
County	Label	Gen.& Cap.	Law Enf.	Roads	Health	Soc.Svc	Prk.& Lib.	Total
Mendocino	Mn	$7,167,500	$7,997,204	$4,463,779	$4,619,171	$15,252,307	$708,407	$40,208,368
Merced	Mr	8,710,299	18,247,447	5,010,849	5,987,695	43,196,801	2,282,456	83,435,547
Riverside	Rv	46,789,411	84,793,346	19,883,680	49,788,292	135,016,817	5,133,437	341,404,983
San Diego	SD	122,201,169	139,687,812	31,761,870	82,524,227	299,547,507	8,632,098	684,354,683
San Mateo	SM	22,209,404	71,537,740	8,528,937	33,719,797	58,482,471	7,620,619	202,098,968
Santa Barbara	SB	17,197,107	49,846,012	6,168,409	20,451,919	31,262,068	3,912,292	128,837,807
Santa Clara	SC	101,148,764	104,793,119	20,211,817	51,307,012	197,112,808	11,485,134	486,058,654

Percent Change 1977-78 to 1982-83

County	Label	Gen.& Cap.	Law Enf.	Roads	Health	Soc.Svc	Prk.& Lib.	Total	1. Growth in Total Before Adjust.
Mendocino	Mn	-0.8	65.4	30.4	140.5	88.2	20.7	54.1	45.9
Merced	Mr	55.7	87.8	19.2	63.9	79.3	53.4	71.2	57.2
Riverside	Rv	40.3	79.8	85.8	149.1	86.0	34.6	82.0	70.9
San Diego	SD	22.1	50.8	19.1	92.1	69.2	1.3	52.8	45.1
San Mateo	SM	-7.2	52.1	9.7	27.9	33.3	40.1	30.9	19.1
Santa Barbara	SB	39.4	59.0	22.9	24.3	52.9	5.3	44.2	35.2
Santa Clara	SC	42.8	24.7	33.0	24.7	44.9	53.0	37.0	29.1

1. Except where noted, 1977-78 health and welfare expenditures and total expenditures have been reduced to reflect state assumption of county costs for MediCal and SSI/SSP in suceeding years.

FIGURE V-8


% Change in County Expenditures
1977-78 to 1982-83 (unadjusted)
Percent Change since 1977-78
80
70
60
50
40
30
20
10
0
-10
-20
-30
Mn
Mr
Rv
SD
SM
SB
SC
Sample Counties
Total Expend.
Real Per Capita

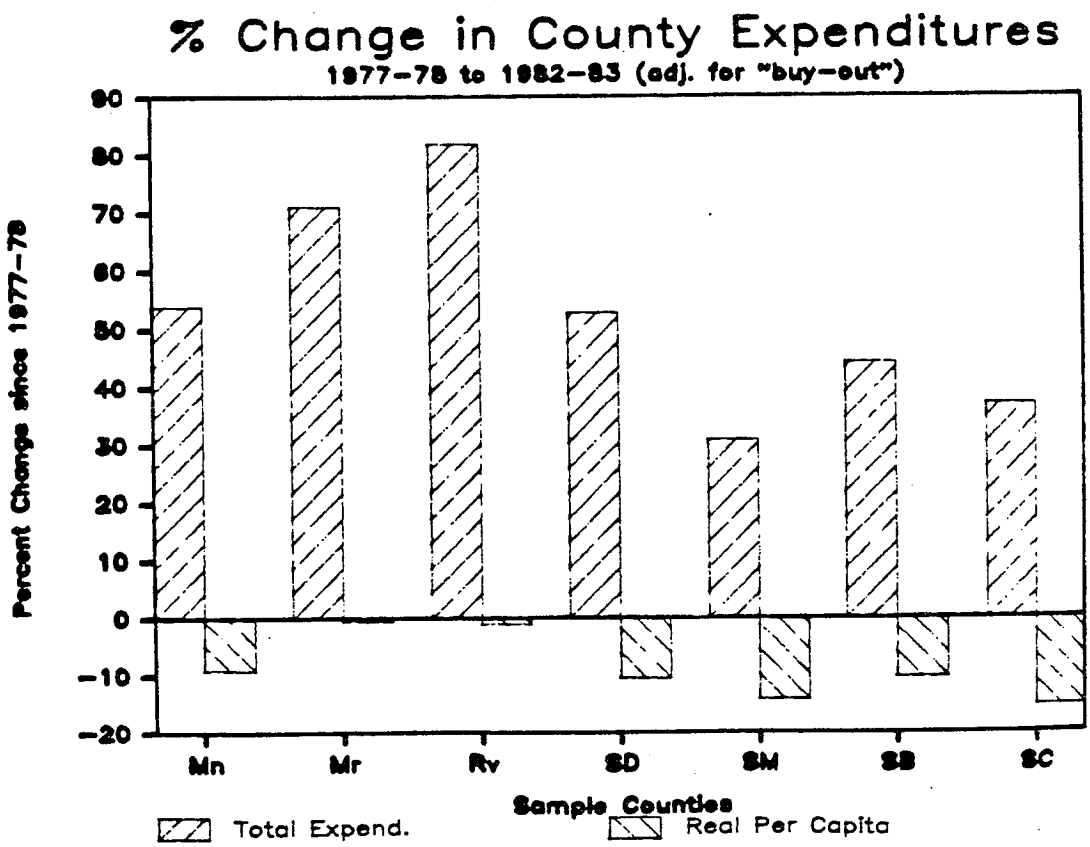

% Change in County Expenditures
1977-78 to 1982-83 (adj. for "buy-out")
Percent Change since 1977-78
90
80
70
60
50
40
30
20
10
0
-10
-20
Mn
Mr
Rv
SD
SM
SB
SC
Sample Counties
Total Expend.
Real Per Capita

FIGURE V-9

COUNTY EXPENDITURES BY OBJECT OF EXPENDITURE 1977-78 AND 1982-83

Actual 1977-78

County	Label	Labor	Debt Srv	Supp.& Exp.	Capital	Welfare	Total
Mendocino	Mn	$12,114,476	$0	$8,716,994	$635,297	$7,568,660	$29,035,427
Merced	Mr	20,811,338	0	15,773,786	2,341,255	14,146,207	53,072,586
Riverside	Rv	na	na	na	na	na	na
San Diego	SD	209,510,819	1,709,872	154,691,163	37,066,267	127,697,354	530,675,475
San Mateo	SM	76,289,501	35,025	58,773,862	12,465,627	22,150,747	169,714,762
Santa Barbara	SB	44,353,310	0	35,517,126	4,205,598	16,764,988	100,841,022
Santa Clara	SC	na	na	na	na	na	na

Percentage Shares of Total 1977-78

County	Label	Labor	Debt Srv	Supp.& Exp.	Capital	Welfare	Total
Mendocino	Mn	41.7	0.0	30.0	2.2	26.1	100.0
Merced	Mr	39.2	0.0	29.7	4.4	26.7	100.0
Riverside	Rv	na	na	na	na	na	na
San Diego	SD	39.5	0.3	29.1	7.0	24.1	100.0
San Mateo	SM	45.0	0.0	34.6	7.3	13.1	100.0
Santa Barbara	SB	44.0	0.0	35.2	4.2	16.6	100.0
Santa Clara	SC	na	na	na	na	na	na

Actual 1982-83

County	Label	Labor	Debt Srv	Supp.& Exp.	Capital	Welfare	Total
Mendocino	Mn	$20,740,262	$0	$10,974,802	$237,361	$11,820,997	$43,773,422
Merced	Mr	33,795,176	260,730	16,799,374	1,852,190	30,728,067	83,435,537
Riverside	Rv	126,963,432	4,684,832	115,527,249	4,405,387	94,278,613	345,859,513
San Diego	SD	282,407,222	8,718,550	181,208,053	18,398,469	228,967,103	719,699,397
San Mateo	SM	107,455,731	150	63,253,810	8,299,771	23,089,506	202,098,968
Santa Barbara	SB	72,634,712	21,700	37,917,895	2,253,364	20,572,805	133,400,476
Santa Clara	SC	204,925,988	13,824,843	122,777,319	11,016,833	133,513,671	486,058,654

Percentage Shares of Total 1982-83

County	Label	Labor	Debt Srv	Supp.& Exp.	Capital	Welfare	Total
Mendocino	Mn	47.4	0.0	25.1	0.5	27.0	100.0
Merced	Mr	40.5	0.3	20.1	2.2	36.8	100.0
Riverside	Rv	36.7	1.4	33.4	1.3	27.3	100.0
San Diego	SD	39.2	1.2	25.2	2.6	31.8	100.0
San Mateo	SM	53.2	0.0	31.3	4.1	11.4	100.0
Santa Barbara	SB	54.4	.0	28.4	1.7	15.4	100.0
Santa Clara	SC	42.2	2.8	25.3	2.3	27.5	100.0

FIGURE V-10

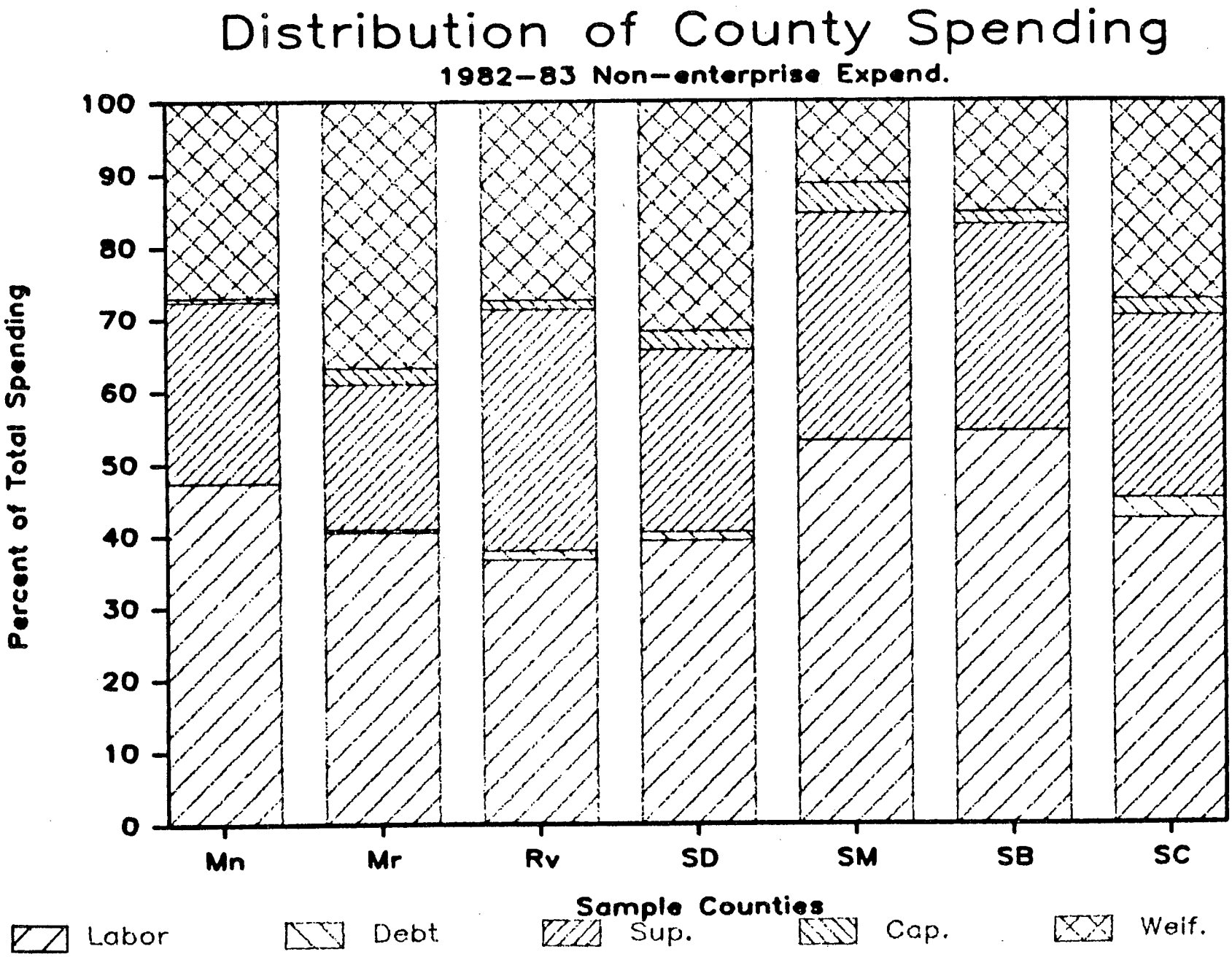

Distribution of County Spending
1982–83 Non–enterprise Expend.
Percent of Total Spending
100
90
80
70
60
50
40
30
20
10
0
Mn
Mr
Rv
SD
SM
SB
SC
Sample Counties
Labor
Debt
Sup.
Cap.
Welf.

FIGURE V-11

COUNTY NON-ENTERPRISE EXPENDITURES 1977-78 AND 1982-83

PERCENTAGE SHARES OF TOTAL BY FUNCTION

Percentage Shares of Total 1977-78

County	Label	Gen.& Cap.	Law Enf.	Roads	Health	Soc.Svc	Prk.& Lib.	Total
Mendocino	Mn	27.7	18.5	13.1	7.4	31.1	2.2	100.0
Merced	Mr	11.5	19.9	8.6	7.5	49.4	3.1	100.0
Riverside	Rv	17.8	25.1	5.7	10.7	38.7	2.0	100.0
San Diego	SD	22.3	20.7	6.0	9.6	39.5	1.9	100.0
San Mateo	SM	15.5	30.5	5.0	17.1	28.4	3.5	100.0
Santa Barbara	SB	13.8	35.1	5.6	18.4	22.9	4.2	100.0
Santa Clara	SC	20.0	23.7	4.3	11.6	38.3	2.1	100.0

Percentage Shares of Total 1982-83

County	Label	Gen.& Cap.	Law Enf.	Roads	Health	Soc.Svc	Prk.& Lib.	Total
Mendocino	Mn	17.8	19.9	11.1	11.5	37.9	1.8	100.0
Merced	Mr	10.4	21.9	6.0	7.2	51.8	2.7	100.0
Riverside	Rv	13.7	24.8	5.8	14.6	39.5	1.5	100.0
San Diego	SD	17.9	20.4	4.6	12.1	43.8	1.3	100.0
San Mateo	SM	11.0	35.4	4.2	16.7	28.9	3.8	100.0
Santa Barbara	SB	13.3	38.7	4.8	15.9	24.3	3.0	100.0
Santa Clara	SC	20.8	21.6	4.2	10.6	40.6	2.4	100.0

FIGURE V-12

COUNTY NON-ENTERPRISE EXPENDITURES BY FUNCTION 1977-78 AND 1982-83

PER CAPITA INFLATION ADJUSTED EXPENDITURES

Actual 1977-78

County	Label	Gen.& Cap.	Law Enf.	Roads	Health	Soc.Svc	Prk.& Lib.	Total
Mendocino	Mn	$116.02	$77.62	$54.96	$30.83	$130.09	$9.42	$418.92
Merced	Mr	43.91	76.29	32.99	28.68	189.06	11.68	382.61
Riverside	Rv	55.97	79.16	17.96	33.55	121.85	6.40	314.88
San Diego	SD	57.39	53.10	15.29	24.63	101.53	4.89	256.82
San Mateo	SM	41.00	80.58	13.32	45.19	75.19	9.32	264.61
Santa Barbara	SB	42.21	107.25	17.16	56.30	69.96	12.71	305.59
Santa Clara	SC	56.92	67.53	12.22	33.07	109.32	6.03	285.08

Actual 1982-83

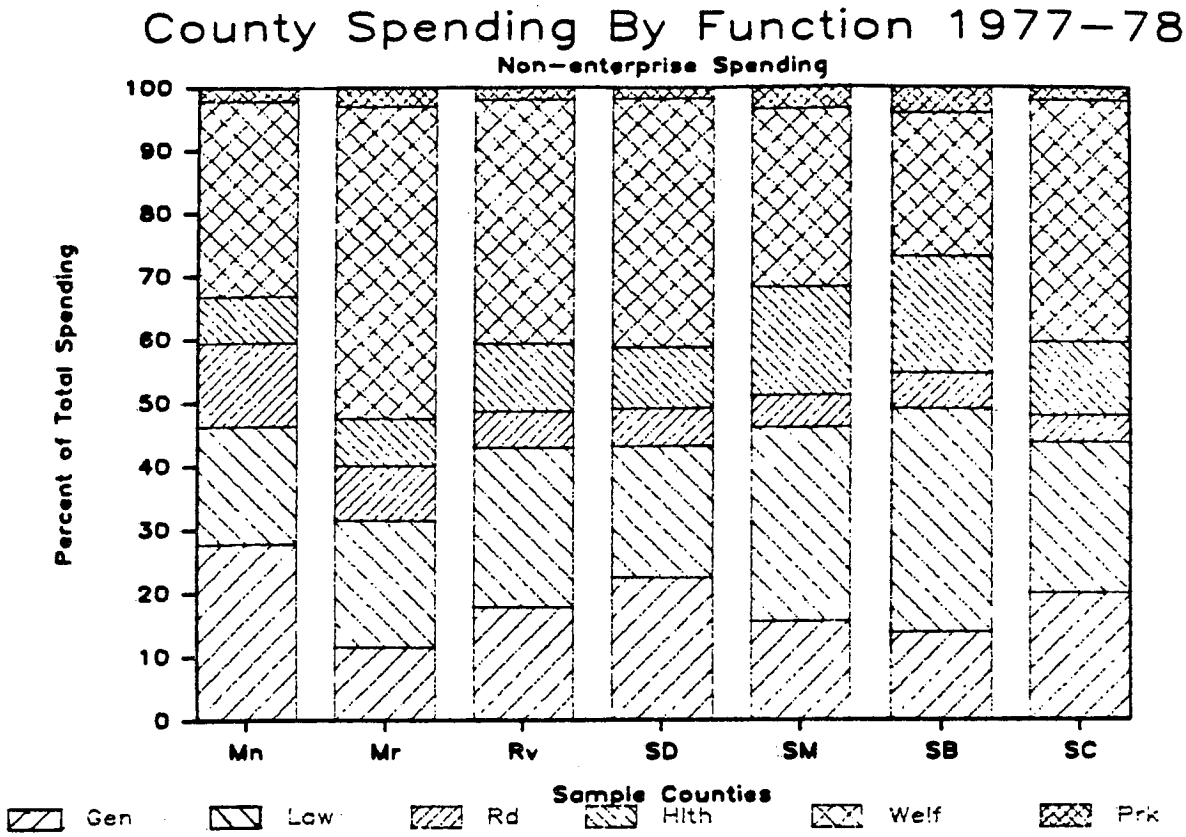
County	Label	Gen.& Cap.	Law Enf.	Roads	Health	Soc.Svc	Prk.& Lib.	Total
Mendocino	Mn	$68.01	$75.88	$42.35	$43.83	$144.72	$6.72	$381.50
Merced	Mr	39.77	83.31	22.88	27.34	197.22	10.42	380.94
Riverside	Rv	42.74	77.46	18.16	45.48	123.34	4.69	311.88
San Diego	SD	41.10	46.98	10.68	27.76	100.75	2.90	230.17
San Mateo	SM	25.00	80.51	9.60	37.95	65.82	8.58	227.45
Santa Barbara	SB	36.64	106.20	13.14	43.58	66.61	8.34	274.51
Santa Clara	SC	50.30	52.12	10.05	25.52	98.03	5.71	241.73

Percent Change 1977-78 to 1982-83

County	Label	Gen.& Cap.	Law Enf.	Roads	Health	Soc.Svc	Prk.& Lib.	Total
Mendocino	Mn	-41.4	-2.2	-22.9	42.2	11.2	-28.7	-8.9
Merced	Mr	-9.4	9.2	-30.7	-4.7	4.3	-10.8	-0.4
Riverside	Rv	-23.6	-2.1	1.1	35.6	1.2	-26.7	-1.0
San Diego	SD	-28.4	-11.5	-30.1	12.7	-0.8	-40.6	-10.4
San Mateo	SM	-39.0	-0.1	-28.0	-16.0	-12.5	-8.0	-14.0
Santa Barbara	SB	-13.2	-1.0	-23.4	-22.6	-4.8	-34.4	-10.2
Santa Clara	SC	-11.6	-22.8	-17.7	-22.8	-10.3	-5.3	-15.2

Note: Health and welfare expenditures in 1977-78 have been adjusted to reflect the effects of the state assumption of MediCal and SSI/SSP costs.

FIGURE V-13


County Spending By Function 1977–78
Non–enterprise Spending
Percent of Total Spending
100
90
80
70
60
50
40
30
20
10
0
Mn
Mr
Rv
SD
SM
SB
SC
Sample Counties
Gen
Law
Rd
Hlth
Welf
Prk

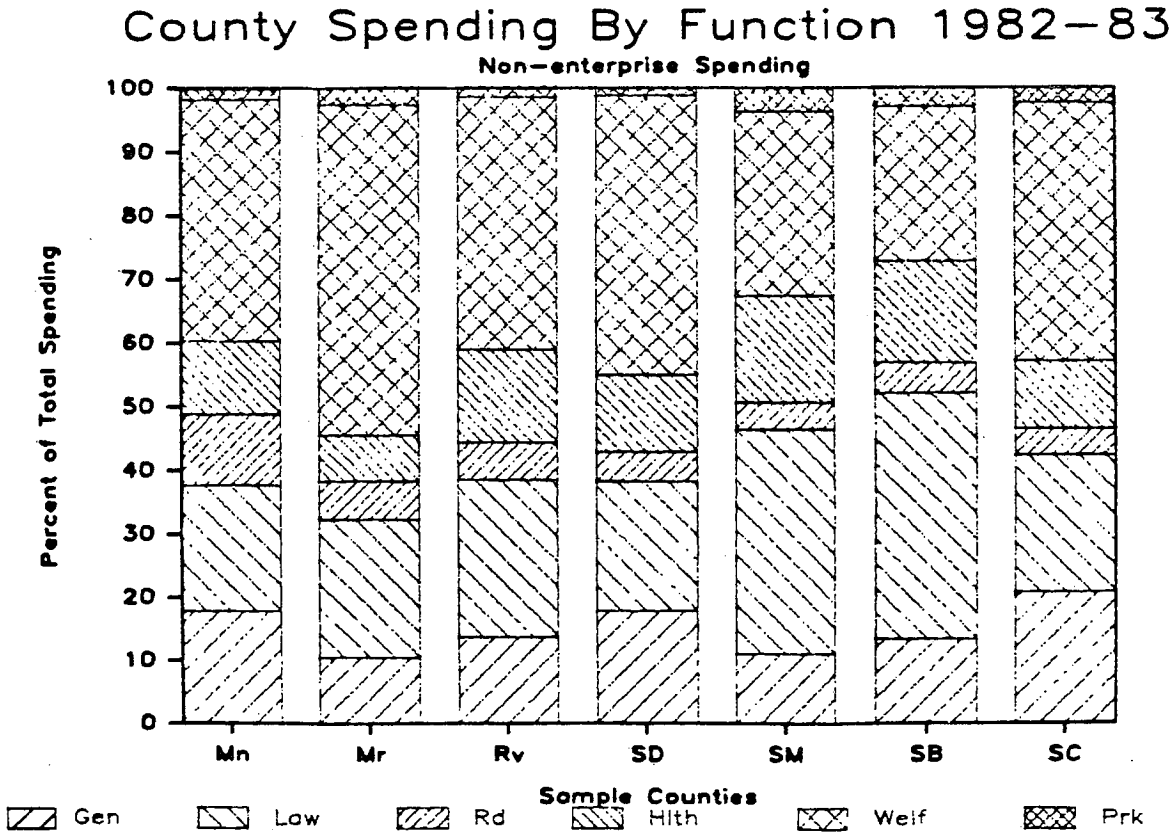

County Spending By Function 1982–83
Non–enterprise Spending
Percent of Total Spending
100
90
80
70
60
50
40
30
20
10
0
Mn
Mr
Rv
SD
SM
SB
SC
Sample Counties
Gen
Law
Rd
Hlth
Welf
Prk

FIGURE V-14

RATIO OF AFDC RECIPIENTS PER 1,000 RESIDENTS

County	Label	1/78	1/79	1/80	1/81	1/82	1/83	% Change 1978 to 1983
Mendocino	Mn.	75.4	74.8	73.3	84.6	89.1	86.7	15.0
Merced	Mr.	87.6	82.2	83.1	92.1	101.1	116.4	32.9
Riverside	Rv.	65.8	59.4	61.0	70.5	70.5	72.0	9.3
San Diego	SD.	51.6	49.4	51.0	57.5	56.6	57.1	10.6
San Francisco	SF.	69.2	62.7	58.5	59.0	58.0	55.8	-19.4
San Mateo	SM.	31.0	28.2	25.2	24.1	20.4	19.5	-37.2
Santa Barbara	SB.	38.5	36.9	36.7	40.3	36.4	34.8	-9.6
Santa Clara	SC.	55.3	49.5	45.6	49.9	49.3	48.5	-12.3
State Total	CA	64.6	60.5	59.4	64.1	63.7	64.6	.0

SOURCE: Public Welfare in California, Calif. State Dept. of Social Services, Statistical Services Branch. January issue 1978, 1979, 1980, 1981, 1982, 1983.

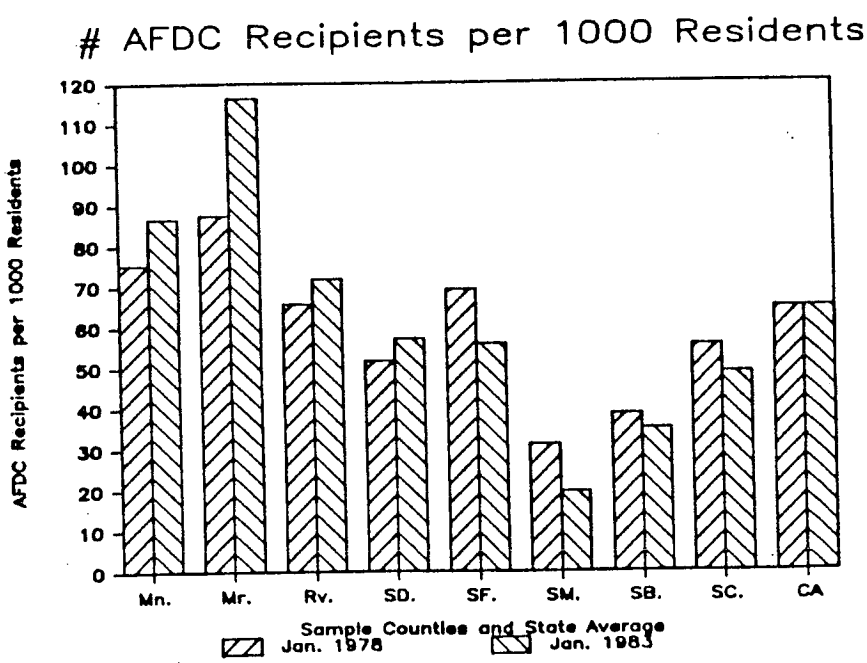
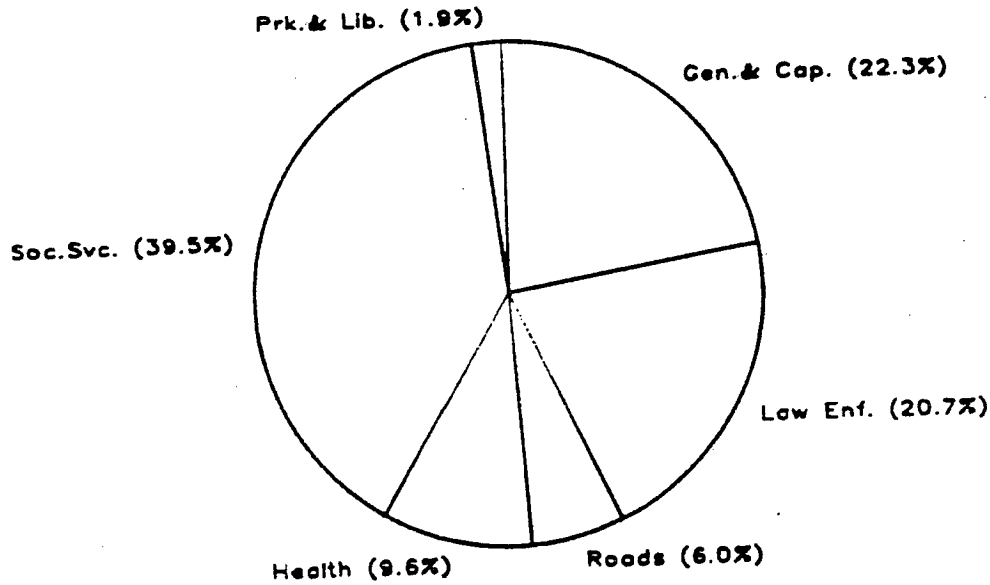


FIGURE V-15

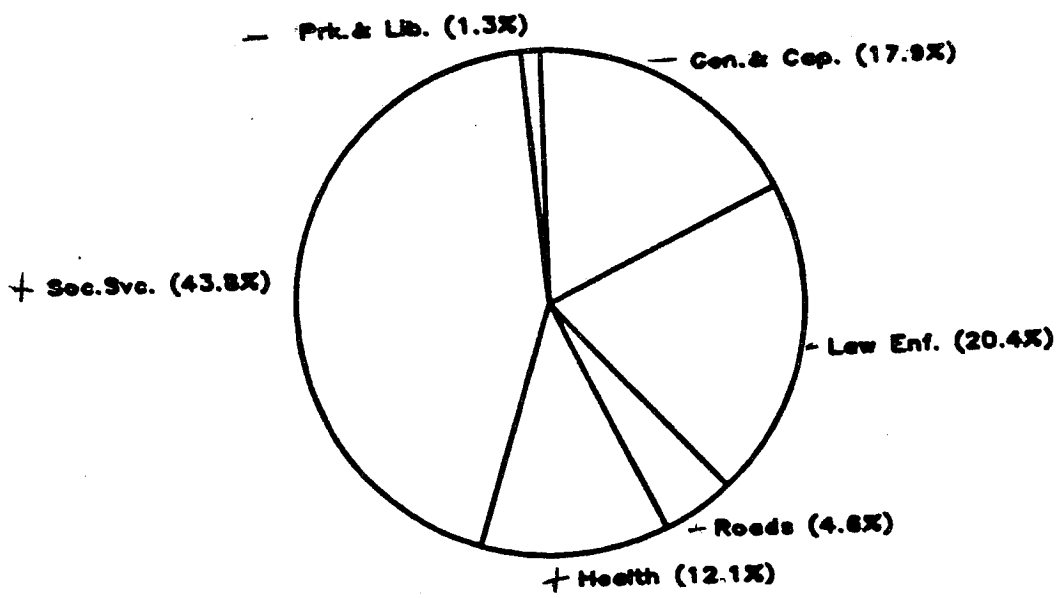
San Diego County Spending by Function

1977–78 Total = $ 447.9 million



San Diego County Spending by Function

1982–83 Total = $ 684.4 million



CHAPTER VI

CITY REVENUE AND EXPENDITURE TRENDS

INTRODUCTION

City governments provide basic urban services to more than 75% of California's population. Unlike counties, cities are not required to provide criminal justice, health, and welfare services that are responsibilities of counties. Cities focus primarily on such government services as fire and police protection, public works, regulation of land use, and park and recreation programs. City revenue sources are much more diversified than those of counties, and fiscal trends for cities differ in many important ways from those of counties.

This chapter describes revenue and expenditure trends for ten cities from 1977-78 to 1981-82, explaining how cities raise and spend substantial sums of money. The span of time in the city analysis is one year shorter than for counties, because more diverse financial and budget materials are provided by cities than by counties. While counties are required under state law to account for budget data in a uniform format set by the state, cities are not restricted to any single format. This diversity and the lack of financial statements covering 1982-83 during the period when this study was conducted made it impossible to carry the analysis through to 1982-83.

The lack of uniform budget and financial information from cities makes comparison of city revenue and expenditure trends more difficult than for counties, particularly expenditures, because of the great variety of ways in which cities classify functions. Another complicating factor is the shift of certain city activities (such as water or sewer utilities) from general government budgets to separate enterprise fund budgets during the

study period. To account for these differences, data provided by sample cities has been adjusted to develop comparable data across the years covered in the study. It must be recognized, however, that these adjustments may mask some underlying trends.

This analysis of city revenue expenditure trends excludes enterprise revenues from self-supporting city utilities (water, electric, etc.) and facilities such as airports and harbors. Non-enterprise revenues include taxes, intergovernmental revenues, miscellaneous revenues, user fees, and charges for other services. These revenues, financing traditional governmental activities of cities, have been most directly affected by recent changes in local government funding and taxes.

A. REVENUE TRENDS

1. Total Revenue Trends

Recent years have marked great change in city finances. Since fiscal 1977-78, cities have had to cope with Proposition 13, high inflation, a major recession, reduction in state financial aid, and significant reductions in federal urban assistance. Figures VI-1 and VI-2 provide an overview of changes in total city revenues from non-enterprise sources from 1977-78 to 1981-82. Every city showed some growth in total revenues during this period, with growth rates ranging from a low of slightly above 4% in Fresno to more than 56% in Sunnyvale. Average revenue growth during this period exceeded 25% for eight of the ten cities.

It would be misleading, however, to interpret this increase in gross revenues without considering effects of population growth and inflation during the same period. Figure VI-2 also displays the inflation-adjusted change in per capita revenues for the ten sample cities. Of those ten cities, nine had a decline in their amount of inflation-adjusted revenues per capita. These ranged from -5.7% in San Francisco to -38.1% in Fresno.

The significance of these declines is that they represent a reduction in real economic resources controlled by cities and available to them to meet service demands of their residents. The only city to show an increase in inflation-adjusted revenue per capita was Sunnyvale, in the booming Silicon Valley.

The 33% decline in inflation-adjusted revenues per capita for the city of Irvine, in fast-growing Orange County, was primarily from a slow-down in construction. In fiscal 1977-78, the city received substantial revenues from developer fees, levied to construct capital facilities. By 1981-82 the slow-down of building activity had reduced such fees substantially, causing a large part of the decline in inflation-adjusted revenues per capita.

2. Changes in the Revenue Mix

While change in total revenues available to cities and change in the inflation-adjusted revenues per capita are factors, it is also important to consider the mix of revenue sources available to city governments, which substantially changed over the past five years.

Figure VI-3 displays percentage shares of total city revenues of each of six major revenue sources. Figure VI-4 shows that information for the years 1977-78, the year before Proposition 13, and 1981-82. The revenue mix is much more diversified than that of county governments. Cities' most important revenue sources are spread among three local sources and one external. The three local sources are property taxes, the local share of the sales tax, and other local taxes. The local tax category includes utility user, business license, hotel/motel, and miscellaneous local taxes.

Several major trends are apparent in the cities' revenue mix. Cities have become less dependent on the property tax with the significant cut in these revenues caused by Proposition 13.

Cities have become more dependent on local tax sources and miscellaneous revenues, such as interest earnings and fines and penalties.

During these same years, cities have become significantly less dependent on revenues from federal and state government than they were prior to Proposition 13. There has been significant reduction in federal urban aid programs during the past four years. Nationally, federal aid to cities, measured in constant dollars, peaked in 1978 and has been declining steadily since. The reduction came with phasing-out CETA programs, leveling off growth in federal revenue-sharing funds, and general decline in other types of federal urban assistance. State aid to cities has declined in recent years. As a result of the recession, the state has reduced shared revenue sources provided to cities in order to support state programs.

The decline in state and federal funding for cities contrasts with the increased state funding for counties. Though not displayed in data presented in this chapter, this trend away from dependence on these revenues has become more pronounced in recent years. Several 1983-84 budgets indicate that some sample cities have continued the trend towards greater reliance on local taxes -- particularly in cities that enacted local tax increases under authority granted by the Farrell decision, this was even more pronounced. (See the appendix to this chapter for a discussion of one city's experience.)

There was wide variation in the share of city budgets provided by fee-for-service revenues in the sample. Service fees as a percentage of total revenues range from 3.69% to 23.77% in the sample during fiscal 1981-82. The wide differences in the share of city revenues provided by service fees are caused by variations in the types of local services cities provide and by variations in economic activities such as building construction, which provide a major source of fee revenue in some sample cities. Between fiscal

1977-78 and 1981-82, half the sample cities increased reliance on fees and half reduced reliance. The large increase in fee revenue in Los Angeles stemmed from new sewer service fees required to finance sewage treatment facilities. The decline in the reliance on fees in Irvine was caused by reduced construction-related fee revenue due to less building activity.

The large growth in miscellaneous revenues has numerous causes, the largest being interest earnings on investment of city funds. Throughout interviews, cities indicated that great attention was put on improving yields of municipal investments to maximize revenue. Improvement in investment practices coincided with a rapid increase in interest rates and produced substantial new revenues.

For some cities in the sample, another significant source of revenue has been from sale or lease of surplus public property. The city of San Diego, for instance, has realized substantial revenues from the sale of vacant city land. These revenues have been used to support a major capital outlay program for constructing police facilities.

3. Revenue Growth Rates

Figure VI-1 includes information about the percentage change in various revenue sources during the years under study. Of the major city revenue sources, the fastest growing has been local tax revenues. The primary reason for this is rapid growth in the utility user tax. This increase was driven by significant increases in utility bills in California, which in turn were driven by rapid energy price inflation, which drove up electricity and natural gas rates. As the utility user tax is based on the total amount of a utility bill, the tax revenue from this source increased accordingly. Finally, in the period since 1981-82, a number of cities in the sample increased utility user tax rates or enacted new utility user taxes, accounting for further growth in this category.

The relatively poor growth in property tax revenues during the study period is because of effects of Proposition 13. However, in some jurisdictions, property tax revenues have reached or exceeded 1977-78 amounts. This is attributed to effects of construction, the 2% annual increase in most assessed values, annexation of new property, and reassessment of properties for change in ownership. Another portion of this increase was from the shift of school property taxes to cities as part of the state's post-Proposition 13 financial assistance program.

Figure VI-5 presents data on inflation-adjusted per capita city revenues from the six major sources for fiscal 1977-78 and 1981-82. Every city in the sample showed a sharp decline in per capita property tax revenues measured in constant dollars. Per capita revenues from federal and state aid programs also registered sharp declines in nine of ten sample cities. Local taxes and miscellaneous revenues were the two categories that showed the largest increases in inflation-adjusted per capita revenues. The large decline in Fresno's per capita local tax revenues was caused by voter approval of an initiative repealing the city's utility user tax.

B. EXPENDITURE TRENDS

1. Total Expenditure Trends

City expenditures have grown substantially since 1977-78. Figure VI-6 presents data on the growth in city non-enterprise expenditures for the period from 1977-78 to 1981-82. Because of changes in city accounting and budgeting practices during this period, it was necessary to make a number of adjustments in order to produce comparable data for the two years covered in the exhibits.

Figure VI-7 displays the percentage change in total non-enterprise expenditures. It shows that cities in every case have had growth in total expenditures for non-enterprise functions during this period, ranging from a low of 10.4% in Oakland to a high of 97.8% in Farmersville. The typical growth rate was less than 40%. The rapid increase for Farmersville came from substantial influx of federal grants for community development and housing rehabilitation projects, rather than expenditures for more traditional city purposes.

Figure VI-7 also presents data on inflation-adjusted expenditures per capita for sample cities. Inflation-adjusted spending for non-enterprise functions fell in six of the eight cities with comparable data. These decreases range from -5.7% in Los Angeles to a decline of -47.2% in Irvine. (The large decline in Irvine was primarily from reduction in capital outlay expenditures related to the slow-down in building activity discussed earlier.) The two cities showing an increase in inflation-adjusted expenditures per capita were Sunnyvale and Farmersville, the latter because of an influx of federal grant funds for community development projects.

2. City Expenditures by Object of Expenditure

As was noted earlier, city government is labor-intensive. Figures VI-8 and VI-9 show distribution of city spending by object of expenditure. Major categories of spending include salaries and wages, employer-paid fringe benefits, operating expenses and supplies, debt service, and capital outlay. The largest single component of city expenditures were for salaries, wages, and fringe benefits. In sample cities, these expenses range from a low of 44% of total city spending in Irvine to a high of more than 76% in Oakland. Variations in the amount of city capital spending account for most of this difference.

Clearly, expenditure control in city government depends on control of expenditures for wages, salaries, and fringe benefits. This in turn depends on controlling the number of employees and rate of increase in salaries and fringe benefits. As was reported earlier, there has been a more rapid increase in fringe benefits costs relative to other items of expenditure since 1977-78.

The relatively small portion of most city budgets devoted to debt service is important. Cities in the sample are relatively debt-free with respect to general government operations. Since debt service is a contractual obligation that cannot be avoided short of bankruptcy, a small debt burden means increased fiscal flexibility for any organization. The greatest source of city debt was for enterprise activities, such as electric, water, sewer utilities, or facilities such as airports or harbors. Also noteworthy is that the proportion of capital outlays in the total budgets has tended to decline in most of the sample cities over this study period. This decline is discussed further in Chapter VIII.

3. City Expenditures for Selected Functions

Just as there were great differences in growth rates of the individual components of city revenues, there are also significant differences in growth rates of city expenditures. In Figures VI-10 and VI-11, information about the functional distribution of city expenditures is displayed. City government has been divided into six major functional areas: Police and fire protection; public works, such as street maintenance and storm drains; parks, libraries, and other cultural facilities; general government activities; community development activities, such as planning, zoning, and housing programs; and miscellaneous.

The share devoted to each of the six functions has changed over the past five years. For example, the public safety function has tended to grow as a share of total city spending. The per

capita inflation-adjusted spending data in Figure VI-12 also tends to confirm the increased emphasis on public safety spending. It is more difficult to reach firm conclusions about the share of spending for other activities, because of frequent reclassifications of program expenditures during this period. Reclassifications typically affected miscellaneous expenditures and general government spending categories. From field interviews with local offficials, it turned out that public works and library activities tended to decline during this period, relative to spending for public safety.

The City of Los Angeles illustrates what has happened to real per capita spending for selected functions between fiscal 1977-78 and 1981-82 (Figure VI-13). Only two categories show an increase in inflation-adjusted spending per capita during this period: public safety and general government. The large increase in the general government function is primarily from reclassification of expenditures. A general services department was created to handle a number of "housekeeping" functions formerly assigned to individual operating departments. Given this circumstance, only public safety has a real increase in per capita inflation-adjusted spending during this time. Based on data gathered in interviews, all of the real growth in public safety spending was absorbed by rising pension costs during this period.

C. GENERAL OBSERVATIONS FROM FIELD INTERVIEWS

Like counties, during field interviews with city government officials, a consistent theme was expressed that where expenditure reductions were made, they tended to be made in the areas that were "invisible to the general public." Local officials inter-

viewed indicated that, where possible, reductions were made in such areas as support staff, maintenance programs, capital outlay programs, and other program areas which were not directly involved with serving the public. Virtually every city visited indicated that the central government functions of city management, financial management, planning, and other such staff activities had been cut back significantly during this period. The employment data discussed in Chapter III tends to confirm this. Areas where service reductions were made that became visible to the public included such activities as street sweeping, tree trimming, park maintenance, and library and recreation service hours.

Every city visited during the study indicated that public safety programs were given high budget priority after Proposition 13. This responded to public sentiment for greater efforts in crime control and public protection. As employees in these categories tend to be more expensive than typical city employees, partly because of more generous retirement benefits, the shift in functional orientation of cities toward greater emphasis on public protection tends to make the city's labor force more expensive. This has implications for cities' long-term cost control. Because pension costs associated with public safety employees are higher than for typical employees, this will tend to make pension issues much more pertinent to future discussions of expenditure control in local government.

D. FINDINGS

1. City revenues have grown significantly in recent years. Increases ranged from 4.3% to 56.6% between fiscal 1977-78 and 1981-82 in the sample. When adjusted for population growth and the effects of inflation, per capita revenues declined. Adjusted per capita revenues declined between 5.7% and 38.2% in the sample.

2. The decline in inflation-adjusted per capita revenues has been halted and partially reversed in those cities which have enacted local tax increases under the Farrell decision.

3. City expenditures have also grown in recent years. Non-enterprise spending growth ranged from 10.3% to 97.9% between fiscal 1977-78 and 1981-82. When adjusted for population growth and inflation, per capita spending declined in six of eight sample cities that had comparable data.

4. Cities have become much less dependent on property taxes and state and federal revenues than they were prior to Proposition 13. Local taxes and miscellaneous revenues have increased in importance in financing city budgets.

5. Public safety spending has generally increased fast enough to compensate for increases in population and the cost of living. Other areas of city spending have not matched this performance.

6. Increased emphasis on public safety programs will make pension cost control issues more important in the future, since such programs are labor-intensive and involve more costly pension benefits.

CHAPTER VI

APPENDIX I
THE PARADOX OF LOS ANGELES: INCREASED REVENUES AND LESS SERVICE

Fiscal data reviewed in this chapter covers only the period from 1977-78 to 1981-82, because of difficulties in developing comparable data for revenue and expenditure classifications. However, with recent interest in use by some cities of their authority under the Farrell decision to increase local taxes, the City of Los Angeles was examined because of its importance in the state and because it enacted major tax increases under the Farrell decision in 1983. This was its first tax increase since passage of Proposition 13.

REVENUE GROWTH TO 1983-84

Figure VI-14 presents data drawn from city budgets for non-enterprise general government revenues of the City of Los Angeles for fiscal 1977-78 and 1981-82, and revenue estimates in the 1983-84 budget. The table also displays shares of each of six revenue sources made of total revenues. Finally, the table displays the change in inflation adjusted revenues per capita from each revenue source in the exhibit.

Figure VI-15 depicts the revenue mix for the City of Los Angeles in fiscal 1977-78 and 1983-84. The charts indicate that the city has become less dependent on the property tax and on state and federal revenues over the past six years. The property tax share of local revenues has slipped from 29.6% in 1977-78 to 16.9% in 1983-84 under impact of Proposition 13. State and federal revenues have shrunk from 22.6% of the total to 15.1%. The two sources that have grown to replace these losses are local taxes and fees for service.

Growth in local taxes reflects the $116 million in increased business and utility user taxes enacted in 1983-84, and effects of rising utility rates on the utility users tax generated by the pre-Proposition 13 tax rate. The increase in fees for service is largely from new sewer service charges required by the federal government to finance the operation and maintenance of sewage treatment plants that had to be upgraded to meet Federal water quality standards. Increases in a variety of other city fees to cover full costs of providing service, and effects of inflation, account for the rest of the increase in this category.

Figure VI-16 displays the change in inflation-adjusted revenues per capita for the six revenue sources and total revenues for fiscal 1977-78 to the estimated 1983-84 total. The property tax (P. Tx) and intergovernmental (IGR) categories show decreases of more than 25% in inflation-adjusted revenues per capita. Sales tax revenues also shows a slight decline. Largest gains were in local tax revenue (L. Tx.) and fee income, and relate to changes noted above. In spite of these large increases, total revenues on an inflation-adjusted basis are still slightly below the pre-Proposition 13 level of 1977-78.

The lower graph in Figure VI-16 displays the same data as above, except that the increased sewer charges mandated by the federal government (and not available to finance other city services) have been removed from the total. With this adjustment, city revenues per capita are 6% below the pre-Proposition 13 level, even after the large local tax increase of 1983-84 and all other increases in local fees and other revenue sources.

PARADOX OF REVENUE GROWTH AND SERVICE REDUCTIONS

Based on the employment data discussed in Chapter III and the comments and materials presented by city officials during field interviews, municipal services have been cut significantly in Los Angeles since Proposition 13. Even excluding reductions in the

CETA program, the city has nearly 2,000 fewer full-time employees (26,506 in 1983-84, down from 28,358 in 1977-78). Maintenance activities, parks, libraries, community services, and equipment replacement programs have all been reduced -- evidence that the city cut spending under fiscal constraints.

City staff members said that the tax increase in 1983-84 was not designed to restore services to old levels, but rather to halt further declines in service. This was a paradox. Analysis above shows that with the 1983-84 increase in local taxes and the large increase in fee revenues, inflation-adjusted city per capita revenues were close to levels prior to Proposition 13. How was this revenue trend compatible with the service reductions mentioned above, and the assertion that tax increases would not allow the city to restore lost services and staff?

ANSWER TO THE PARADOX

The answer to this paradox lies in an analysis of the pattern of city expenditures. Large revenue increases caused by higher fees and local taxes were absorbed by spending in two categories that do not produce tangible services used by Los Angeles residents. As mentioned above, the increase in sewer fees (by approximately $80 million above 1977-78 levels) was mandated by the federal government to cover operating and maintenance costs of upgraded sewer plants required to meet federal water standards for discharge of treated water into the ocean. While the improved sewage treatment will benefit the ocean environment, it does not produce any immediately visible service to the typical resident. Furthermore, since the increased sewer fees support a new cost, not present in 1977-78, the added revenue does not help the city finance other services or offset lost property tax revenues.

Secondly, a major expense in Los Angeles is the very costly police and fire pension system maintained by the city. Under previous city charter provisions, this plan provided full annual

cost-of-living adjustments for retired and active members. This benefit, coupled with rapid inflation of the 1970's, drove up city retirement costs at a rapid rate. Appropriations for fire and police pensions rose from $116 million in fiscal 1977-78 to $213 million in 1983-84. This increase is substantially greater than that needed to match reported salary increases and changes in total police and fire staff over this period. These pension costs are another expense not productive of tangible services for current residents, but rather a the cost of past service and pension benefits that must be honored by current residents.

Los Angeles voters have since approved two charter amendments to replace these expensive pension benefits with more reasonable benefits. If these amendments withstand legal challenge -- a very similar change in Pasadena did not -- it will take the city several decades to outgrow effects of pension benefits earned by past and current employees when more generous benefits were in effect. As a result, less of each current tax dollar in the city is now available to fund current services than was available in 1977-78.

It appears that the paradox discussed above does represent the reality of Los Angeles fiscal affairs. While local residents and businesses are paying only slightly less in fees and taxes (measured in constant dollars) than they were in 1977-78, they still have reductions in service described by city officials. The "culprits" in this paradox are federal water quality standards, and the employee unions, city officials, and the voters themselves, who in earlier years approved (and later repealed) some expensive pension benefits, a cost extending long into the future.

FIGURE VI-1

CITY NON-ENTERPRISE REVENUES 1977-78 AND 1981-82

Actual 1977-78

City	Label	Property Tax	Sales Tax	Local Tax	Misc.	Fees	State & Federal	Total
Los Angeles	LA	$304,548,000	$132,400,000	$180,088,000	$100,413,000	$77,617,000	$232,364,000	$1,027,430,000
San Diego	SD	49,625,000	37,157,000	17,614,000	26,380,000	15,534,000	80,243,000	226,553,000
Fresno	Fr	16,772,000	13,222,000	8,409,000	3,296,000	5,271,000	28,281,000	75,251,000
Oakland	Ok	35,946,000	15,055,000	17,402,000	9,865,000	8,012,000	86,912,000	173,192,000
Sunnyvale	Sn	6,902,000	5,502,000	3,839,000	1,937,000	1,393,000	10,087,000	29,660,000
Irvine	Ir	3,064,000	3,967,000	1,209,000	1,830,000	5,746,000	2,203,000	18,019,000
Pacifica	Pa	2,297,000	477,000	333,000	977,000	1,249,000	3,910,000	9,243,000
Farmersville	Fm	50,473	55,717	13,748	46,752	82,617	372,098	621,405
Montebello	Mb	2,730,000	2,869,000	700,000	1,954,000	687,000	2,368,000	11,308,000
San Francisco	SF	250,383,000	38,781,000	83,816,000	44,888,000	97,764,000	184,213,000	699,845,000

Actual 1981-82

City	Label	Property Tax	Sales Tax	Local Tax	Misc.	Fees	State & Federal	Total
Los Angeles	LA	$246,306,000	$194,928,000	$283,572,000	$186,552,000	$194,722,000	$284,605,000	$1,390,685,000
San Diego	SD	54,082,000	59,821,000	34,309,000	55,265,000	20,285,000	66,097,000	289,859,000
Fresno	Fr	17,718,000	20,907,000	8,184,000	6,746,000	8,860,000	16,063,000	78,478,000
Oakland	Ok	24,964,000	20,471,000	30,710,000	38,436,000	9,522,000	96,133,000	220,236,000
Sunnyvale	Sn	7,644,000	10,382,000	7,243,000	7,046,000	1,851,000	12,277,000	46,443,000
Irvine	Ir	3,366,000	8,017,000	3,103,000	6,607,000	2,817,000	2,916,000	26,826,000
Pacifica	Pa	1,979,000	735,000	421,000	1,477,000	2,333,000	2,869,000	9,814,000
Farmersville	Fm	54,067	93,280	41,346	185,497	33,160	490,552	897,902
Montebello	Mb	3,184,000	4,267,000	857,000	2,788,000	1,677,000	2,282,000	15,055,000
San Francisco	SF	204,227,000	57,780,000	203,367,000	46,268,000	113,868,000	316,469,000	941,979,000

Percent Change 1977-78 to 1981-82

City	Label	Property Tax	Sales Tax	Local Tax	Misc.	Fees	State & Federal	Total
Los Angeles	LA	-19.12	47.23	57.46	85.78	150.88	22.48	35.36
San Diego	SD	8.98	61.00	94.78	109.50	30.58	-17.63	27.94
Fresno	Fr	5.64	58.12	-2.68	104.67	68.09	-43.20	4.29
Oakland	Ok	-30.55	35.97	76.47	289.62	18.85	10.61	27.16
Sunnyvale	Sn	10.75	88.70	88.67	263.76	32.88	21.71	56.58
Irvine	Ir	9.86	102.09	156.66	261.04	-50.97	32.36	48.88
Pacifica	Pa	-13.84	54.09	26.43	51.18	86.79	-26.62	6.18
Farmersville	Fm	7.12	67.42	200.74	296.77	-59.86	31.83	44.50
Montebello	Mb	16.63	48.73	22.43	42.68	144.10	-3.63	33.14
San Francisco	SF	-18.43	48.99	142.64	3.07	16.47	71.80	34.60

FIGURE VI-2

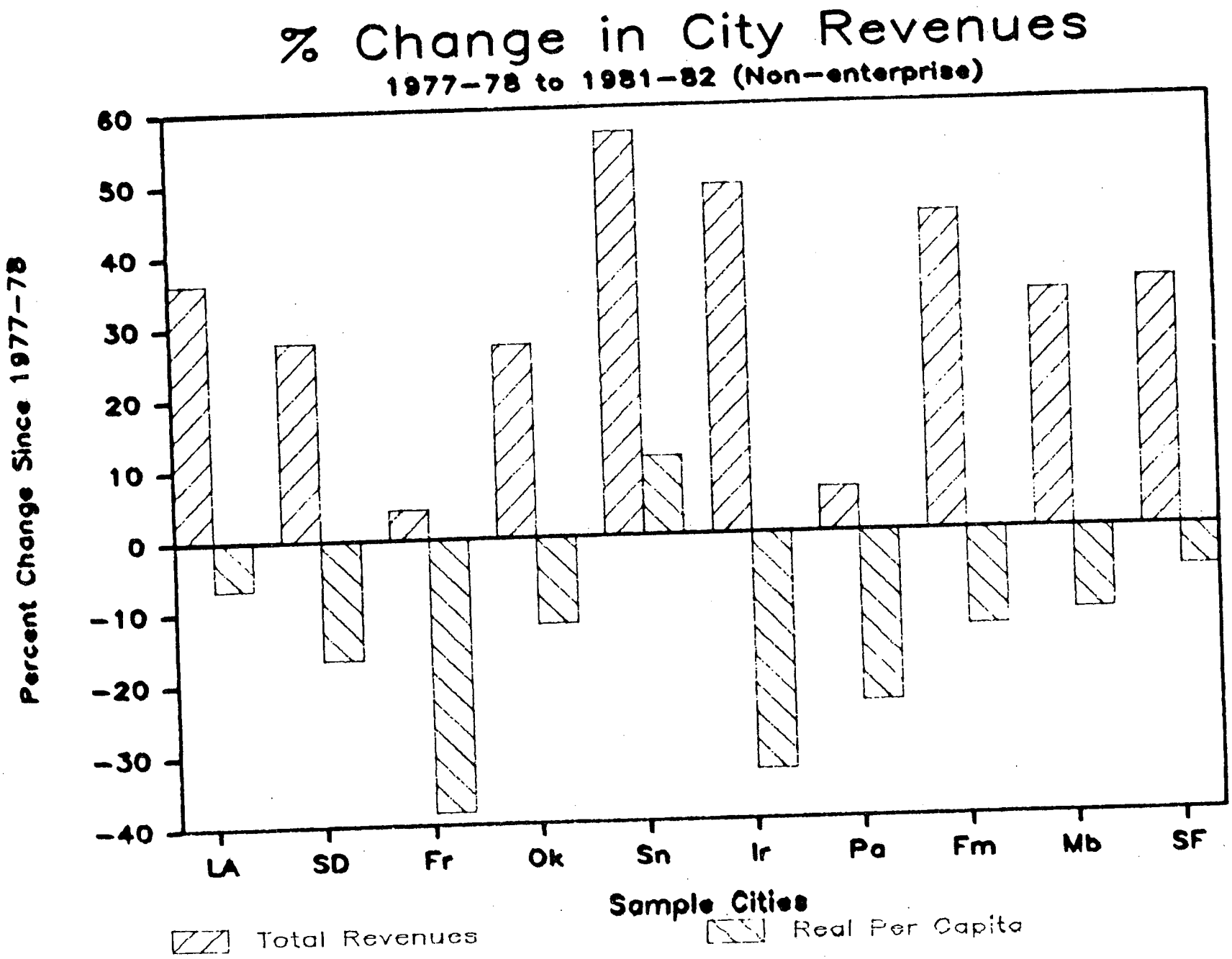

% Change in City Revenues
1977-78 to 1981-82 (Non-enterprise)
Percent Change Since 1977-78
60
50
40
30
20
10
0
-10
-20
-30
-40
LA
SD
Fr
Ok
Sn
Ir
Pa
Fm
Mb
SF
Sample Cities
Total Revenues
Real Per Capita

FIGURE VI-3

MAJOR CITY REVENUE SOURCES AS A PERCENTAGE

OF TOTAL NON-ENTERPRISE REVENUES

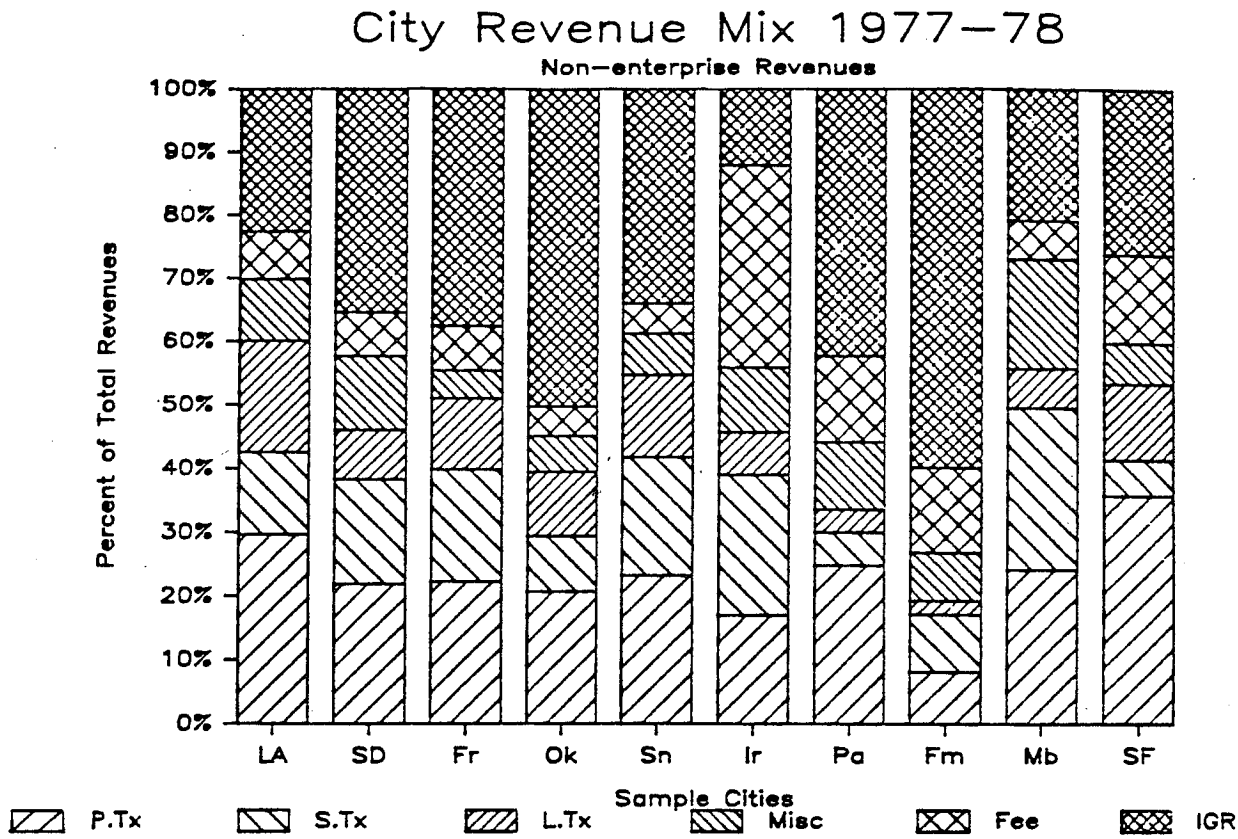
Percentage Shares 1977-78

City	Label	Prop. Tax	Sales Tax	Local Tax	Misc.	Fees	State & Federal	Total
Los Angeles	LA	29.64%	12.89%	17.53%	9.77%	7.55%	22.62%	100.00%
San Diego	SD	21.90%	16.40%	7.77%	11.64%	6.86%	35.42%	100.00%
Fresno	Fr	22.29%	17.57%	11.17%	4.38%	7.00%	37.58%	100.00%
Oakland	Ok	20.76%	8.69%	10.05%	5.70%	4.63%	50.18%	100.00%
Sunnyvale	Sn	23.27%	18.55%	12.94%	6.53%	4.70%	34.01%	100.00%
Irvine	Ir	17.00%	22.02%	6.71%	10.16%	31.89%	12.23%	100.00%
Pacifica	Pa	24.85%	5.16%	3.60%	10.57%	13.51%	42.30%	100.00%
Farmersville	Fm	8.12%	8.97%	2.21%	7.52%	13.30%	59.88%	100.00%
Montebello	Mb	24.14%	25.37%	6.19%	17.28%	6.08%	20.94%	100.00%
San Francisco	SF	35.78%	5.54%	11.98%	6.41%	13.97%	26.32%	100.00%

Percentage Shares 1981-82

City	Label	Prop. Tax	Sales Tax	Local Tax	Misc.	Fees	State & Federal	Total
Los Angeles	LA	17.71%	14.02%	20.39%	13.41%	14.00%	20.47%	100.00%
San Diego	SD	18.66%	20.64%	11.84%	19.07%	7.00%	22.80%	100.00%
Fresno	Fr	22.58%	26.64%	10.43%	8.60%	11.29%	20.47%	100.00%
Oakland	Ok	11.34%	9.30%	13.94%	17.45%	4.32%	43.65%	100.00%
Sunnyvale	Sn	16.46%	22.35%	15.60%	15.17%	3.99%	26.43%	100.00%
Irvine	Ir	12.55%	29.89%	11.57%	24.63%	10.50%	10.87%	100.00%
Pacifica	Pa	20.17%	7.49%	4.29%	15.05%	23.77%	29.23%	100.00%
Farmersville	Fm	6.02%	10.39%	4.60%	20.66%	3.69%	54.63%	100.00%
Montebello	Mb	21.15%	28.34%	5.69%	18.52%	11.14%	15.16%	100.00%
San Francisco	SF	21.68%	6.13%	21.59%	4.91%	12.09%	33.60%	100.00%

FIGURE VI-4


City Revenue Mix 1977—78
Non—enterprise Revenues
Percent of Total Revenues
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
LA
SD
Fr
Ok
Sn
Ir
Pa
Fm
Mb
SF
Sample Cities
P.Tx
S.Tx
L.Tx
Misc
Fee
IGR

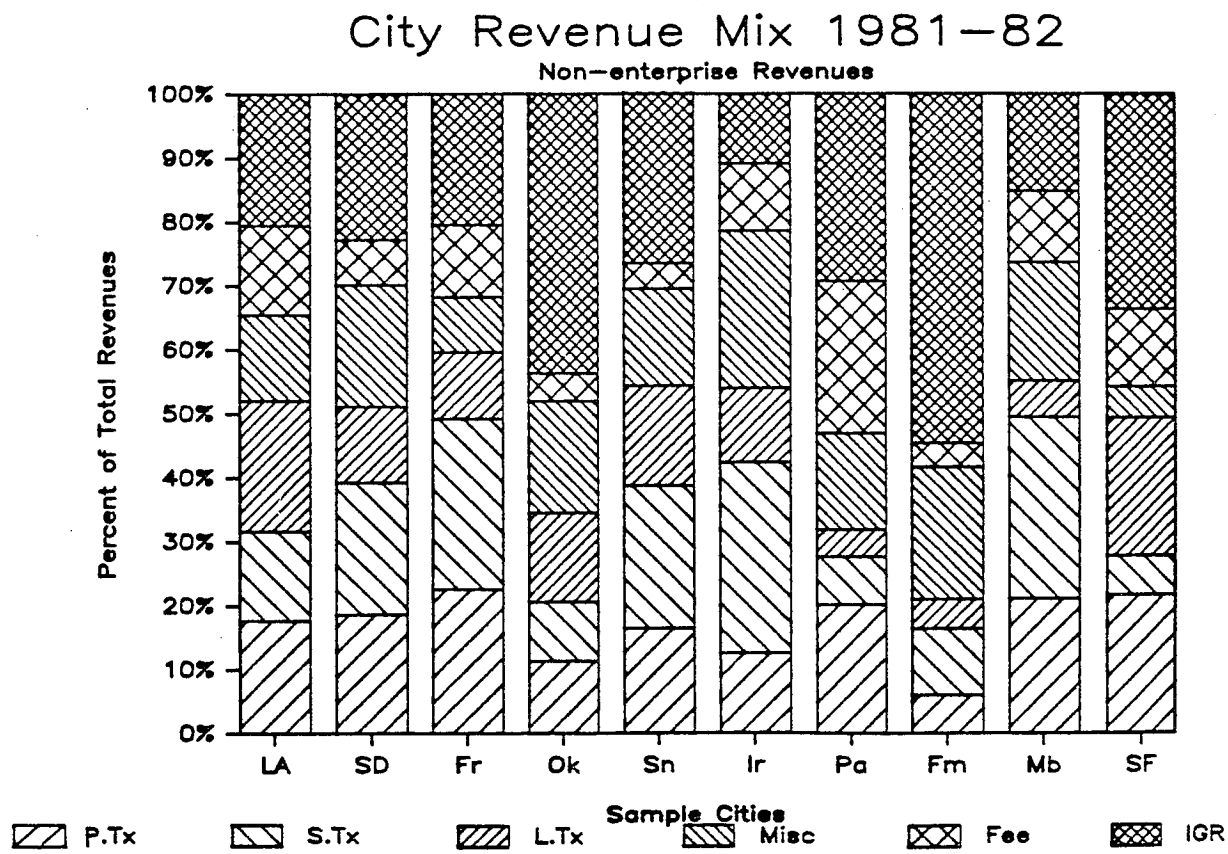

City Revenue Mix 1981—82
Non—enterprise Revenues
Percent of Total Revenues
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
LA
SD
Fr
Ok
Sn
Ir
Pa
Fm
Mb
SF
Sample Cities
P.Tx
S.Tx
L.Tx
Misc
Fee
IGR

FIGURE VI-5

PER CAPITA INFLATION ADJUSTED CITY NON-ENTERPRISE REVENUES 1977-78 AND 1981-82

Actual 1977-78

City	Label	Prop. Tax	Sales Tax	Local Tax	Misc.	Fees	State & Federal	Total
Los Angeles	LA	$104.99	$45.64	$62.08	$34.62	$26.76	$80.11	$354.20
San Diego	SD	60.06	44.97	21.32	31.93	18.8	97.12	274.21
Fresno	Fr	82.74	65.23	41.48	16.26	26	139.52	371.24
Oakland	Ok	107.62	45.07	52.1	29.54	23.99	260.22	518.54
Sunnyvale	Sn	64.57	51.47	35.91	18.12	13.03	94.36	277.46
Irvine	Ir	68.85	89.15	27.17	41.12	129.12	49.51	404.92
Pacifica	Pa	62.33	12.94	9.04	26.51	33.89	106.11	250.83
Farmersville	Fm	10.43	11.51	2.84	9.66	17.07	76.88	128.39
Montebello	Mb	53.85	56.59	13.81	38.54	13.55	46.71	223.04
San Francisco	SF	366.32	56.74	122.63	65.67	143.03	269.51	1023.91

Actual 1981-82

City	Label	Prop. Tax	Sales Tax	Local Tax	Misc.	Fees	State & Federal	Total
Los Angeles	LA	$58.23	$46.08	$67.04	$44.10	$46.04	$67.28	$328.75
San Diego	SD	42.72	47.26	27.1	43.66	16.02	52.21	228.98
Fresno	Fr	51.82	61.15	23.94	19.73	25.91	46.98	229.54
Oakland	Ok	51.68	42.38	63.57	79.57	19.71	199.01	455.92
Sunnyvale	Sn	50.72	68.88	48.06	46.75	12.28	81.46	308.14
Irvine	Ir	34.04	81.07	31.38	66.81	28.49	29.49	271.28
Pacifica	Pa	38.6	14.34	8.21	28.81	45.5	55.96	191.42
Farmersville	Fm	6.69	11.55	5.12	22.97	4.11	60.74	111.17
Montebello	Mb	41.74	55.94	11.24	36.55	21.99	29.92	197.38
San Francisco	SF	209.32	59.22	208.44	47.42	116.71	324.36	965.47

Percent Change 1977-78 to 1981-82

City	Label	Prop. Tax	Sales Tax	Local Tax	Misc.	Fees	State & Federal	Total
Los Angeles	LA	-44.54	0.96	7.99	27.38	72.02	-16.02	-7.18
San Diego	SD	-28.87	5.09	27.11	36.74	-14.79	-46.24	-16.49
Fresno	Fr	-37.37	-6.25	-42.29	21.34	-0.35	-66.33	-38.17
Oakland	Ok	-51.98	-5.97	22.02	169.36	-17.84	-23.52	-12.08
Sunnyvale	Sn	-21.45	33.83	33.83	158.00	-5.76	-13.67	11.06
Irvine	Ir	-50.56	-9.06	15.50	62.48	-77.94	-40.44	-33.00
Pacifica	Pa	-38.07	10.82	-9.18	8.68	34.26	-47.26	-23.69
Farmersville	Fm	-35.86	0.35	80.28	137.78	-75.92	-20.99	-13.41
Montebello	Mb	-22.49	-1.15	-18.61	-5.16	62.29	-35.95	-11.50
San Francisco	SF	-42.86	4.37	69.97	-27.79	-18.40	20.35	-5.71

FIGURE VI-6

PERCENTAGE CHANGE IN CURRENT DOLLAR EXPENDITURES FOR SELECTED CITY NON-ENTERPRISE FUNCTIONS 1977-78 TO 1981-82

Percent Change 1977-78 to 1981-82

City	Label	Public Safety	Public Works	Parks & Libraries	General Govern.	Community Devel.	Misc.	Total
Los Angeles	LA	47.74	18.78	26.77	75.64	43.54	16.14	37.55
San Diego	SD	72.37	45.32	26.98	44.27	17.27	-69.69	13.55
Fresno	Fr	46.82	24.52	47.19	38.60	-85.98	806.82	17.11
Oakland	Ok	34.72	-22.01	22.62	-36.21	119.49	-44.77	10.35
Sunnyvale	Sn	54.87	110.21	5.99	44.74	94.97	57.15	60.89
Irvine	Ir	139.37	-40.05	327.33	15.98	135.92	16.91	17.30
Farmersville	**Fm	104.23	89.11	79.91	-35.97	2755.06	5.03	97.86
Montebello	Mb	67.16	7.34	214.73	-11.94	2.75	-41.46	16.38
San Francisco	SF	na	na	na	na	na	na	na
Pacifica *	Pa	32.35	229.06	41.84	14.70	44.42	154.91	66.49

*Pacifica uses 1978-79 data in place of 1977-78 data.

**Farmersville was adjusted to remove enterprises from the non-enterprise activities.

FIGURE VI-7

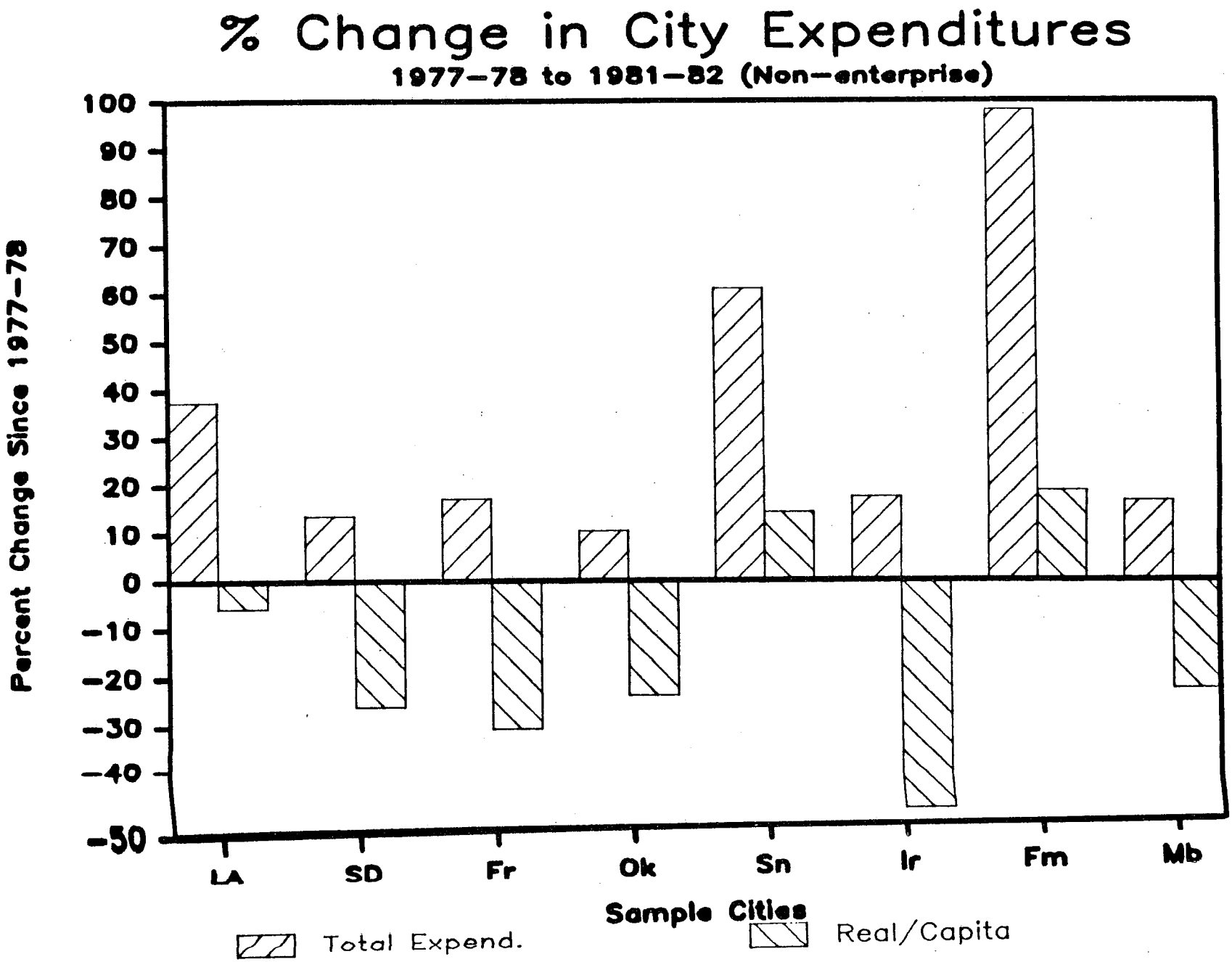

% Change in City Expenditures
1977–78 to 1981–82 (Non–enterprise)
Percent Change Since 1977–78
100
90
80
70
60
50
40
30
20
10
0
–10
–20
–30
–40
–50
LA
SD
Fr
Ok
Sn
Ir
Fm
Mb
Sample Cities
Total Expend.
Real/Capita

FIGURE VI-8

CITY NON-ENTERPRISE EXPENDITURES BY OBJECT OF EXPENDITURE

Actual 1982-83

City	Label	Salaries	Benefits	Operating Expenses	Debt	Capital	Inter-fund Tranfers	Total
Los Angeles	LA	$776,315,876	$328,488,863	$323,783,934	$13,226,330	$90,244,514		$1,532,059,517
Fresno	Fr	39,778,000	13,775,000	20,405,000	697,000	9,205,000		83,860,000
Oakland	Ok	74,120,000	40,648,000	34,589,000	937,000	435,000		150,729,000
Sunnyvale	Sn	14,520,000	6,142,000	8,194,000	2,279,000	5,237,000		36,372,000
Irvine	Ir	10,980,977	2,849,949	8,972,296	1,473,940	6,964,114		31,241,276
Pacifica	Pa	3,657,435	752,774	3,326,182	284,087	1,279,826		9,300,304
Montebello	Mb	6,737,700	2,881,382	6,228,338	52,763	136,960		16,037,143
San Francisco*	SF	407,305,000	170,608,000	706,420,000	23,015,000	19,163,000		1,326,511,000
San Diego	SD	130,189,000	37,265,000	102,179,000	3,657,000	32,797,000	(12,027,000)	306,087,000
Farmersville	Fm	na	na	na	na	na	na	na

Percentage Shares

City	Label	Salaries	Benefits	Operating Expenses	Debt	Capital	Inter-fund Tranfers	Total
Los Angeles	LA	50.67%	21.44%	21.13%	0.86%	5.89%	0.00%	100.00%
Fresno	Fr	47.43%	16.43%	24.33%	0.83%	10.98%	0.00%	100.00%
Oakland	Ok	49.17%	26.97%	22.95%	0.62%	0.29%	0.00%	100.00%
Sunnyvale	Sn	39.92%	16.89%	22.53%	6.27%	14.40%	0.00%	100.00%
Irvine	Ir	35.15%	9.12%	28.72%	4.72%	22.29%	0.00%	100.00%
Pacifica	Pa	39.33%	8.09%	35.76%	3.05%	13.76%	0.00%	100.00%
Montebello	Mb	42.01%	17.97%	38.84%	0.33%	0.85%	0.00%	100.00%
San Francisco**	SF	30.70%	12.86%	53.25%	1.74%	1.44%	0.00%	100.00%
San Diego	SD	42.53%	12.17%	33.38%	1.19%	10.71%	-3.93%	100.00%
Farmersville	Fm	na	na	na	na	na	na	na

** San Francisco's Operating Expense figure is large because it includes welfare benefit payments made by the City and County.

FIGURE VI-9

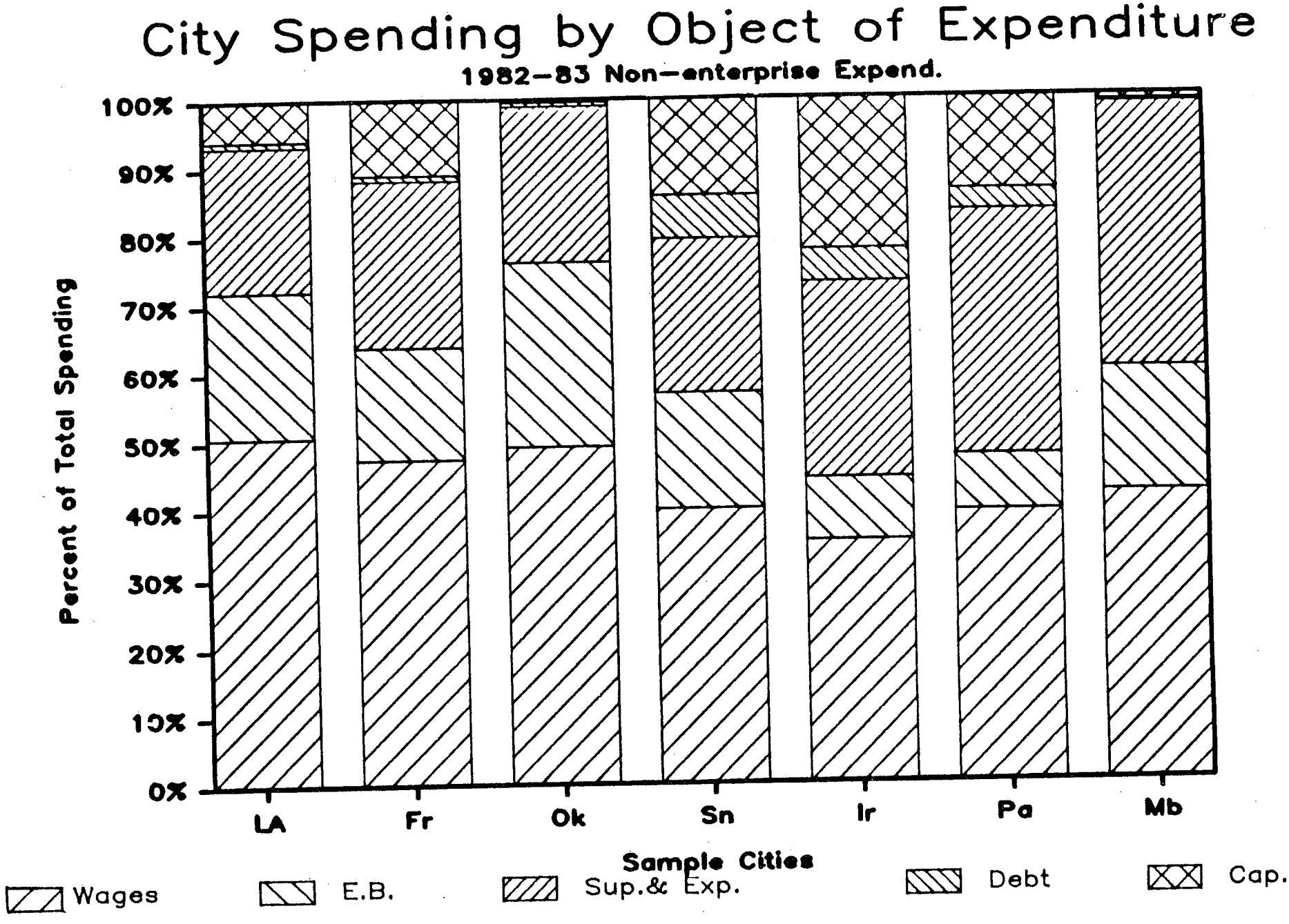

City Spending by Object of Expenditure
1982–83 Non–enterprise Expend.
Percent of Total Spending
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
LA
Fr
Ok
Sn
Ir
Pa
Mb
Sample Cities
Wages
E.B.
Sup.& Exp.
Debt
Cap.

FIGURE VI-10

PERCENTAGE SHARES OF TOTAL NON-ENTERPRISE CITY EXPENDITURES

FOR SELECTED CITY FUNCTIONS 1977-78 AND 1981-82

Actual 1977-78

City	Label	Public Safety	Public Works	Parks & Libraries	General Govern.	Community Devel.	Misc.	Total
Los Angeles	LA	48.05%	21.87%	8.03%	5.21%	6.18%	10.67%	100.00%
San Diego	SD	23.09%	18.97%	11.08%	11.46%	5.59%	29.82%	100.00%
Fresno	Fr	30.17%	31.61%	6.50%	15.19%	16.47%	0.06%	100.00%
Oakland	Ok	36.20%	13.94%	10.64%	15.09%	8.96%	15.18%	100.00%
Sunnyvale	Sn	31.44%	25.63%	18.22%	7.12%	2.82%	14.78%	100.00%
Irvine	Ir	9.61%	54.47%	3.46%	8.31%	7.56%	16.59%	100.00%
Farmersville	**Fm	30.07%	32.98%	2.07%	26.23%	1.62%	7.04%	100.00%
Montebello	Mb	33.42%	7.11%	3.81%	20.80%	4.89%	29.97%	100.00%
Pacifica *	Pa	36.80%	10.82%	5.80%	10.49%	27.22%	8.87%	100.00%

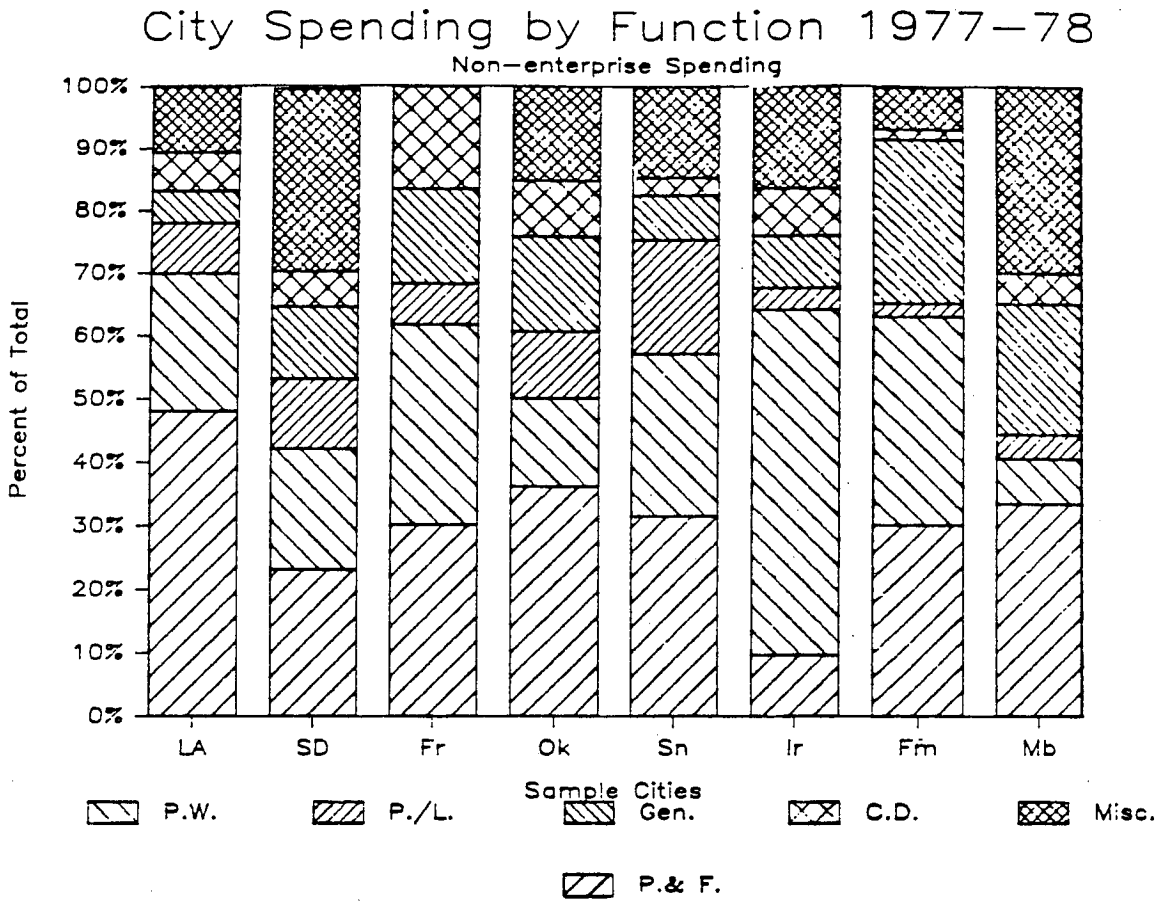
Actual 1981-82

City	Label	Public Safety	Public Works	Parks & Libraries	General Govern.	Community Devel.	Misc.	Total
Los Angeles	LA	51.61%	18.89%	7.40%	6.65%	6.45%	9.01%	100.00%
San Diego	SD	35.05%	24.27%	12.39%	14.56%	5.77%	7.96%	100.00%
Fresno	Fr	37.82%	33.61%	8.17%	17.98%	1.97%	0.44%	100.00%
Oakland	Ok	44.19%	9.85%	11.83%	8.72%	17.81%	7.60%	100.00%
Sunnyvale	Sn	30.27%	33.48%	12.00%	6.40%	3.41%	14.43%	100.00%
Irvine	Ir	19.61%	27.84%	12.60%	8.22%	15.20%	16.54%	100.00%
Farmersville	**Fm	31.04%	31.52%	1.88%	8.49%	23.34%	3.74%	100.00%
Montebello	Mb	48.01%	6.56%	10.31%	15.74%	4.32%	15.07%	100.00%
Pacifica *	Pa	29.26%	21.39%	4.94%	7.22%	23.61%	13.58%	100.00%

*Pacifica uses 1978-79 data in place of 1977-78 data.

**Farmersville was adjusted to remove enterprises from the non-enterprise activities..

FIGURE VI-11


City Spending by Function 1977—78
Non—enterprise Spending
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Percent of Total
LA
SD
Fr
Ok
Sn
Ir
Fm
Mb
Sample Cities
P.W.
P./L.
Gen.
C.D.
Misc.
P.& F.

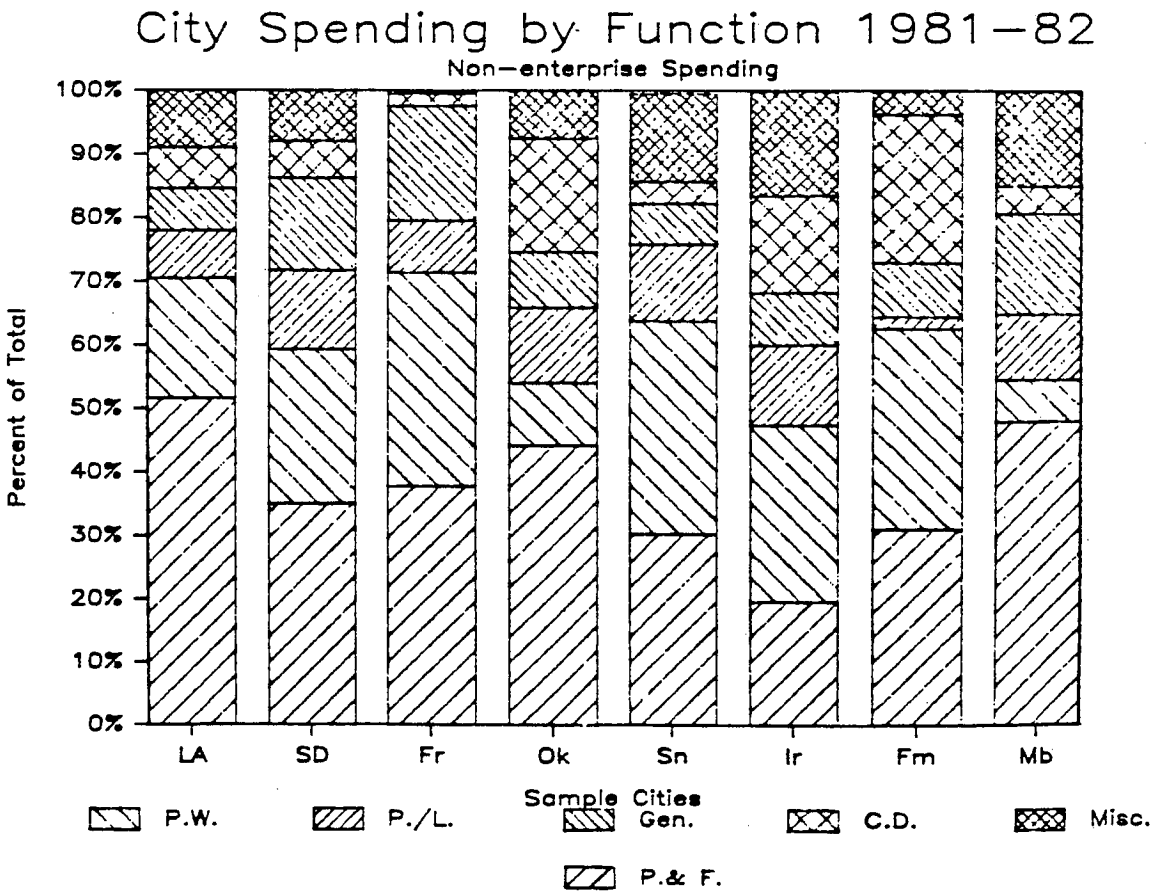

City Spending by Function 1981—82
Non—enterprise Spending
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Percent of Total
LA
SD
Fr
Ok
Sn
Ir
Fm
Mb
Sample Cities
P.W.
P./L.
Gen.
C.D.
Misc.
P.& F.

FIGURE VI-12

PER CAPITA INFLATION ADJUSTED EXPENDITURES FOR SELECTED CITY NON-ENTERPRISE FUNCTIONS 1977-78 AND 1981-82

Actual 1977-78

City	Label	Public Safety	Public Works	Parks & Libraries	General Govern.	Community Devel.	Misc.	Total
Los Angeles	LA	$171.99	$78.29	$28.75	$18.64	$22.11	$38.18	$357.96
San Diego	SD	69.91	57.42	33.54	34.69	16.93	90.28	302.76
Fresno	Fr	115.04	120.56	24.80	57.93	62.80	0.22	381.34
Oakland	Ok	180.70	69.59	53.14	75.33	44.71	75.76	499.22
Sunnyvale	Sn	78.91	64.32	45.72	17.86	7.07	37.09	250.98
Irvine	Ir	52.34	296.67	18.83	45.28	41.17	90.36	544.65
Pacifica *	Pa	59.24	17.42	9.34	16.88	43.81	14.28	160.96
Farmersville **	Fm	36.27	39.78	2.50	31.64	1.95	8.50	120.63
Montebello	Mb	83.35	17.73	9.51	51.87	12.19	74.73	249.39
San Francisco	SF	na	na	na	na	na	na	na

Actual 1981-82

City	Label	Public Safety	Public Works	Parks & Libraries	General Govern.	Community Devel.	Misc.	Total
Los Angeles	LA	$174.25	$63.77	$25.00	$22.45	$21.77	$30.41	$337.65
San Diego	SD	78.64	54.46	27.79	32.66	12.96	17.86	224.38
Fresno	Fr	100.14	89.00	21.64	47.61	5.22	1.17	264.77
Oakland	Ok	168.31	37.53	45.05	33.22	67.85	28.93	380.90
Sunnyvale	Sn	86.68	95.90	34.38	18.33	9.78	41.34	286.41
Irvine	Ir	56.38	80.03	36.21	23.63	43.71	47.54	287.50
Pacifica *	Pa	62.24	45.50	10.51	15.37	50.22	28.89	212.74
Farmersville **	Fm	44.39	45.08	2.69	12.14	33.38	5.35	143.03
Montebello	Mb	92.62	12.65	19.89	30.36	8.33	29.08	192.93
San Francisco	SF	na	na	na	na	na	na	na

Percent Change 1977-78 to 1981-82

City	Label	Public Safety	Public Works	Parks & Libraries	General Govern.	Community Devel.	Misc.	Total
Los Angeles	LA	1.3	-18.5	-13.0	20.4	-1.5	-20.4	-5.7
San Diego	SD	12.5	-5.2	-17.1	-5.9	-23.4	-80.2	-25.9
Fresno	Fr	-13.0	-26.2	-12.7	-17.8	-91.7	431.8	-30.6
Oakland	Ok	-6.9	-46.1	-15.2	-55.9	51.8	-61.8	-23.7
Sunnyvale	Sn	9.8	49.1	-24.8	2.6	38.3	11.5	14.1
Irvine	Ir	7.7	-73.0	92.3	-47.8	6.2	-47.4	-47.2
Pacifica *	Pa	5.1	161.2	12.5	-8.9	14.6	102.3	32.2
Farmersville **	Fm	22.4	13.3	7.6	-61.6	1611.8	-37.1	18.6
Montebello	Mb	11.1	-28.7	109.1	-41.5	-31.7	-61.1	-22.6
San Francisco	SF	na	na	na	na	na	na	na

*Pacifica uses 1978-79 data in place of 1977-78 data.
**Farmersville was adjusted to remove enterprises from the non-enterprise activities.

FIGURE VI-13

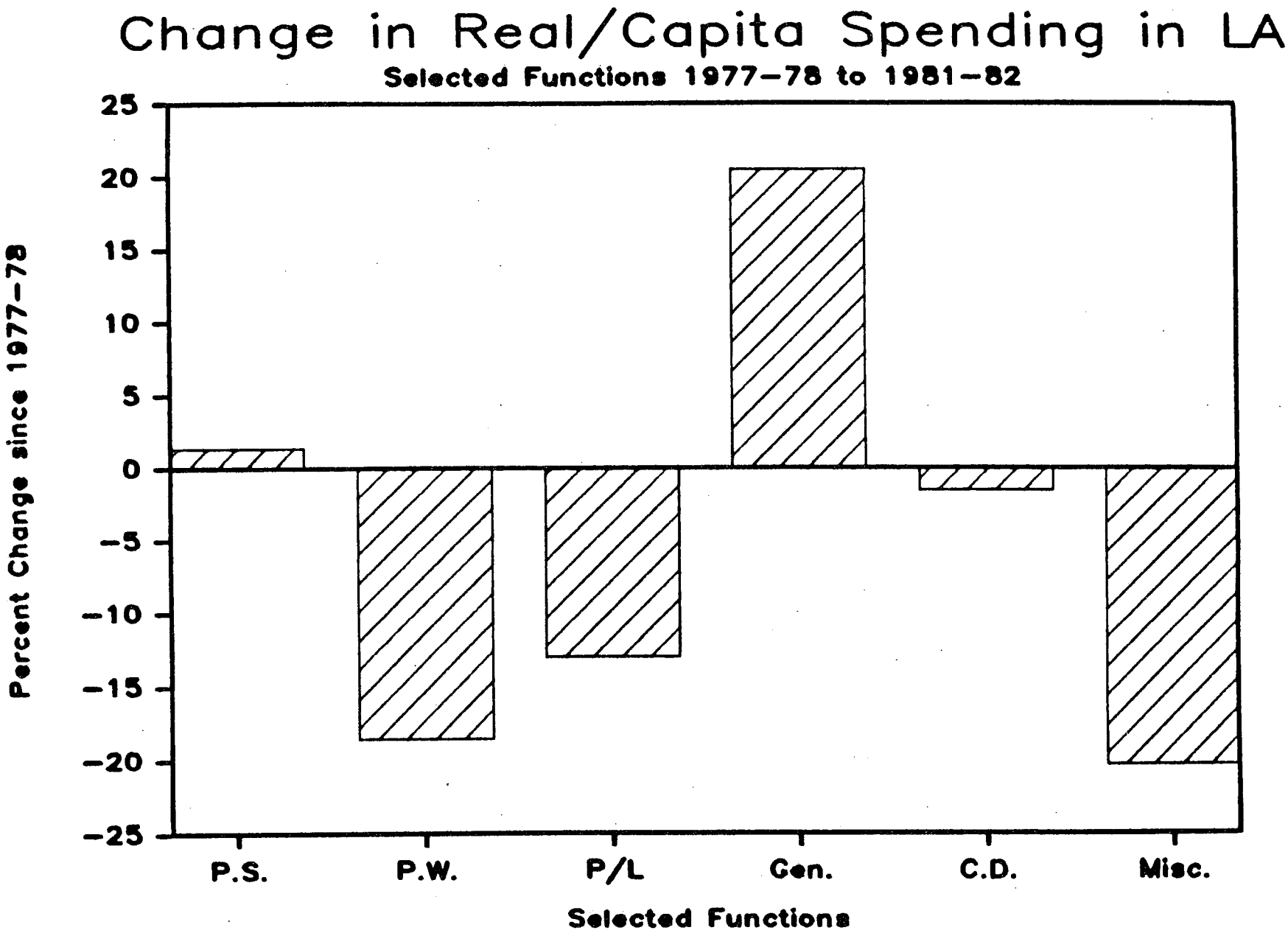

Change in Real/Capita Spending in LA
Selected Functions 1977–78 to 1981–82
Percent Change since 1977–78
25
20
15
10
5
0
–5
–10
–15
–20
–25
P.S.
P.W.
P/L
Gen.
C.D.
Misc.
Selected Functions

FIGURE VI-14

NON-ENTERPRISE REVENUE TRENDS

CITY OF LOS ANGELES

Current Dollar Revenues

Revenue Source	Actual 1977-78	Actual 1981-82	% Change 1977-78 to 81-2	Budget 1983-84	% Change 1977-78 to 83-4
Prop.Tax	$304,548,000	$246,306,000	-19.1	$286,674,000	-5.9
Sales Tax	132,400,000	194,928,000	47.2	213,512,000	61.3
Local Tax	180,088,000	283,572,000	57.5	477,309,000	165.0
Misc	100,413,000	186,552,000	85.8	191,021,000	90.2
Fees	77,617,000	194,722,000	150.9	236,956,000	205.3
State & Fed.	232,364,000	284,605,000	22.5	288,976,000	24.4
Total	$1,027,430,000	$1,390,685,000	35.4	$1,694,448,000	64.9

Percentage Shares of Total Non-enterprise Revenues

Revenue Source	Actual 1977-78	Actual 1981-82	Budget 1983-84
Prop.Tax	29.6	17.7	16.9
Sales Tax	12.9	14.0	12.6
Local Tax	17.5	20.4	28.2
Misc	9.8	13.4	11.3
Fees	7.6	14.0	14.0
State & Fed.	22.6	20.5	17.1
Total	100.0	100.0	100.0

Inflation Adjusted Per Capita Revenues

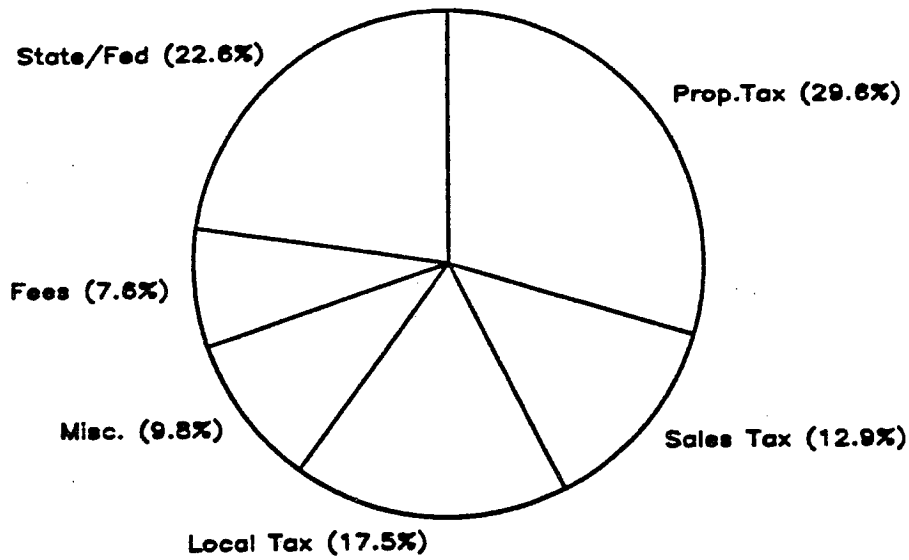
Revenue Source	Actual 1977-78	Actual 1981-2	% Change 1977-78 to 81-2	Budget 1983-84	% Change 1977-78 1983-84
Prop.Tax	$104.99	$58.23	-44.5	$59.12	-43.7
Sales Tax	45.64	46.08	5.3	44.03	-3.5
Local Tax	62.08	67.04	8.0	98.44	58.6
Misc	34.62	44.10	27.4	39.40	13.8
Fees	26.76	46.04	72.0	48.87	82.6
State & Fed.	80.11	67.29	-25.9	59.60	-25.6
Total	$354.20	$328.78	-6.6	$349.46	-1.3

Note: State subventions for homeowner in business inventory property tax relief are included in the state and federal funds category.

FIGURE VI-15

City of Los Angeles Revenue Mix 1977–78

Non–enterprise Total = $1.03 billion



City of Los Angeles Revenue Mix 1983–84

Non–enterprise Total = $1.69 billion

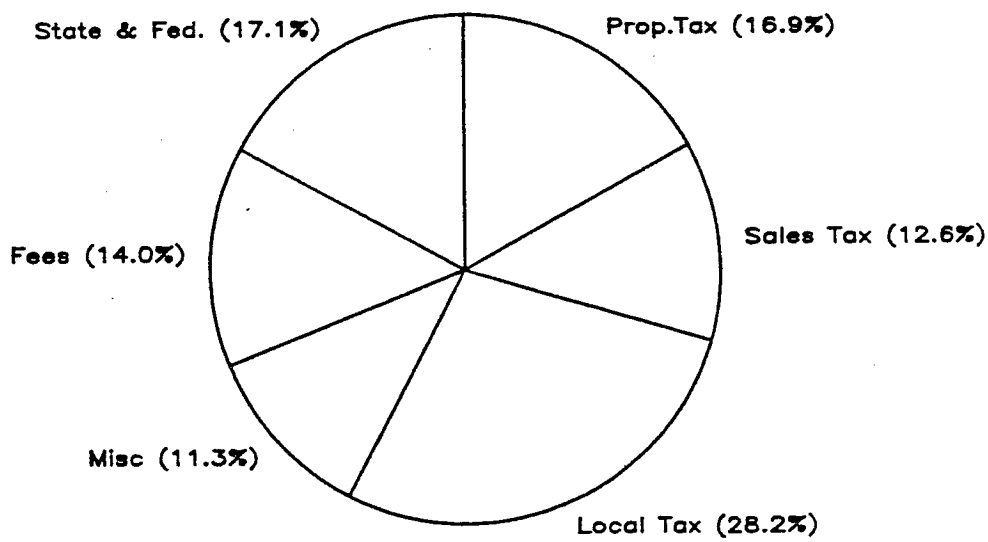
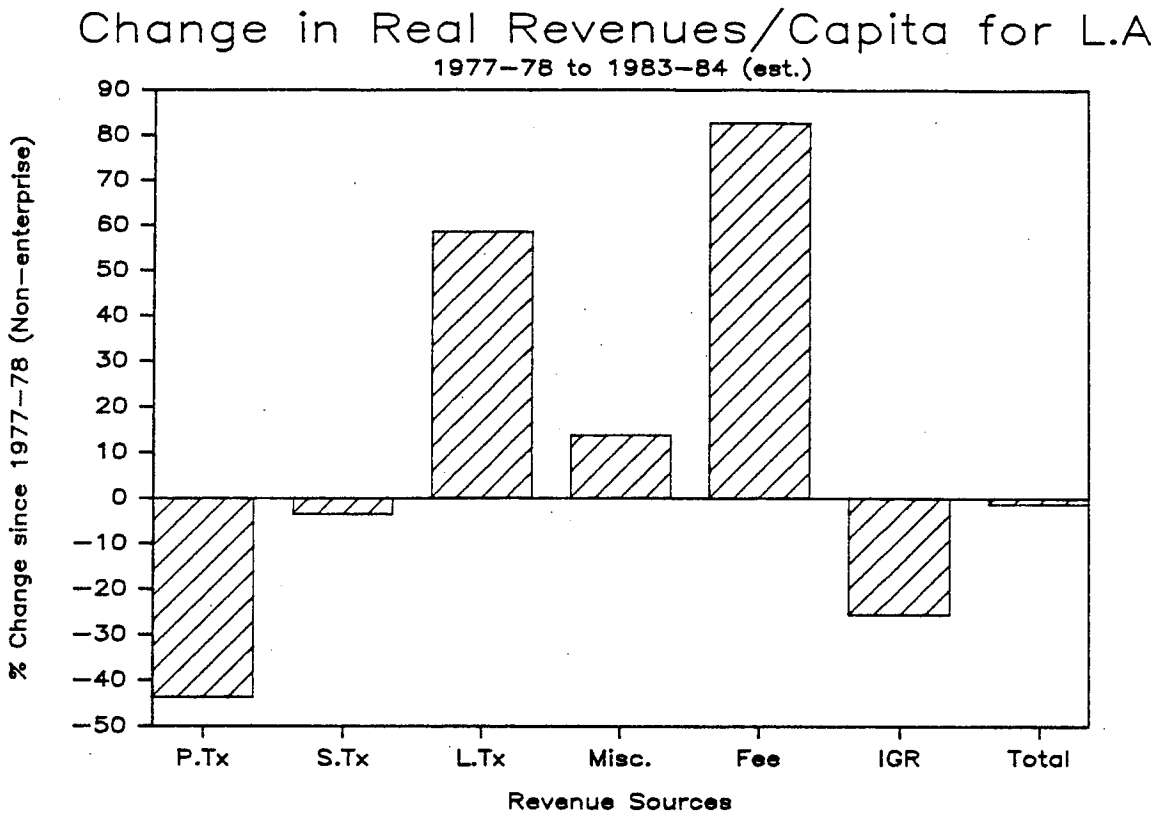
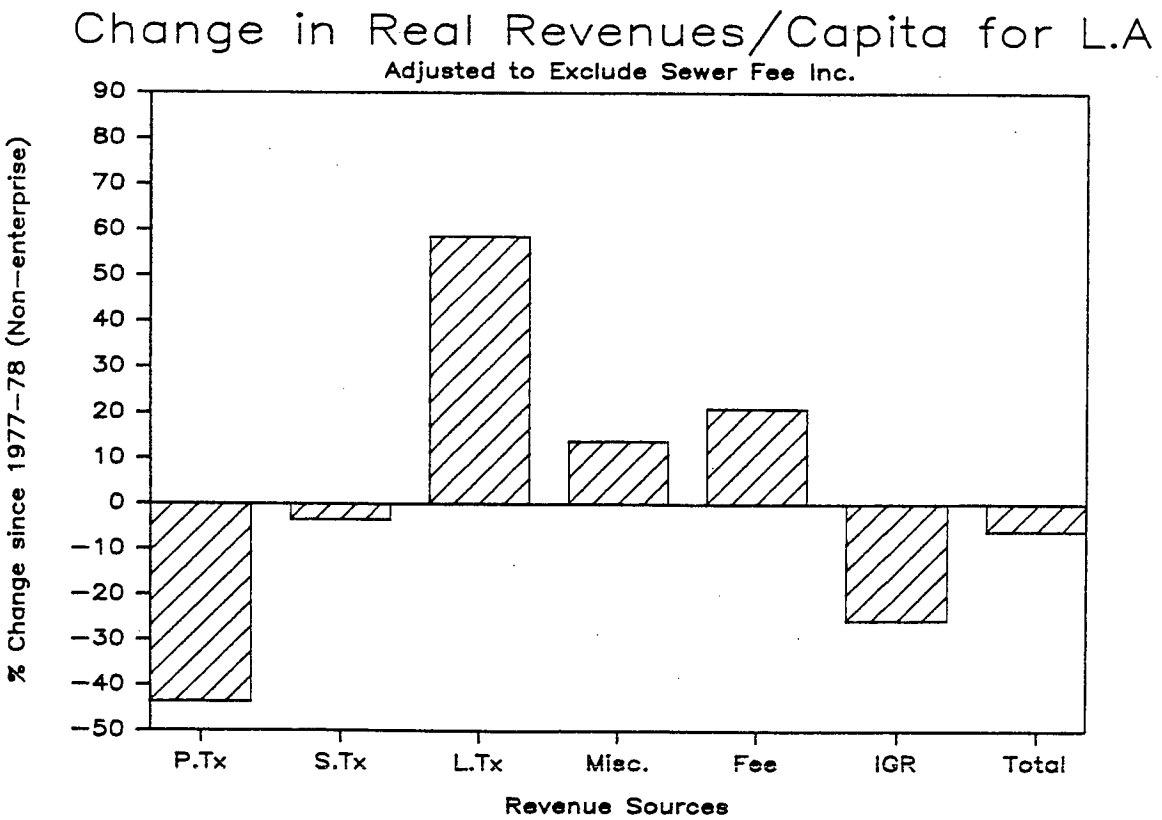


Figure VI-16


Change in Real Revenues/Capita for L.A
1977–78 to 1983–84 (est.)
% Change since 1977–78 (Non–enterprise)
90
80
70
60
50
40
30
20
10
0
–10
–20
–30
–40
–50
P.Tx
S.Tx
L.Tx
Misc.
Fee
IGR
Total
Revenue Sources


Change in Real Revenues/Capita for L.A
Adjusted to Exclude Sewer Fee Inc.
% Change since 1977–78 (Non–enterprise)
90
80
70
60
50
40
30
20
10
0
–10
–20
–30
–40
–50
P.Tx
S.Tx
L.Tx
Misc.
Fee
IGR
Total
Revenue Sources

CHAPTER VII

ENTERPRISE ACTIVITIES: THE PART OF GOVERNMENT THAT IS RUN LIKE A BUSINESS

INTRODUCTION

Local governments in California engage in a wide variety of activities, with public attention focused most on traditional government services, such as police protection, health and welfare programs, or regulation of land use. Another side of local government often escapes public attention because there is little disagreement about the need for its services. It is also a side of local government that generally works quite well, commonly referred to as enterprise activities of local government.

Enterprise activities are usually accounted for separately from general local government activities. They are established to account for finances of self-supporting activities that provide services to the public on a user-charge basis. The most common type of enterprise is a public utility providing basic services such as water, electricity, or waste disposal. Other common enterprises include operating hospitals, ports, airports, land fills, and recreational facilities. One key distinguishing feature of enterprise activities is that the principal beneficiaries are usually distinct individual users rather than the community at large. As a result, users' benefits can be measured and appropriate fees can be charged for services (e.g., electricity or water supplied), in contrast to programs that provide significant but hard-to-measure benefits to the community at large, as well as to specific individuals (for example, law enforcement or public health services).

THE SCOPE OF ENTERPRISES

In fiscal 1981-82, enterprise activities of all cities in California accounted for nearly $3 billion (30%) of the total $10.3 billion in revenues they received. By far the largest component of this $3 billion was the $1.8 billion (60%) charges by municipally-owned electric systems. Other large components included charges for water service, waste disposal, and use of ports and airports.

In fiscal 1981-82, the enterprise activities of counties generated $1.5 billion (13%) of the total $11.5 billion revenues they received. The largest component of that total was $950 million (63%) in operating revenue produced by county-owned hospitals. Other significant acitivities included operation of landfills, recreational facilities, and airports.

The material that follows provides information on the major issues relative to enterprise activities that were raised in field interviews with sample cities and counties.

ENTERPRISE ACTIVITIES IN OUR SAMPLE

Figures VII-1 and VII-2 present information about major enterprise activities of sample cities and counties. As the tables indicate, enterprise activities are more significant for city finances than they are for counties. This is because counties generally do not provide residents of unicorporated areas the range of municipal services cities provide. Special districts are generally a unit of government responsible for such services, and there are a substantial number of such districts in California, many operating on an enterprise (fee for service) basis.

COUNTY ENTERPRISES

The reason that the major county enterprise activity in the sample was county hospitals, is because under state law, counties are the "health provider of last resort." County hospitals developed out of this responsibility. With counties' responsibility for indigent health care, these hospitals receive funds from county general revenues to cover costs for patients who cannot afford care. Excluding indigents, other patients are treated on a fee-for-service basis, and these hospitals are operated as typical not-for-profit hospitals.

During the past 15 years a number of counties have closed or sold their hospitals and contracted with other hospitals for indigent health care. San Diego and Santa Barbara counties are two examples of this in the sample. They indicated that this action was taken to reduce county costs for health care, and because adequate facilities existed in the county to care for the indigent. Other counties in the sample generally indicated that they had no current plans to sell or close their hospitals, and that their hospitals were economically viable within their local service areas.

Another common county enterprise activity in the sample was solid waste disposal, particularly operation of county landfill sites. As existing solid waste disposal sites are closed, this activity can be expected to take on added importance. The costs of new sites and the legal liability problems of landfill owners led several representatives to forecast an increasing importance for counties in this area.

CITY ENTERPRISES

As Figure VII-I indicates, enterprises play a big part in many sample cities. In Los Angeles, for example, activities of the Department of Water and Power make that one of the largest

utilities in California. When combined with operations of the Port of Los Angeles and the Los Angeles International Airport, these activities are larger than the entire general governmental budget of the city. On a smaller scale, but equally significant in terms of total city finances, are enterprise activities of other cities in the sample. The two cities in the sample that do not have enterprise activities (Irvine and Pacifica) indicated that enterprise services are provided by special districts or franchises with the private sector.

While enterprise activities are generally self-supporting, based on user charges, operations of transit enterprises in Fresno, Montebello, and San Francisco are subsidized. Their chief sources of capital and operating subsidies are federal and state transportation grant programs. Another subsidized function is construction of large wastewater treatment plants. Sewer enterprises typically charge sufficient user fees to cover operating and maintenance costs and a portion of capital costs. Federal and state grants, however, have provided a major source of capital funds to build plants required to comply with federal and state water quality standards.

Some enterprise activities, on the other hand, actually generate "surpluses" above actual operating costs. Electric and water utilities (particularly those with capital facilities constructed over 20 years ago) contribute funds to the general city budgets in cities such as Los Angeles and San Francisco. They can do so, even though their fees for service are lower than those of competing utilities because of their advantages in borrowing funds at tax-exempt rates, and because they are not subject to local, state, and federal taxation in most cases. The funds these activities contribute to city budgets are usually described as payments "in lieu of" the property taxes and other business taxes a private utility would pay to the city if it operated a similar business in the city.

Surpluses generated by utilities must be treated as a tax by the jurisdiction under the Gann spending limitation in Article XIII B of the state Constitution. Jurisdictions can spend the surpluses if they have capacity within their overall limitation. Generally, this capacity is available where jurisdictions have a history of relying on funds from the utility and this is a part of their historical spending base.

GENERAL ISSUES AND OBSERVATIONS

Field interviews yielded a number of important observations about fiscal conditions and prospects of city and county enterprise activities. The remaining portion of this chapter discusses key observations from these interviews and local financial documents.

1. Enterprises are in Good Fiscal Condition

Interviews with local officials generally brought out that their enterprise activities were in good fiscal condition. There was a long-term balance of revenues and expenditures. Examination of local financial statements bore out this view. When asked why this was the case, local officials said it was because fees or charges were set to cover costs (including overhead and capital costs), and could be increased as needed to keep pace with rising prices. During 1978-79 to 1982-83, there were sharp increases in enterprise revenues, particularly those associated with electric utilities that had to increase charges to pay for more expensive fuel. Unlike that portion of local government that is tax-financed or financed by intergovernmental grants, enterprise activities of government have been able to keep pace with inflation and population growth. As a result, local officials generally expressed satisfaction with them.

2. Enterprise Activities Capital Plants are in Good Condition

Local officials emphasized that their enterprise operations capital facilities were in good condition and that needed expansion could be financed. The self-supporting nature of electric, airport, water, and port facilities allows local officials to properly finance maintenance needs. Revenue bonds supported by enterprise income are available to finance major capital improvements. This helps explain the seeming paradox that, even while the City of Los Angeles was cutting general government staff and programs in the wake of Proposition 13, it was able to finance major expansion of Los Angeles International Airport. Other cities and counties in the sample constructed similar (but much smaller) projects for their enterprise activities.

Two functions where this general trend may not hold true involve expansion of transit capital stock and construction of wastewater treatment facilities. Both of these activities have been dependent on substantial federal capital grants. Federal budget problems make it much less certain that future projects will receive the same level of federal support. This may lead to increased user fees or reduced service standards. San Francisco has partially addressed the problem of transit capital needs by allocating a substantial portion of its own funds, accumulated during litigation in the Farrell case. San Francisco has also attempted to levy a benefit assessment ondowntown property to support transit programs. The levy is not being collected pending a court ruling on the legality of the assessment.

3. Separate Enterprise Budgets Impose Fiscal Discipline

Segregating enterprise activities from general budgets appears to impose fiscal discipline on local managers and elected officials. The goal of enterprises is to be self-supporting in operating and capital requirements. This eliminates economic problems of over-consumption and poor use of inputs that arise when

true costs are hidden from users and managers. It may also help explain (along with age of facilities and climate) why key water, sewer, airport, and harbor facilities are in generally good condition in California, compared with the rest of the country. As a result of this self-reliance, enterprise has been generally unaffected by recent changes in the state and local tax system.

4. There are Constraints on Rates

While local officials have great discretion in adjusting rates charged for enterprise activities, they are subject to checks and balances that don't exist in the private sector. Chief among these are political pressure of local voters and businesses that pay these charges. Examples of this pressure in sample jurisdictions include voter concern over sewer rate increases in San Francisco, and water rates in Farmersville. There is also the constitutional requirement (Article XIII B) that the portion of fee income that exceeds reasonable costs of providing service must be considered a tax subject to the spending limits of the constitution.

FINDING

Enterprise functions of local governments are generally in good fiscal and physical condition. They have adapted to recent changes in public finance with relative ease. They are one part of the local government that really is "run like a business." They face the same challenges that confront any other business (how to control costs or meet new demands for service). While those are difficult challenges, enterprise has not been burdened so far with revenue and expenditure control problems facing the general acitivities of counties and cities.

FIGURE VII-1

CITY ENTERPRISE ACTIVITIES

City	Major Enterprises	1981-82 Operating Revenues (millions)	Enterprise Operating Revenues as a % of Non-enterprise Revenues
Farmersville	Water, Sewer, Solid Waste	$ 0.36	40.3
Fresno	Water,Airport, Transit, Sewer, Solid Waste, Other	27.10	34.6
Irvine			
Los Angeles	Water, Electricity, Airport, Port	1,507.30	97.3
Montebello	Water, Transit, Other	5.20	34.4
Oakland **	Airport, Port	49.50	25.3
Pacifica			
San Diego	Water,Airport (minor) Sewer	78.40	27.0
San Francisco	Water, Electricity, Airport, Transit, Port,Hospital	386.50	41.0
Sunnyvale	Water, Sewer, Solid Waste, Other	16.70	36.0

** Oakland's port and airport enterprises are governed independently of the city council by a quasi-independent governing authority.

FIGURE VII-2

COUNTY ENTERPRISE ACTIVITIES

County	Enterprise Activities	1982-83 Revenues (millions)	Total Enterprise Revenues as a % of Non-enterprise Revenues
Mendocino	Hospital	$ 3.10	8.1
Merced	Hospital Solid Waste Disposal	22.00	27.1
Riverside	Hospital Solid Waste Disposal	39.70	12.0
San Diego	Airport (minor) Solid Waste Sewage	14.60	2.1
San Mateo	Hospital	3.10	14.9
Santa Barbara	Solid Waste Recreation	4.20	3.2
Santa Clara	Hospital Airport (minor)	99.20	19.3

CHAPTER VIII

CAPITAL AND MAINTENANCE ISSUES

INTRODUCTION

The widely discussed public works problems which have attracted so much national attention in recent years are no strangers to California. While the problems in California are less severe than those in older and colder parts of the nation, some of the same fiscal policies that led to those problems are apparent in California. As has been noted by a number of reports, California state and local governments have been part of a national trend toward deemphasizing capital and maintenance spending in annual budgets over the past 15 years. Evidence of that trend was found during this study. With a few notable exceptions, capital and maintenance cities' and counties' spending for general government-supported capital facilities was reduced due to fiscal constraints of recent years.

CAPITAL EXPENDITURES

Figure VIII-1 displays data on capital expenditures as a percent of total non-enterprise expenditures in 1977-78 and 1982-83 for each jurisdiction in the sample. (Enterprise fund capital outlay will be discussed later.) As the data indicate, capital spending as a percentage of total spending fell in six of the eight cities with complete data available. Such spending fell in all five counties with complete data available.

Local officials in sampled jurisdictions said capital and maintenance projects were among the very first items cut from local budgets in order to deal with fiscal limitations. Local officials were often hard-pressed to fund new capital projects, equipment replacement programs, or major maintenance projects in

the face of competing demands by highly-visible operating budget programs, such as police and fire services, and employee compensation.

Figure VIII-1 data also highlights the wide range in the proportion of local budgets devoted to capital spending by cities. The large percentages for Fresno (28.7%) and Irvine (50.7%) in 1977-78 show that both cities are rapidly-growing communities, requiring much new capital. The abrupt slowdown in Irvine reflects slowing of new construction in that area because of the recession. As local building activity slowed, so did the city's capital program, in large part financed by developers as a condition of securing land use approvals from the city.

Also noteworthy is the extremely low amount of capital spending in the City of Oakland in both years in the table. Oakland was having fiscal problems before Proposition 13. As the revenue constraint became tighter, the city kept cutting back non-enterprise capital spending until there was very little left.

The sample counties show a similar pattern of decline in capital spending as a percentage of total non-enterprise expenditures. County officials interviewed said that capital spending was considered an expendable item in competition for scarce local dollars.

ENTERPRISE VS NON-ENTERPRISE CAPITAL FUNDING

The capital funding problem for cities and counties does not uniformly apply to all the activities of local governments. Particularly in cities, some important types of facilities are in good condition because they have access to adequate capital and maintenance funds. The enterprise activities, discussed in Chapter VII, have the facilities local officials reported were in the best condition.

Enterprise funds are generally kept separate from the other city funds in order that those activities can be run "like a business." Enterprise revenues provide a steady source of revenue to fund maintenance and to support revenue bond debt used to finance new construction. This distinction between the conditions of the enterprise and non-enterprise capital facilities of cities and counties helps explain how a city like Los Angeles can simultaneously be reducing general government capital spending (in constant dollar terms) while at the same time constructing a multi-hundred-million-dollar expansion of its international airport.

CAPITAL OUTLAY NEEDS

Detailed information quantifying capital outlay needs of local agencies was not collected during this project. Local officials were asked to describe the kinds of maintenance and capital needs that were currently unmet. The following were most frequently mentioned. Counties said that jails and correctional facilities were their highest priority because of overcrowding and the prospect of even more demand for jail space to meet stricter sentences. Some counties (San Diego and San Mateo) said jail projects were the bulk of their entire capital program in recent years. Yet, their facilities are still not meeting all requirements. Several counties said that they were counting on state bond act funds to meet such needs.

Other capital needs of counties included road and street construction and rehabilitation, non-hospital health facilities, general administrative office space, and vehicle fleet and heavy equipment replacement funding. All of these lack the ability to raise significant funding through user charges and fees, and rely on support from taxes or intergovernmental revenues.

Cities indicated that the major categories of capital need included street construction and rehabilitation projects, storm drains, vehicle fleet replacement, major equipment replacement, and general government building construction and rehabilitation. This last category includes library, police, fire, and general city offices. Reductions in capital spending were frequently referred to as one of the "invisible" (to the general public) cuts made to cope with fiscal limits.

MAINTENANCE SPENDING

Data on the level and adequacy of maintenance spending are even harder to find than data on capital spending. Mainenance expenditures are spread throughout local budgets and difficult to isolate and measure. Here again, however, most local officials indicated in interviews that they thought existing levels of spending on maintenance were inadequate. They cited cuts in maintenance spending on buildings, heavy equipment, and streets and roads as major areas of weakness. Local officials interviewed noted that deferred maintenance usually leads to much more expensive future rehabilitation or replacement projects. Given the competition for limited budget funds, however, they were unable to commit sufficient funds to needs that are "without a constituency", in the words of one city manager.

Road maintenance was a frequently-mentioned problem. Gas tax revenue has not grown at the rate of inflation during the past 15 years. Local agencies generally do not have sufficient other revenues to cover additional needs. While the recent increase in the state gas tax will help, most local officials indicated that the increase covers only a portion of their needs in this area. In spite of these needs, voters in Mendocino and San Diego counties failed to provide two-thirds majorities for "local option" one cent increases in the gas tax to fund improved road programs. While most counties and cities are not yet at the stage

of abandoning roads or returning some paved roads to gravel, as is Mendocino County, virtually all of our sample jurisidictions expressed concern.

FINANCING CAPITAL IMPROVEMENTS

There are three major ways to pay for local capital improvements: (a) Pay-as-you-go financing from current revenues and reserves set aside in earlier times; (b) Direct or indirect (leasing) debt financing; and (c) Private or state and federal financing or private construction achieved through developer agreements.

Proposition 13 reduced the options under (a) and (b) by eliminating the use of new general obligation bonds and by reducing local revenues available to fund debt service or lease payments. Few jurisdictions showed a willingness to further reduce operating budget programs to free up money for public works financing. As a result, local governments have looked much more closely at option (c) in recent years. While finding someone else to pay for a project may work in some situations, officials interviewed said that it does not meet many local capital needs. Examples of finding someone else to pay for capital projects include:

- Federal grants for such projects as sewage treatment plants or transit rolling stock. This favorite local financing source has shrunk significantly (see Chapters V and VI) since 1978, as the federal government has reduced domestic assistance in the face of budget problems.

- State bond act funds for jail facilities or parkland acquisition and development.

- "Sale" of federal tax incentives, such as the investment tax credit, to private parties through sale/lease-back transactions using public buildings. An example is Oakland's sale and lease-back of its museum and civic auditorium project.

- Developer financing through use of development fees, assessment districts, or a requirement of the planning or zoning process that developer build needed facilities and donate them to local governments. This approach tends to work best for local facilities that serve specific development, such as roads, parks, sewers, drains, traffic signals, and temporary school buildings.

Many examples of each of these types of financing were found in the agencies visited. Local officials pointed out, however, that these techniques cannot usually be counted on to finance the communitywide facilities that have traditionally been funded from tax-based revenues. These facilities include major streets, administrative buildings, health clinics, police and fire stations, and many other general purpose facilities. Of particular concern was how local agencies would finance replacement of existing facilities in these categories, since it is unlikely that even a portion of these costs could be loaded on to new development.

CREATING A CONSTITUENCY FOR CAPITAL NEEDS

A theme raised by many city managers and county administrative officers in the survey was the need to create a constituency for adequate public works funding. As Henry Gardener, city manager of Oakland put it, "There are 'friends of the library' groups and 'friends of the parks' groups, but there are no 'friends of the sewers.'" Managers said it was primarily the responsibility of the top city or county manager to be the full-time advocate for maintenance and capital funding.

Typical municipal and county financial statements do not report an annual depreciation expense incurred against the general fixed assets of local agencies. This reflects traditional, generally-accepted accounting approaches to local government financial reporting. This procedure creates an information gap, however, which hides from decision-makers and the general public the real costs incurred when maintenance and capital spending are reduced or deferred. Operating budgets may be balanced at the expense of existing capital stock. Several managers interviewed said that better information about these costs might be the first step toward building better public support and understanding of these unglamorous needs.

FINDINGS

1. Current non-enterprise capital and maintenance budgets are deemed inadequate by most city and county officials.

2. Most jurisdictions did not foresee providing more funds for maintenance and capital programs by squeezing resources from existing operating budget programs.

3. The capital facilities of enterprise activities such as water systems, airports, and harbors are generally in good condition. This stems from their reliance on fees for the bulk of their revenues.

4. Local managers felt it is essential to better educate the public of the benefits of proper maintenance and capital programs. Better information about the costs of neglecting such activities was suggested as a starting point.

FIGURE VIII-1

CAPITAL OUTLAYS AS A PERCENTAGE OF TOTAL LOCAL SPENDING
1977-78 AND 1982-83

City	Capital Outlays as a Percent of Non-Enterprise Expenditures	
	1977-78	1982-83
Los Angeles	4.6	5.9
San Diego	11.7	10.7
Fresno	28.1	11.0
Oakland	0.7	0.3
Sunnyvale	10.7	14.4
Irvine	50.7	22.3
Pacifica	30.4	13.8
Farmersville	na	na
Montebello	1.8	0.9
San Francisco	na	1.4

County	Capital Outlays as a Percent of Total Expenditures	
	1977-78	1982-83
Mendocino	2.2	0.5
Merced	4.4	2.2
Riverside	na	1.3
San Diego	7.0	2.6
San Mateo	7.3	4.1
Santa Barbara	4.2	1.7
Santa Clara	na	2.3

CHAPTER IX

LOCAL TAXATION AFTER PROPOSITION 13

INTRODUCTION

At the heart of the discussion over local government finance is the question of appropriate tax powers that should be available to counties and cities. The purpose of this chapter is to review several key tax policy questions in light of the information reviewed during this study and comments by local officials during field interviews. The discussion begins with a brief review of the effects of Proposition 13 and the legislation and court cases which implemented and modified its effects. The discussion then proceeds to a review of tax policy issues now facing the state in light of these developments.

PROPOSITION 13 OF 1978

The passage of Proposition 13 in 1978 marked a major change in the system of local government finance. The initiative was directed at the major source of locally-controlled tax revenues, the property tax. Proposition 13 cut property tax rates back from a statewide average of 2.5% of market value to a maximum rate equal to 1% plus an amount necessary to repay debt approved by voters prior to the initiative's passage. It also reduced assessed property values (the tax base) back to 1975-76 levels. From 1975-76, assessed values were allowed to increase a maximum 2% a year inflation factor unless a change in property ownership or new construction occurred. Upon either of these changes, property is reassessed up to its current fair market value. Future increases again are limited to 2% until the next change of ownership or new construction. The exception to the 1% tax rate limit for the costs of paying "voter approved indebtedness" has led to much controversy and is discussed later.

Another key provision was the requirement that "special taxes" at the local level require a two-thirds majority local vote before such taxes can be levied. This requirement was designed to prevent local agencies from enacting new taxes to replace lost property tax revenues. Figure IX-1 illustrates the experience sample jurisdictions have had in securing two-thirds votes for special taxes.

Proposition 13 reduced property tax revenue to local governments and schools by between $5.8 billion and $7.0 billion in 1978-79. With this came a reduction in local fiscal autonomy. The property tax was the single largest locally-controlled tax source for cities and counties. Proposition 13 effectively removed the property tax from local control and, as a practical matter, made it impossible for local governments to authorize property tax-financed general obligation bonds for capital projects.

The 1% property tax rate limit and the two-thirds vote requirement for "special taxes" also produced a drastic change in how most local governments planned their fiscal affairs. Budgets became "revenue constrained" rather than "expenditure constrained." Instead of totaling and approving or disapproving spending plans and then adjusting tax rates (if necessary) to finance them, local agencies had to shift to a system where revenues from uncontrollable tax sources were estimated and spending plans shaped to fit the resources available. Some jurisdictions made this transition rather smoothly, while others did not.

STATE FISCAL RELIEF (THE "BAIL-OUT")

State government's revenue system in the middle and late 1970's produced large annual surpluses of revenues over expenditures. These annual surpluses led to the accumulation of some $4 billon surplus in the state treasury. With these funds

and a then-current excess of annual revenues over existing expenditures, the state chose to begin a massive program of fiscal assistance to local governments and schools to fill the void created by Proposition 13. In 1979, long-term fiscal relief legislation was enacted (AB 8) to provide a permanent foundation for state and local finances in the wake of Proposition 13. This massive bill contained four main provisions:

1. Remaining property tax revenues were allocated among local agencies with a portion of the schools' share being shifted to cities, counties, and special districts to replace the direct state surplus grants that had made up the first-year "bail-out" (S.B. 154).

2. The state assumed a much larger role in financing local schools, in order to make up for Proposition 13's cut in school revenues and for the tax shift discussed above.

3. The bulk of state aid for counties was directed toward the state assumption of some county costs (supported by property taxes) for mandated health and welfare programs.

4. A so-called "deflator" clause was added to require that state aid to local governments be reduced if the state's own revenues did not grow to meet specified targets.

This new finance system operated as expected during fiscal 1979-80 and 1980-81. The state's economy was reasonably strong. Major tax revenues continued to grow at healthy rates. State revenue growth met the required targets, and the "deflator" was not triggered. Local governments made do with revenues available to them and tried in several instances to secure local voter approval for "special taxes", generally with little success (see Figure IX-1). The Legislative Analyst warned during this period that all was not well, however, because the state was spending

more each year than it was receiving in current revenues. When the remaining state surplus was exhausted, he warned, the state would be forced to make some difficult choices between spending cuts and tax increases.

The recession made the "deflator" clause more than just a quaint piece of Sacramento jargon. State revenue growth did fall short of required levels, and as a result the deflator clause threatened to reduce by a large amount the local revenues coming from the state. The cuts required by the deflator exceeded the amount required to balance the state's own budget. As a result, it was practical to suspend the deflator. The cuts made in 1981-82, 1982-83, and 1983-84 were less than those the deflator formula required.

The annual exercise of making required cuts in local assistance has made city and county budget decisions dependent on the state's budget process. For cities in particular, this marked a dramatic change in their fiscal autonomy. Cities had been able to stand fairly aloof from the annual budget process in Sacramento because they did not operate programs that required state support. The deflator mechanism forced them into the process because it made a portion of their revenues subject to redirection to the state in years when the state had fiscal difficulties.

SUPREME COURT RULINGS MODIFY PROPOSITION 13

A few months after passage of Proposition 13, the California Supreme Court upheld the constitutionality of the initiative in its decision in the Amador Valley case. In 1982, two Supreme Court rulings made important changes in limits on local taxing powers enacted by Proposition 13.

The Carman Decision

In Carman v. Alvord, the court ruled that the City of San Gabriel was entitled to levy a property tax over and above the 1% tax limit in Proposition 13 to pay the costs of its contributions to the state Public Employees Retirement System (PERS). The court held that this was allowed under the provision of Proposition 13 that allowed property tax overrides to pay the costs of "any indebtedness approved by the voters" prior to the passage of Proposition 13. (In 1948, San Gabriel voters had approved a ballot measure authorizing the city to join PERS and levy a tax to pay its contributions.)

This ruling opened what many called a massive "loophole" in Proposition 13's limit on property taxes. As noted earlier, county and city governments are very labor-intensive businesses, and as such spend considerable money each year on employee pension costs. Some of these retirement plans were authorized by the voters and included provisions that taxes could be levied to pay such costs. Figures IX-2 and IX-3 illustrate how widespread eligibility for an excess of 1% tax under the Carman decision is in sample jurisdictions. In Los Angeles and San Francisco the amount of annual city contributions to voter-approved pension funds exceeds $270 million and $100 million respectively. A sizable change in property tax burdens was at stake in the Carman ruling.

As the figures indicate, only four jurisdictions in the sample (Fresno, Montebello, Oakland, and Santa Clara County) are currently levying such a tax. (Fresno's levy is impounded while the legality of the levy is heard by the courts.) This reluctance reflects the fact that few jurisdictions were initially willing to risk the political fallout from levying such a tax while having to place funds collected in escrow pending the outcome of the Supreme

Court decision in the matter. In 1983, several jurisdictions in the sample, planned to use their taxing powers under the Carman case to replace the state funds, cut by the deflator, with property tax revenues. Los Angeles, for example, planned to raise $141 million this way.

Further action in using the Carman decision to raise revenue was effectively blocked in 1983. Legal opinions were issued holding that the AB 8 property tax allocation required cities eligible to levy a higher tax under Carman have to reallocate a share of their basic 1% property tax revenues to other jurisdictions. This would be required whether or not the jurisdiction used the new tax authority and would probably even operate retroactively to reallocate to the other taxing jurisdictions in a county a similar share of its 1% property tax revenues collected in earlier years.

The threat of this action was enough to make the City of Los Angeles retreat from its earlier proposal, and the state Legislature was asked to solve this problem for Los Angeles and other local jurisdictions. In AB 377 of 1983, the Legislature essentially declared a moratorium (with exceptions for certain jurisdictions) on expanded use of the Carman property tax for two years and forgave Los Angeles and all similarly-situated jurisdictions from any potential refunds of prior-year property taxes they might be required to make, based on interpretations of their ability to levy tax increases for voter-approved pension debt. Given the extent of local pension obligations, the final resolution of this issue will have a major impact on local finances in the remainder of this century.

The Carman decision did not itself provide a full answer to two questions: (1) Which jurisdictions are entitled to use its added taxing authority?; and (2) To what extent may the tax be applied to fund current and future pension costs?

In the Carman factual situation, voters had approved both participation in the pension system and a tax necessary to fund it. A resulting question: What if a jurisdiction's voters had approved a system but not a tax? The answer came in Valentine v. City of Oakland when the court said that a vote on the system alone was sufficient. This did not answer all the relevant questions. How specific did the description of the pension plan have to be when presented to the voters in order to meet the court's test in Carman? Early in 1984 a superior court in Fresno rejected the City of Fresno's attempt to levy a tax under Carman because the voters had approved a general retirement fund, rather than the retirement system later designed by ordinance.

These cases illustrate one set of problems stemming from the Carman decision. If the two-year Carman prohibition is simply lifted, how many additional court tests will be necessary to determine the varieties of voter approvals that qualify a jurisdiction to use the added tax rate? If nothing else, the Legislature will have to address the policy issues of allowing a tax to be used almost on a case-by-case basis with the determining factors being factual issues 10, 20, or even 30 years old.

The Carman case involved funding pension benefits last adjusted prior to Proposition 13. It did not address the question of using the added tax rate to pay for benefit increases granted after the initiative's passage. As expressed by the court in Carman, the expanded notion of indebtedness seemed at least to have outer limit akin to that of fixed debt. One plausible extension of the decision was that a Carman tax would be allowable to fund the benefit levels up to those in existence at the time of the voter approval, or at Proposition 13's passage. However, in the subsequent Watsonville decision, the court said Carman should not be so limited. It permitted a tax above the 1% cap to fund additional benefits granted after the proposition's enactment.

This decision had the practical result of giving a portion of employee benefits a priority claim on the property tax dollar above all other budget items.

The potential of expanding the Carman rationale -- that is, a contractual obligation raised to the status of indebtedness -- is only beginning to be explored by local governments and the courts. Cases are pending on the issue of expanding the Carman authorization to funding libraries (Patton v. City of Alameda) and paramedic services (City of Napa v. Board of Supervisors). Before allowing the two-year moratorium on the use of Carman to lapse, the Legislature will have the opportunity to consider these uncertainties and vageries -- and the issue of pension costs themselves -- in determining how much legislative control should be restored in this area of taxation.

The Farrell Decision

In August of 1982 the California Supreme Court issued another opinion that opened yet another "loophole" in the tax limitations imposed by Proposition 13. In its ruling in San Francisco v. Farrell, the court held that Proposition 13's two-thirds majority vote requirement did not extend to those San Francisco taxes producing revenue to the general fund for general governmental purposes.

In 1980 the city increased its payroll and gross receipts tax rate from 1.1% to 1.5%. These revenues went into the city's general fund and were not earmarked for any special use. A 55% majority of local voters subsequently approved this change at an election in June of 1980. In holding that Proposition 13's two-thirds vote requirement did not apply, the court specifically rejected the argument that the term "special taxes" in Proposition

13 meant any change that produced additional tax revenue. San Francisco could levy its tax increase without any vote of the electorate -- with Proposition 13 inapplicable, no other existing provision of law required the increase to be submitted to the voters.

The result of this ruling was a major expansion of local revenue-raising powers. Figures IX-4 and IX-5 display the use of Farrell taxing powers by cities and counties in the sample. Cities have made much greater use of these powers than have counties. This is because charter cities (and general law cities since 1982) have much broader revenue-raising options than do counties. Cities are empowered to levy taxes in any area not precluded by state law (such as taxation of alcohol, insurance companies, and corporate and personal income taxes), while counties are able only to levy taxes specifically authorized for their use by the state. Only recently have counties, for instance, been authorized to levy hotel and motel taxes. For cities, this means they can increase lucrative business license taxes and utility users taxes under the Farrell decision, while counties cannot.

COMMENTS ON TAX POLICY ISSUES FROM FIELD INTERVIEWS

Decisions to Increase Taxes

A large portion of each field interview was devoted to local officials' views concerning appropriate taxing powers of local governments, with particular emphasis on how their jurisdiction had used powers authorized by the Farrell and Carman cases.

As Figures IX-2 through IX-5 indicate, the sample contained jurisdictions that made use of these court decisions as well as those which did not. Among sample cities, only San Diego and Sunnyvale chose not to levy additional taxes. In San Diego's case this was attributed to the city council's choice to restrain local spending rather than to increase taxes.

In Sunnyvale, strong growth in property and sale tax bases and other local revenue sources made increases unnecessary. It is interesting that Sunnyvale's voters did give two-thirds majority support to an increase in the hotel/motel tax, but the increase has not been levied to date. Sunnyvale was also the only jurisdiction visited that gave local taxpayers a tax refund during the past five years. In 1981 the city refunded $1 million in local property taxes.

Two sample jurisdictions reported reductions in local tax rates during the past five years. San Francisco eliminated residential utility user taxes (a $6 million tax cut) after it was successful in the Farrell case. Voters in Fresno approved an initiative measure that repealed the city's utility user tax ($6 million in 1980-81) effective in fiscal 1981-82.

Four sample jurisdictions currently levy property taxes to pay costs of pension obligations. These are Fresno, Oakland, Montebello, and Santa Clara County. Eight of the ten cities reported that they had increased local non-property taxes under the Farrell decision. Only two counties other than Santa Clara reported that they had increased any taxes since 1978 (Mendocino and Santa Barbara), and these were relatively minor taxes.

The taxes most frequently increased or newly imposed under authority granted by the Farrell decision were business license taxes, utility user taxes, and transient occupancy taxes. The great majority of these tax increases were first levied during fiscal 1983-84. This was because the Farrell ruling came after the start of fiscal 1982-83. Local officials also expressed the opinion that the use of these tax increases in 1983-84 was primarily designed to avoid the need to make further cuts in local spending, rather than to restore services to earlier levels.

In several cases, city staff members thought that property tax increases based on authority of the Carman case would have been the preferred means of raising revenues. They said that property taxes are a more broadly-based form of taxes than business or utility user taxes. They also said the deductibility of property taxes from state and federal income taxes helped minimize the effective tax burden on individuals, while utility taxes on individuals are not deductible. Officials in most cities were concerned about business tax increases reducing the competitive position of their city in attracting and retaining businesses.

Uneven Local Tax Bases

Several sample counties raised the issue of uneven distribution of local tax bases among cities and counties. They pointed out that even if counties were allowed to levy utility user taxes and business license taxes similar to those cities levy, they would not necessarily prove to be significant revenue sources. Since such county taxes would apply only to unincorporated areas of a county, the yield of such taxes might be very low if unincorporated area population and business activity were small because of county land use policies which channeled development into areas within city limits.

Santa Clara County raised this issue in particular, and reported it is reviewing its land-use policies with regard to their revenue impacts. Staff in interviews thought that counties need access to a revenue source that has some substantial base, if additional revenue powers are to be meaningful.

The two cities in the sample with very weak tax bases, Farmersville and Pacifica, also raised the question of whether state policy would address revenue needs of communities such as theirs. These two "bedroom" communities lack strong property and sales tax bases because they are primarily residential communities whose residents work and shop in neighboring cities. They said

that the service needs of their residents were not any lower than those of residents in more prosperous cities, but the revenue base of their cities was inadequate to finance even a "basic" level of service. They added that the state should provide better equalization of property or sales tax revenues so that these cities could serve their residents' needs.

Mr. John Longley, a former city manager of Farmersville, summed up this viewpoint. "Even if the city disincorporated, its residents' need for basic urban services would not go away. The only thing that would happen is that the decision making process about those needs would become more remote. Even a small amount of additional money would go a long way in most poor small communities."

The Redevelopment Process--A Major Sore Point

Several sample urban counties were very concerned about revenue effects on counties because of redevelopment by cities. The counties of Riverside, San Diego, and Santa Clara all had strong concerns about extensive redevelopment by certain cities in their areas.

In redevelopment, all increases in property taxes above a base-year level are channelled to a redevelopment authority (usually controlled by a city) to finance land acquisition and development projects designed to promote economic development of a specific area. While primarily designed to revive economically declining city center areas, the process has been applied to vacant land in a some cases.

Counties object to excessive redevelopment, particularly on vacant land that counties think would be developed without the economic incentives possible under redevelopment. It directly reduces their property tax revenue. A number of counties have begun to contest the formation of new redevelopment areas and are

now trying to force cities to limit county revenue loss under redevelopment. These efforts, however, can do little for counties with established project areas. Counties are also concerned about the potentially unlimited life of redevelopment agencies made possible by expansion or new projects. Riverside estimates it is losing 10% of its share of the annual growth in property tax revenues because of widespread redevelopment within the county.

Cities argue that while there may be individual abuses of redevelopment, most projects are legitimate efforts to rebuild blighted areas or develop land that could not otherwise be developed without public expenditures made possible by redevelopment. They maintain that redevelopment is one of the few effective capital project financing tools available after Proposition 13. They also argue that redevelopment allows cities to get involved in economic development so they can build or rebuild tax bases by encouraging new businesses to locate in their community.

The City of Montebello, for example, is trying to use its redevelopment authority to secure construction of a regional shopping center on vacant hillside land that would not be developable without public assistance. If it is successful in this project, increased sales and business tax revenues from the center will provide a strong long-term revenue base. Officials maintain that without redevelopment they would not have had a chance at securing such a project and assuring their fiscal future.

This issue has been subject to extensive legislative debate in recent years and is likely to remain on the agenda for the foreseeable future.

What Will Happen When the Deflator is Repealed?

Interviews and review of local budgets and financial statements showed that the jurisdictions which did raise taxes did so to prevent further reductions in local services rather than to restore services to the level prior to Proposition 13. Cities often said such tax increases would not have been necessary or would not have been so large if it were not for the cuts in state subventions in recent years. For example, these cuts amounted to more than $62 million in 1982-83 for the City of Los Angeles. Cities also argued that they had to raise revenues to avoid further service cuts and to insulate themselves against future state aid cuts.

In current local finance proposals of both the Governor and the Legislature, the AB 8 deflator is repealed. Elimination of the deflator will result in substantial increases in revenues flowing to counties and cities compared to recent years when substantial cuts in state aid were the rule. All other factors held constant, the end of state subvention cuts would produce an increase of between $280 and $300 million in revenues for cities alone in 1984-85.

This increase in local revenues due to repeal of the deflator raises the question of how local governments will use this additional revenue. Will all or part of it be used to reduce or repeal recent tax increases instituted under the Farrell decision? Will the deflator-repeal "fiscal dividend" be used to expand services or improve employee compensation? Will some of it be used to address critical capital and maintenance needs? Can incentives be built in to new state aid to encourage fiscal

reforms such as pension system controls or adequate funding for maintenance needs? State decisionmakers and local residents may wish to pay close attention to these questions in coming months. How local agencies use these additional revenues will be a good measure of future local fiscal priorities as well as an opportunity to address some of the problems discussed earlier in this report.

FIGURE IX-1

SPECIAL TAX ELECTIONS IN SELECTED SAMPLE JURISDICTIONS

CITY	% YES VOTE AT ELECTION	PURPOSE TO BE FUNDED FROM SPECIAL TAX	TYPE OF TAX
Los Angeles	42	Police service	Per parcel tax
	54	Fire facilities	Per parcel tax
Oakland	44	Police & fire service	Per parcel tax
Sunnyvale	72	General purposes	Hotel/motel tax

COUNTY	% YES VOTE AT ELECTION	PURPOSE TO BE FUNDED FROM SPECIAL TAX	TYPE OF TAX
Mendocino	30	Road maintenance	Gas tax (1 cent)
San Diego	36	Law enforcement service	Per parcel tax
	38	Road maintenance	Gas tax (1 cent)
Santa Clara	53	Jail construction	Per parcel tax

FIGURE IX-2

CITY USE OF PROPERTY TAX LEVIES

FOR PENSION DEBT COSTS

City	Label	1983 Pop.	Elig. For Carman?	Currently levying Tax?	Est. 1983-84 Revenue	Notes
Farmersville	Fa.	5,900	No	No		
Fresno	Fr.	252,600	Yes	No	$2,050,000	1.
Irvine	Ir.	72,900	No	No		
Los Angeles	LA.	3,071,100	Yes	No		2.
Montebello	Mb.	55,400	Yes	Yes	1,900,000	3.
Oakland	Ok.	347,300	Yes	Yes	11,050,000	4.
Pacifica	Pa.	36,550	No	No		
San Diego	SD.	925,000	Yes	No		5.
San Francisco	SF.	705,700	Yes	No		
Sunnyvale	Sn.	108,600	Yes	No		

Comments

1. Fresno has levied this tax but it is impounded pending appeal of a lower court ruling against the levy.

2. Considered levy for 1983-84 but rejected idea after LA County Council and Legislative Council opinions and AB 377 barred such action.

3. Has PERS system that was voter approved prior to Prop. 13.

4. Levied tax since July 1, 1981. Court upheld levy in Valentine case.

5. While eligible, city has not considered this option.

FIGURE IX-3

COUNTY USE OF PROPERTY TAX LEVIES

FOR PENSION DEBT COSTS

Counties	Label	1983 Pop.	Elig. for Carman?	Currently Levying Tax?	Est. 1984 Revenue	1937 Retirement Act System?	Notes
Mendocino	Mn	70,400	No	No		Yes	
Merced	Mr	146,300	Yes	No		Yes	1.
Riverside	Rv	731,200	No	No		No	
San Diego	SD	1,986,000	Yes	No		Yes	
San Mateo	SM	593,500	Yes	No		Yes	
Santa Barbara	SB	313,500	Yes	No		Yes	
Santa Clara	SC	1,343,100	Yes	Yes	$16,640,000	No	2.

Notes:

1. County considered this in 1982 but rejected the idea.
2. Voters approved PERS retirement system in 1976 Charter vote.

FIGURE IX-4

CITY USE OF TAXING POWERS UNDER THE SUPREME COURT'S FARRELL DECISION

City	Label	1983 Pop.	Currently Levying Tax Under Farrell?	Est. 1983-84 Revenue 2/	Type of Tax (I = tax increase) (N = new tax)
Farmersville	Fa.	5,900	Yes	9,500	Business lic. (N)
Fresno	Fr.	252,600	Yes	1,645,800	Hotel/Motel (I), business lic. (I), admissions (I)
Irvine	Ir.	72,900	Yes	1,089,000	Hotel/Motel (I)
Los Angeles	LA.	3,071,100	Yes	116,000,000	Hotel/Motel (I),business lic. (I), utility user (I)
Montebello	Mb.	55,400	Yes	800,000	Utility user (N)
Oakland	Ok.	347,300	Yes	12,840,000	Business lic. (I), parking stall (N)
Pacifica	Pa.	36,550	Yes	650,000	Utility user (N)
San Diego	SD.	925,000	No		
San Francisco	SF.	705,700	Yes	75,000,000	Business license (I), payroll (I)
Sunnyvale	Sn.	108,600	No 1/		

Notes:

1. Sunnyvale voters approved by more than 2/3 vote an increase from 6% to 8% in the transient occupancy tax. The increase has not yet been levied.

2. Estimated total revenue in 1983-84 due to tax change.

FIGURE IX-5

COUNTY USE OF NEW OR INCREASED

NON-PROPERTY TAXES

Counties	Label	Chang... Non-Prop. Taxes?	1983-84 Revenue	Type of Tax (I= tax increase) (N= new tax)
Mendocino	Mn	Yes	597,100	Hotel/Motel
Merced	Mr	No		
Riverside	Rv	No		
San Diego	SD	No		
San Mateo	SM	No		
Santa Barbara	SB	Yes	200,000	Hazardous Waste (N)
Santa Clara	SC	No		

CHAPTER X

PROBLEMS, OPPORTUNITIES, AND STRATEGIES: HOW LOCAL GOVERNMENTS ADJUSTED TO THE NEW FISCAL ORDER

INTRODUCTION

The purpose of this study was not to rank the 17 participating jurisdictions on some scale of fiscal health or management. It was to learn from them about real problems and opportunities facing local governments after important changes in recent years in state and local government finance. Another purpose was to learn more about fiscal strategies developed (consciously or unconsciously) by local agencies to survive change and to progress in coming years. This chapter discusses the most important problems, opportunities, and strategies that tie together the rich variety of experience found in the study's field work. These observations may be the most subjective in this report, yet they fairly represent an important part of the fiscal landscape.

ADJUSTMENT AND OPTIMISM

One intangible but real item noted in field interviews was a surprising air of optimism about the fiscal future of local governments. This came from the more than 85 persons interviewed. More of a "doom and gloom" attitude could have been expected on a on the part of local officials who wrestle with these problems on a daily basis. This optimism seemed to be based on the following foundations:

1. Proposition 13 has been accepted as a permanent part of the fiscal environment. The level of service and methods standard before June 6, 1978 are no longer a frame of reference for local government. While there may be regret over important programs lost to revenue

may be regret over important programs lost to revenue constraints, local officials are looking forward now to dealing with local needs within the available resources.

2. The recent upturn in the economy promises local agencies the first healthy growth in local revenues in almost three years. Moderation of inflation has also given local officials hope that budget and fiscal choices will be easier in future years than in the recent past.

3. After three years of cuts in state aid and a perception that Sacramento neither understands or cares about local fiscal problems, officials are heartened by the commitment of the Governor and the Legislature to enact permanent solutions in 1984.

4. Except for the new Jarvis initiative, local officials believe they can look forward to a period of stability in basic local finances. As one put it: "In the last five years we've seen Proposition 13, the Gann initiative, state budget cuts, double-digit inflation, a major recession, federal aid cuts, and reform of the Medi-Cal system. What else can there be out there?"

5. Many cities in the sample (Farmersville, Fresno, Los Angeles, Montebello, Pacifica, Oakland, and San Francisco) have used authority to raise local taxes allowed under the Farrell decision to stabilize their fiscal condition against continuing cuts in state aid. This has given them a feeling that their fiscal outlook now appears more under their own control than it has for several years.

HARD VS. SOFT LANDINGS

The past five years have been difficult for virtually all local agencies. Property tax cuts, inflation, recession, and rising crime rates are just some of the problems cities and counties have dealt with. The economic and social diversity of California and the history of fiscal choices made by each community guaranteed that different jurisdictions would face different difficulties adjusting to the new times. For analytical purposes, sample cities and counties could be broken into two groups: those that made a relatively smooth adjustment to new fiscal realities, and those that had a rough transition. This is not to say that those with "smooth" transitions did not have reductions in staff and services (see Chapters III, V, and VI), but rather that they began the transition to a new equilibrium earlier and accomplished it with less disruption.

The group with relatively smooth transitions included the counties of Riverside, San Mateo, and Santa Barbara, and the cities of Irvine, Sunnyvale, and San Diego. These communities all had below average property tax rates before Proposition 13. This meant they had relatively less to lose from the tax cut than others. It also meant in most cases local preference for a "leaner" government than in other communities.

Another characteristic of these communities was that they made necessary adjustments to cope with Proposition 13 early -- in fiscal 1978-79 or 1979-80 -- rather than delaying. Employment cuts and program cuts were enacted early, in the belief that Proposition 13 was a permanent change. Delay in making painful adjustments was seen as only compounding the difficulty of making reductions, as well as exhausting reserve funds. This choice came from the strong "management" orientation of the governing boards of these communities. They had a willingness to consider long-term fiscal positions as well as immediate consequences of service level cuts and other adjustments. This orientation was carried

out by strong professional managers these communities had hired and given a great deal of authority to manage local affairs. These managers took Proposition 13 seriously and were successful in urging their governing boards and staffs to deal with it as soon as possible.

A final characteristic was that such cities as Irvine and Sunnyvale and such counties San Mateo and Santa Barbara serve areas with excellent economic and demographic characteristics. Low unemployment, low welfare populations, expanding business centers, and relatively affluent populations do not make it necessary for local government in these areas to face some of the service demands of other communities. Their strong local economies have also produced healthy revenue growth in recent years.

San Francisco has been one other community in the smooth transition category. It has had to cut back also to deal with Proposition 13 and other recent changes. Its ability to adjust, however, was helped by its ability to increase local taxes to make up a significant portion of the Proposition 13 revenue shortfall not covered by the state bail-out. The Farrell decision based on business tax increases enacted in 1980, gave San Francisco the means to meet local needs, rather than being forced to scale back operations more drastically in order to live within revenue constraints.

The other sample communities had greater difficulty making the transition. They had higher-than-average property tax rates prior to Proposition 13, and as a result, faced relatively larger reductions in revenue than other communities. These higher rates related to weak sales tax bases in some cases (hence greater reliance on property taxes), and local preferences for more extensive or more expensive local services.

Oakland, Farmersville, Mendocino County, and Merced County have faced the opposite version of favorable economic and demographic trends. Below-average tax bases, rising unemployment, and influxes of refugees added to their problems of adjusting.

Three sample cities illustrate another part of the problem for the "hard-landing" group. Their chief characteristic was a local cost structure hard to control. The cities of Fresno, Los Angeles, and Oakland faced rapidly rising pension costs for public safety employees that forced them to devote a growing share of limited resources to paying these costs. Their pension plans provided very generous benefits and post-retirement COLA's approved by voters before Proposition 13. Rapid inflation in the late 1970's and early 1980's forced increases in city retirement contribution rates for these plans.

In Oakland, voters had closed the plan to new members in 1976, but costs for those still in the plan were absorbing a significant part of city resources. Also, while Los Angeles amended its pension plan to control these costs, it will be many years before city contribution rates come down. These pension costs cannot be quickly cut because they are contractual obligations to retired employees. These essentially self-imposed pension cost problems undoubtedly would have become serious local problems even without Proposition 13 and other recent fiscal changes. Proposition 13 only advanced the day local government was forced to address them.

Santa Clara County illustrates another feature of cities and counties in this group. Located in a part of California with below-average unemployment, above-average family incomes, and a booming economy based on the electronics industry, this county had much difficulty making the transition to the new fiscal order. Its problems stemmed in part from delaying painful reductions needed to cope with Proposition 13.

It chose to use accumulated fund balances to continue existing service levels, rather than make cuts. And, when spending reductions were made, they fell on maintenance and capital projects. Further, over-optimistic revenue estimates for fiscal 1981-82 and exhaustion of county reserves forced the county during 1982 to reduce its workforce by 1,100 full-time equivalent positions out of a force of some 8,000.

Several representatives interviewed said that the pattern of decisions noted above was no different from that followed by the state government during the same period. Reserves were spent down, one-time revenue sources were tapped, one-time expenditure cuts were made, capital projects deferred, and long-term adjustments delayed at the state level. The consequences were much the same for the state as those discussed above.

POSITIVE IMPACTS OF PROPOSITION 13

Virtually every local manager interviewed said that revenue constraints imposed by recent fiscal changes had a positive impact on their jurisdictions, because they forced local decision-makers to reexamine and change key expenditure policies. The inescapable fiscal constraints (at least before the Farrell decision) forced changes long overdue, they said. Changes in spending policies played a major role in reshaping the fiscal conditions of local jurisdictions.

One good example is the City of Los Angeles. As noted, the city's public safety employee pension system was a absorbing a growing share of the city's budget. Employer retirement contributions were more than 70% of current salary for police officers and fire fighters, and actuarial estimates showed contribution rates rising steadily, unless plan benefits were altered.

In response to these cost pressures (and after local voters had rejected special tax proposals to improve police and fire services), city leaders proposed and voters approved two city charter amendments that reduced future pension benefits for safety employees. These measures halted growth in these pension costs but it will be decades before the costs incurred under the old plan are no longer a factor in the cost of city benefits. However, a recent appellate court decision in a City of Pasadena case held that future benefits of current employees could not be limited. If applied to Los Angeles, the police and fire pension system unfunded liability would increase by $12 billion over the next 35 years.

Some individuals said in interviews that such a reform as in Los Angeles was inevitable, and that the impact of the revenue squeeze from Proposition 13 was only to accelerate it. Nonetheless, the revenue constraint did force the city to alter a very expensive expenditure policy which was having a major impact on the city's fiscal condition. Partly from this same pressure, the city's voters also recently repealed the "prevailing wage" clause in the charter, thus improving the city management's position in salary negotiations.

Other sample cities and counties reported similar actions. Managers often reported that some actions taken had been under consideration for many years, but were only adopted under recent fiscal pressures.

While progress has been made in many places to tighten spending, there still is much to be done in many jurisdictions. Consolidation of costly decentralized justice courts, better maintenance of public facilities, repeal of rigid wage-setting formulas that reduce management flexibility to bargain over wages and working conditions, and organizational consolidations, are examples of cost control items still on local managers' agendas.

"INVISIBLE REDUCTIONS"

In every jurisidiction visited for the study, local officials said they sought to deal with effects of tax revenue constraints by first reducing or limiting the growth of expenditures "invisible" to the public. This resulted in significant cuts in employment and services in such functions as financial management, clerical support, research and analysis, and planning. Other cuts involved reductions in capital and maintenance programs where effects of reductions are not immediately visible to the public. The largest invisible cut was the impact of inflation and population growth on local services. While staffing and spending levels fell behind population growth and inflation, some of this was offset through greater employee productivity. Despite that, many managers thought services had been spread thinner.

ADJUSTMENT THROUGH SMALL CHANGES

This report has discussed some major ways that counties and cities have adjusted to fiscal change. Spending cuts, deferral of capital projects, staffing reductions, pension reforms, and local tax increases are examples of major to adjustments to Proposition 13 and other recent changes.

Another area also has resulted in a major impact on local costs and revenues -- a host of individually small but collectively significant actions that have improved efficiency and effectiveness of local agencies. They came about because local managers are close enough to operations to see opportunities for cost control or better revenue management and have sufficient authority for timely action. A partial list of examples from our sample includes:

- More effective use of public assets, such as vacant land, to produce revenues through sales or leases to the private sector. (San Diego County, City of San Diego, Fresno)

- Innovative use of federal tax laws to finance capital projects through the sale and lease-back of public facilities. (Oakland, Sunnyvale)

- Energy conservation projects to reduce utility bills for street lighting and public facilities. (Fresno, San Francisco, Riverside County, Sunnyvale)

- More productive investment of public funds between the time of collection and expenditure. Use of arbitrage opportunitities in the sale of tax-exempt short-term debt to earn additional interest income. (Mendocino County, Pacifica, Riverside County, San Diego County)

- Improved debt collection practices to ensure that money owed local agencies for existing taxes and fees is collected from everyone subject to such charges. (Oakland)

- Much more extensive use of self-insurance techniques to reduce costs of liablity coverage. (Sunnyvale, Riverside County, San Mateo County, Santa Barbara County)

- Innovative incentive pay plans for managers and line employees, to improve productivity and effectiveness. (Riverside County, Sunnyvale)

- Work measurement and productivity improvement programs. (City of San Diego, Montebello, Sunnyvale)

- Consolidation of related services, such as fire and police departments or community development and housing programs. (Pacifica, Fresno) (Sunnyvale has had fire and police consolidation for more than 20 years.)

- Reductions in disability retirement and workers compensation costs through modified work programs putting injured workers back into productive public jobs. (Sunnyvale, San Mateo County)

- Purchase of new equipment to improve employee productivity in public works activities, such as garbage collection and street maintenance. (Fresno, Los Angeles, City of San Diego, Santa Clara County)

- Contracting out tasks to the private sector when cost savings can be shown. (Merced County, Pacifica, Fresno, Irvine, Los Angeles, Sunnyvale, City of San Diego, San Diego County)

Each of these items produced small amounts of additional revenue or cost savings compared with major changes in revenues caused by Proposition 13 and federal and state cuts in local assistance. Collectively, however, these small items contributed significantly to helping local governments cope with the larger changes. Every jurisdiction visited pointed to a variety of the items listed above as part of their adjustments. Revenue constraints on local agencies have stimulated a search for creative ways to control costs or raise revenues outside the tax system.

STATE ACTIONS IMPACT LOCAL COST CONTROL EFFORTS

During field interviews, local officials often noted that ability to control local costs is limited by actions of the state government or the courts. While this relationship is fairly clear with respect to state-mandated health and welfare programs that counties operate for the state, it is also true for a variety of other county and city operations. Major items include:

- Binding interest arbitration for public safety employees

This was mentioned in every interview. Local officials said the state should not enact a statute that would authorize or require local agencies to use this means to resolve collective bargaining disputes with safety employees. As was discussed in Chapter IV, they felt binding arbitration could result only in higher costs and loss of fiscal control by local elected officials.

- Tort liability of public agencies

The concept of joint and several liability for tort claims (commonly referred to as the "deep-pocket" concept) is of great concern to local officials. Not only does it require public agencies often to shoulder the lion's share of costs of liability judgments in cases where the public agency is only partially to blame, it also encourages lawsuits against public agencies that must be defended at great cost to local governments. Local officials were not requesting a return to the doctrine of "sovereign immunity", but rather a more equitable assignment of liability costs in cases where a public agency is held responsible for less than half the blame for a given tort claim.

- State-mandated costs for workers' compensation

The state directly affects important local employment costs through workers compensation and unemployment insurance programs. Since the Gann initiative pased in 1979, the state constitution has required that the state reimburse local governments for new local costs that result from state mandates. Several sample cities and counties pointed out that the state has not done so with respect to recent increases in workers compensation

benefit levels, vocational rehabilitation costs, and presumption of a work-related cause for certain health problems of public safety employees. In addition to these direct unreimbursed costs, local officials pointed out that increases in eligibility for workers compensation also have the effect of increasing claims for disability retirement by public employees, resulting in additional public long-term costs.

LACK OF LONG-RANGE FISCAL PLANNING

Few sample jurisdictions reported they engaged in any long-term fiscal planning. Instead, they said most planning horizons extended only to the next fiscal year as part of the annual budget process. Asked if this lack of planning hampered their ability to inform local elected officials of long-term spending and revenue effects of proposed actions, staff and managers said that such information would be useful to policy-makers.

Asked why even simple versions of such planning were not practiced, managers indicated two main reasons. First, that state and federal subventions have fluctuated so much in recent years, as a result of their own revenue and expenditure requirements, that they thought it was a waste of time attempting to forecast subventions for planning purposes. Several officials said subventions were so unpredictable because they were determined annually through a political process impossible to second-guess.

The second reason for lack of long-term planning was reduction in analytical staff in most local agencies as a result of recent cost-cutting efforts. Budget analysts may be required to do long-term forecasting, but forecasts rank low in local priorities at budget time.

Two study jurisdictions that did do systematic long-term revenue and expenditure planning were the cities of San Diego and Sunnyvale. Both indicated the value of long-term planning was not in specific numbers generated in forecasting but in the insights gained about revenue and cost implications of individual policy choices. They also thought that such planning was indispensible, and an important reason why their cities had been able to make relatively smooth adjustment to Proposition 13 and other recent changes.

THE ROLE OF GOVERNING BOARDS

A final factor in understanding fiscal experiences found in the study concerns the role of elected governing boards in city and county management. There seem to be two broad approaches to local boards' views of their function with respect to fiscal management. The first role finds councils or boards of supervisors acting as legislative bodies. In this, elected officials function as ombudsmen for residents, employee groups, and others who deal with government. Some local officials interviewed believed an increasing number of colleagues held this view over the last 15 years. Managers who worked with this sort of board felt there was less of a "management" orientation on the part of such officials. They felt that this shift made managers assume more of an adversarial role in city and county fiscal management, similar to that played by the executive branch in state or federal government. Some managers went so far as to say that they felt they were now protecting the public pocketbook from unwise spending proposals of elected officials. They said this was a reversal of the roles played by elected officials and managers in earlier years.

The second role type finds that local officials see themselves as the true "board of directors" of a county or municipal corporation. They perceive themselves as "management" and not a separate legislative branch of local government. In this role,

they are more likely tc be concerned with the long-term fiscal consequences of their actions on the county or city.

The difference between these two styles of governing can make a profound difference in how a jurisdiction develops operating and capital budgets and the conduct of labor negotiations. Professional managers who operate in the first environment described above often felt themselves caught in the middle between their elected boards and the general public and employee groups. This greatly complicated their jobs as managers and reduced the jurisdiction's ability to consider the long-range impacts of fiscal decisions.

SUMMARY FINDINGS

The major findings of the study discussed here and in the previous nine chapters can be summarized as follows:

1. The Fiscal "Bottom: Has Been Hit IF . . .

The optimistic attitude discussed earlier in this chapter reflects the fact that many local officials feel that local fiscal conditions have hit "bottom" and now will show marked improvement. This optimistic view is based on certain strong qualifications, such as:

- The economy continues to improve.
- Inflation stays moderate.
- There are no new reductions in remaining local revenue sources.

2. Real Spending Reductions Have Occurred

The fiscal data examined and the results of the interviews confirm the fact that real reductions in local government

spending have occurred since 1977-78. Evidence of this includes:

- Inflation-adjusted per capita revenues are down in most jurisdictions.
- Inflation-adjusted per capita expenditures are down in most jurisdictions.
- Staffing levels are down in non-enterprise activities in nearly all jurisdictions.
- Capital spending, parks, and libraries were most directly affected by spending cuts.
- Public safety programs were given top priority in almost every jurisdiction.

3. <u>Capital And Maintenance Outlays Are Inadequate</u>

With a few notable exceptions, most sample jurisdictions reported that the current level of capital and maintenance spending is inadequate to meet local needs. Virtually every manager interviewed felt this was a critical need that must be addressed in future budgets. This problem arose and will be hard to solve because:

- Capital and maintenance spending is "invisible" and has no constituency. As a result, these items were among the first cut back after Proposition 13.
- Most managers feel it is politically impossible to squeeze more capital and maintenance funds from operating budgets that have already been cut to meet fiscal constraints.

4. <u>Proposition 13 And The Recession Have Forced Local Government To Become More Efficient</u>

There is no question that the revenue constraints of Proposition 13, the recession, and other fiscal changes have forced local agencies to become more efficient in a host of activities. The whole notion of managing for productivity

has taken root in many of the jurisdictions visited. Costly pension plans have been reformed in order to control future expenditure growth.

5. Proposition 13 And The Bail-Out System Have Affected City And County Finances In Different Ways

The data in Chapter V and VI indicates that city and county finances have been moved in different directions due to the effects of Proposition 13 and the state bail-out system.

- Cities have become less reliant on state and federal aid and property taxes. Own-source revenues have become much more important.
- Counties have been made much more reliant on state aid due to cuts in the property tax and the nature of the bail-out system.
- The fiscal health of counties is more closely tied to that of the state than is the case with cities.

6. Local Officials Are Concerned About State Actions That Increase Local Costs

Local officials were unanimous in voicing concern about the local fiscal impact of state policies. The chief concerns focused on the following:

- County health and welfare costs that are state-mandated but not adequately funded by the state.
- The added costs and loss of local control caused by binding-interest arbitration for public safety employees.
- Tort liability costs caused by the concept of joint and several liability.
- Costs imposed by changes in the workers compensation program and definitions of job-related disabilities.

7. **The Labor-Intensive Nature Of Local Government Makes Compensation Policy Central To Cost Containment**

Local agencies are service businesses and labor costs are the single largest component of their budgets. Cost control efforts must focus on controlling compensation costs. Cost control here not only involves controlling the number of employees by controlling the quantity and range of local services provided, but also improving the productivity of employees who deliver service. Effective stewardship of public resources also involves effective management of collective bargaining and the development of fair but affordable pension systems.

8. **Wide Diversity In Local Economic Resources And Service Demands Makes Equitable Statewide Solutions Difficult**

The wide variation in service demands and fiscal capabilities of cities and counties makes it difficult to design statewide solutions to local finance problems. The solution of the problems of small poor communities may require different approaches than those applied to larger, more affluent communities. Providing greater local flexibility in managing expenditures and raising revenues may be a more efficient approach than attempting statewide solutions.

CHAPTER XI

POLICY CHOICES FOR LOCAL GOVERNMENT FINANCE

INTRODUCTION

The current legislative session could be a major turning point in the structure of post-Proposition 13 government finance in California. Formally committed by AB 895 in 1983, the Legislature has promised to enact a permanent system of local government finance during 1984. The Governor has also indicated his willingness to grapple with this difficult issue. He has created a task force to examine local government finance and has introduced a plan authored by Senator Milton Marks to enact a permanent solution to city and county financial problems. The Democratic leadership of the Legislature, not to be outdone, has also offered a proposal by Assemblyman Dominic Cortese. In addition to these formal proposals, there are other unresolved issues, including disposition of property tax overrides for pension debt, the issue that was temporarily dealt with in AB 377 of 1983. The improved state economy and the resultant increase in state financial resources makes it possible now for the state to seriously consider a permanent solution to local government financial instability. Ironically, recovery also creates the conditions to enable postponement of solutions.

In the background at this juncture is a new initiative constitutional amendment offered by Mr. Howard Jarvis. This new measure (referred to as Jarvis IV) ostensibly addresses a number of court-created loopholes in Proposition 13. Specifically, it would repeal court-awarded ability to raise local taxes without a two-thirds vote, as authorized in the Farrell decision. It would also repeal the Supreme Court's Carman decision, which allowed local government to increase property taxes to pay costs of voter-approved pension obligations. In addition, it would roll back

assessed values for the period from 1975 through 1978. The Legislative Analyst has estimated that refunds (with interest) triggered by this roll-back would be $1.29 billion. It would require voter approval of any increases in local government fees that exceed the annual increase in the cost of living. It would also prohibit sale of unissued general obligation bonds. It would have an important impact on how cities and counties finance services they provide local citizens.

In discussions and interviews with local government officials during this project, it became obvious that all the issues to be discussed this year revolve around a number of basic policy questions. The remaining portion of this chapter will discuss the nature of these basic questions. These must be answered by voters or legislators as they consider proposals which must be addressed during the year. How individuals answer will largely determine how they vote on proposals.

STATEWIDE FISCAL CONTROL VS. LOCAL AUTONOMY

For local officials, one of the greatest frustrations of the recent era has been the lack of stable and predictable funding. It has been especially frustrating because they have seen the instability as a result of policy, rather than purely economic factors. They expressed willingness to take their chances with ups and downs in the state economy, and its impact on local taxes and other revenues. Instead, in recent years local budgeting has been delayed pending the outcome of the annual budget battle in the state capitol. Local officials often indicated that they thought local government was one of the balancing items considered at the end of each year's budget deliberations. Such uncertainty in possible outcomes make it much more difficult to finish the local budgeting process.

The Legislature has had a different view of this situation. Legislators felt responsible for sorting out the overall fiscal priorities of state and local government in California during this period. Wasn't it the state, after all, that came to the rescue of local governments in the first post-Proposition 13 years? Arguably, the Legislature earned the right to move money from state to local government or vice versa in order to meet what they felt were the most pressing priorities of the state as a whole. While this "One Big Budget" era led to a more unified review of state and local financing priorities, it did result in a major reduction in the perceived fiscal independence of local governments. The policy issue is: To what extent are local governments to be given autonomy over their local finances and local services?

The answer to that question ultimately rests with the voters and taxpayers. If Californians really want home rule, they must realize that it means local control of local revenues. To be sure, it is a tough assignment; it means that public policy efforts must be refocused away from the State Capitol and toward 435 city halls and 58 courthouses.

Obviously, many Californians feel that it is more efficient and effective to control local government policies through state statute, constitutional amendment, and court decision than through local government activity. The result, in the past 15-20 years, has been major intrusions by the state into local planning, local labor relations, local police powers, and -- most importantly -- local taxing power. One intended result of that vote on June 6, 1978, was to eliminate one-half of the largest local government tax base. A perhaps unintended consequence of that vote was a de facto shift of local political power to the State Capitol.

Is this shift to Sacramento what Californians really want? If asked directly, we suspect the voters would say no, overwhelmingly. The problem for Californians is to understand the home rule side effects of their efforts to shape tax policy.

WHAT SHOULD CONSTITUTE THE LOCAL TAX BASE?

Few would argue that the unpopularity of the property tax was not a major source of support for Proposition 13. It is perceived that property taxes are often unrelated to one's ability to pay the tax imposed. In a period of high inflation and rapidly escalating property values, property taxes often grew at rates faster than taxpayers' personal incomes. At the same time, it is often argued that property tax revenues should be focused on property-related services. One effect of Proposition 13 and related state legislation has been to focus property taxes on property-related services. Health and welfare expenses and local school expenses, formerly heavily financed through property taxes, are now largely financed with state general fund revenues. Remaining property taxes are focused on local police, fire, and public works services regarded as property-related. This focusing of the property tax on property-related governmental services has also made the link between approval of land use decisions and local tax base much more direct.

Some local finance reform proposals suggest that a portion of the property tax still remaining with schools should be shifted to cities and counties. This would free local government from dependence upon revenue sources allocated to them by state government. This would make cities and counties that much more dependent on property taxes for financing property-related services.

As seen in other portions of this report, cities have made rather extensive use of non-property taxes as a major revenue source in the post-Proposition 13 period. Using the Farrell decision, cities have increased utility user taxes and various business taxes in an effort to finance their level of services.

In several instances in sample jurisdictions, officials indicated that they would have preferred to have used property taxes, under the Carman decision, instead of utility or business taxes to help finance maintenance of local services. They based this preference on the belief that the property tax had a broader base then utility or business taxes. They also thought the tax burden would have been more equitably distributed, individual taxpayers could have deducted the tax from federal and state income taxes, and there would have been more uniformity in how the tax was applied.

What should constitute the local government tax base? Should cities continue to have the ability, by simple majority vote of the council, to levy new or increased business license and utility user taxes? Should, after the present moratorium expires, cities and counties regain the authority to raise property taxes to fund public employee pension plans on a simple majority vote of the governing body? Should property taxes for long-term capital debt be raised by less than a two-thirds majority, as some would propose?

On the other hand, should the court-awarded authority to increase business, utility and property taxes be altered, as proposed by the new Jarvis initiative? Should the present ability of local government enterprise activities to base fees on the cost of service and allocate costs to the users of services be limited to the growth in cost of living or two-thirds voter approval as proposed under the new Jarvis initiative? Should it be possible to use property taxes for general obligation bonds on a two-thirds popular vote as before Proposition 13? Or should existing, pre-1978 authorization for general obligation bonds be further limited to only those bonds sold before June 6, 1978, as proposed by the new Jarvis initiative?

These questions reflect the opposite poles of opinion on the financing of local governments. How they are decided in 1984 could affect the shape of local government finance for decades, perhaps as profoundly as Proposition 13.

Is there some possible middle ground? Is it not possible to fashion a system of local finance that begins to restore home rule, that permits efficient response to local cost problems, and yet retains popular control over growth in local tax burdens?

WHAT KIND OF MAJORITY RULE?

It can be argued that there were essentially two major points made by Proposition 13. The first and most obvious was reduction and control of the property tax in California. There was general belief that property taxes had reached unacceptable levels in California by 1978, because of a combination of high tax rates and rapid increases in assessed values.

The other major thrust of Proposition 13 was imposition of a two-thirds majority vote requirement to enact "special taxes." While this extraordinary majority requirement had traditionally existed for property taxes dedicated to financing long-term general obligation bonds, such a requirement had not applied to general local government taxation prior to Proposition 13. The purpose of this requirement, evidently, was to permanently build a barrier against future growth of the state and local tax burden in California. The Supreme Court in the Farrell case ruled that the two-thirds vote requirement did not apply in circumstances where "special" taxes for "general" purposes were involved. The Farrell decision essentially allows local elected officials, without a vote of the local electorate, to increase or enact new municipal or county taxes (1) as long as those taxes do not involve the property tax, (2) are within the other constitutional and statutory powers of the local agency, and (3) are deposited in the local agency's general fund to be used for general government purposes.

As noted in earlier chapters, local governments have made extensive use of the Farrell decision. The new Jarvis initiative is specifically aimed at reversing this. The general policy issue raised in this matter is what kind of majority rule should hold true for decisions to raise local government taxes.

This decision on majority rule involves two issues. The first is who should decide to raise taxes -- local elected officials or voters in a local election? The second involves what type of majority should be required to enact a tax measure. Should it be a two-thirds majority of elected officials or voters at large, or should it be a simple majority?

Prior to Proposition 13, local voter approval by either a majority or a two-thirds vote was not required for most general purpose increases in local government taxes. The question now is, would a simple majority vote requirement be a sufficient disincentive to increasing local taxes to prevent a wholesale increase in local taxes in the future?

EXPENDITURE CONTROL ISSUES

This study has found considerable evidence that cities and counties have done much to reduce the cost of providing services. Some remarkably innovative strategies have been employed in this effort. It was indicated in almost every jurisdiction visited that the revenue constraints of Proposition 13 had one positive impact in that they ultimately forced decisionmakers to re-examine spending policies and priorities.

Rather than suggest, however, that opportunities for cost-saving reforms have been fully exploited, the results of this study lead to the conclusion that much more can still be done. Further reduction of costs at the local level will depend in part on elimination of state level impediments to cost savings, particularly in the personnel areas of retirement, workers'

compensation, disability benefits, and contracting out; more faithful observation of the obligation to pay the full cost of state mandates; legislative restraint in imposing new procedural mandates, particularly in labor relations; allowance of greater flexibility in the conduct of mandated programs; tort reform, and many others.

Much too can still be done by local governments themselves to improve the economy, efficiency, and effectiveness of existing programs within the present statutory framework. Local communities need to examine issues such as charter provisions that provide for extravagant pension benefits or rigid salary setting systems, contracting out the provision of local services, and the need to invest substantial amounts of current dollars in labor-saving equipment that can reduce future costs.

ECONOMIC INEQUITIES

A final policy issue concerns vast differences in economic resources available to finance local services in different communities. Contrast the thriving tax base of Sunnyvale with the tax base of small, rural Farmersville. Each city's residents have the same needs for basic governmental services, such as police and fire protection, and basic public works. The same holds true with contrasting counties such as Merced and San Mateo. Prior to Proposition 13, each community was free to select the level of services it was willing to pay for from local taxes and inter-governmental aid. The present system of government finance has tended to deal with the question of tax bases separate from the question of the need for basic governmental services. Indeed, there is no generally acccepted definition of what are the basic or essential local government services. Each community has been allowed to develop its own services and to finance them with resoureces available for tax bases allocated to local government by the state.

As the state examines reorganization of local government finance, it could consider what to do about economic disparities among communities. This issue, however, raises serious concerns. Foremost is whether this requires a Serrano-type guarantee of local government services financed with either additional state general fund resources or a reallocation of revenue from higher-income to lower-income communities. It also raises questions as to whether it would encourage additional small, unincorporated communities to incorporate, and thus receive benefits of a state-wide guarantee of municipal services. This could have serious implications for land-use planning throughout the state. Nonetheless, in interviews across the state, this issue was raised a number of times, not only in poor communities, but often in those better off.

CONCLUSION

There are no right or wrong answers to the questions above. The purpose of the questions is to help determine basic outlines of policy preferences in local government finance. By answering these questions systematically, one can arrive at a position with respect to the various proposals discussed in this chapter. These are difficult questions, and go to the heart of governmental policy in a decentralized democracy. They bear on the issue of how the public can reconcile its desire for strict tax and expenditure limitation with its long-held beliefs in local autonomy and democratic majority rule.

CITY INTERVIEW QUESTIONS

I. Expenditures and Services

1. What are the three or four most important steps your city has actually taken since 1978 to reduce expenditures or control the future growth of expenditures?

2. Describe the three or four most important cost control steps recommended by staff but not implemented. Why were these steps not taken? Describe the constraints that prevented these actions (political, policy, legal, etc.)

3. What are the most significant reductions in the level and quality of services your city provides since June 1978? Describe the programs and groups of citizens most directly affected. Is the public aware of these reductions?

4. What are the most significant improvements in the level and quality of service your city provides?

5. What new expenditures or increases in existing expenditures have been imposed by federal or state government (legislation, regulation, or court decisions) since 1978? Describe the nature and cost of the most significant items that affect your city.

6. What capital projects have been deferred or eliminated due to fiscal constraints? Is it correct to assume that enterprise activities have relatively little difficulty meeting their capital needs due to their reliance on non-tax revenues? Has the city been utilizing the redevelopment agency as a tool to finance capital projects that might otherwise be a city responsibility? Have maintenance and rehabilitation needs been given a higher priority than new construction in allocating scarce budget resources? Are developer exactions a significant source of funding for off-site capital improvement projects?

7. What is the major fiscal management success story of your city since 1978?

   What is the single greatest fiscal management failure of your city since 1978?

8. What are the three or four specific actions state government should take that would increase your city's ability to control future expenditures? (i.e. worker's compensation, collective bargaining, retirement, tort liability, etc.)

9. To what extent is your city continuing to rely on "one-time" expenditure cuts to balance its current budget? (Examples [illegible] reducing contributions to vehicle replacement

funds and self-insurance funds, deferring salary increases in labor agreements from one year to the next, and deferring or reducing maintenance expenditures.)

10 - Does your city have a long run (up to five years) forecast of expenditures? If yes, how do you use the information from the forecast? What are the significant findings from the latest forecast?

11 - To what extent has the city been able to have its redevelopment agency (if it has one) absorb costs or provide revenues that help relieve fiscal pressure on the city's general or special revenue funds?

II - Revenues

1. What are the three or four most important steps your city has actually taken since 1978 to increase its revenues? Describe the major taxes, fees, and other revenue producing actions.

2. Describe the three or four most important revenue increase proposals made by staff that were not implemented. Why were these steps not taken? Describe the constraints that prevented these actions. (political, legal, policy, etc.)

3. To what extent have you been able to raise revenue for non-enterprise fund programs by increasing overhead charges or internal service charges for enterprise activities and other agencies such as redevelopment agencies?

4. What ability exists to raise property taxes under the Carman decision? What factors limit your city's ability to use this tool?

5. Has your city exercised its ability to raise non-property taxes under the Farrell decision? What taxes are the most likely candidates for such increases? What criteria does your city use for deciding which taxes to increase (economics, business climate, political factors, administrative feasibility, etc.)

6. A fast growing source of revenue has been the interest earnings from investment of cash balances and aggressive use of short-term notes. What is your forecast of the role this revenue source can play in your city's fiscal system?

7. What is the feasibility of increasing the support provided by fees and charges for non-enterprise activities? What barriers (legal, political, administrative) exist to such increases?

8. What role can benefit assessment districts play in financing essential services and facilities? What has been the local experience with assessment districts?

9. Does your city have a long run (up to five years) forecast of revenues? What are the significant findings of this forecast?

10. To what extent has your city used "one time" revenue sources (fund balances, capital reserves, etc.) to finance current operations? How do you plan to replace these funds when they are depleted?

11. Do you believe your overall revenue raising system is more or less sensitive to the ups and downs of the economy than it was before Proposition 13? Why?

III. New Approaches (Repeated for Counties)

One topic we are interested in exploring in the variety of ways local governments have tried to better manage their programs and services. The following checklist is designed to "jog" your memory about ways your jurisdiction has cut or controlled costs or found creative ways to provide service more efficiently or effectively.

- Please indicate if any of the following have been explored.
- What barriers exist to implementing these ideas?
- Have some not proved to be cost effective?
- What new items would you add to the list?

1. Functional or organizational consolidations such as:

   - Building inspection - fire consolidation.
   - Police - fire consolidation into a public safety department.
   - Other areas.

2. Contracting out services now performed by your employees.

3. Personnel cost saving ideas such as:

   - Health insurance cost control (self insurance, stay well incentives, etc.)
   - Workers compensation (physical fitness, pre-employment screening, stress reduction).
   - Retirement system redesign (two tier, etc.).
   - Productivity bargaining.
   - Elimination of "prevailing wage" clauses in contracts.
   - Incentive pay.

4. Increased automation of such functions as:

   - Refuse collection (1 man trucks).
   - Computerization of office tasks.
   - Building, grounds, and road maintenance.

5. Productivity improvement programs.
6. Public-private partnerships to provide facilities or services.
7. Greater reliance on self-insurance.

COUNTY INTERVIEW QUESTIONS

I. Expenditures and Services

1. What are the three or four most important steps your county has actually taken since 1978 to reduce expenditures or control the future growth of expenditures?

2. Describe the three or four most important cost control steps recommended by staff but not implemented. Why were these steps not taken? Describe the contraints that prevented these actions (political, policy, legal, etc.)

3. What are the most significant reductions in the level and quality of service your county has made since June, 1978? Describe the programs and the people (i.e., welfare recipients, homeowners, etc.) most directly affected. Is the public aware of these reductions?

4. What are the most significant improvements in the level and quality of service your county provides?

5. What new expenditures or increases in existing expenditures have been imposed by federal or state government (legislation, regulation, or court decisions) since 1978? Describe the nature and cost of the most significant items that affect your county.

6. What capital projects have been deferred or eliminated due to fiscal constraints? Is it correct to assume that enterprise activities have relatively little difficulty meeting their capital needs due to their reliance on non-tax revenues? Have maintenance and rehabilitation needs been given a higher priority than new construction in allocating scarce budget resources?

7. What is the major fiscal management success story of your county since 1978?

   What is the single greatest fiscal management failure of your county since 1978?

8. What are three specific actions state government should take that would increase your ability to control future expenditures? (i.e., worker's compensation, collective bargaining, retirement, tort liability, etc.)

9. To what extent is your county continuing to rely on "one-time" expenditure cuts to balance its current budget? (Examples might include reducing contributions to vehicle replacement funds and self-insurance funds, deferring salary increases in labor agreements from one year to the next, and deferring or reducing maintenance expenditures.)

10. Does your county have a long run (up to five years) forecast of expenditures? If yes, how do you use the information from the forecast? What are the significant findings from the latest forecast?

II. Revenues

1. What are the three or four most important steps your county has actually taken since 1978 to increase its revenues? Describe the major taxes, fees, and other revenue producing actions.

2. Describe the three or four most important revenue increase proposals made by staff that were not implemented. Why were these steps not taken? Describe the constraints that prevented these actions. (political, legal, policy, etc.)

3. Did your county consider raining property taxes to finance retirement costs under the Carman decision?

4. If the power to raise local taxes granted to cities under the Farrell decision were extended to counties, what tax increases might be considered in your county? What criteria would be used to decide the type and amount of any increase?

5. A fast growing source of revenue has been the interest earnings from investment of cash balances and aggressive use of short-term notes. What is your forecast of the role this revenue source can play in your county's fiscal system?

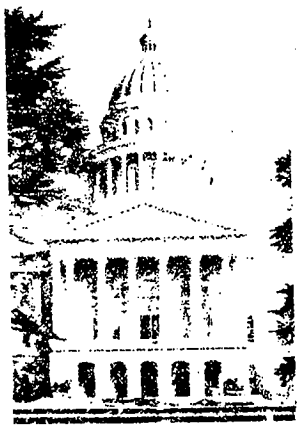
6. What is the feasibility of increasing the support provided by fees and charges for non-enterprise activities? What barriers (legal, political, administrative) exist to such increases?

7. What role can benefit assessment districts play in financing essential services and facilities? What has been the local experience with assessment districts?

8. Does your county have a long run (up to five years) forecast of revenues? What are the significant findings of this forecast?

9. To what extent has your county used "one time" revenues (fund balances, capital reserves, etc.) to finance current operations? How do you plan to replace these funds when they are depleted?

10. Do you believe your overall revenue raising system is more or less sensitive to the ups and downs of the economy that it was before Prop. 13? Why?



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