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Overview of California Local Government

L E G I S L A T I V E   A N A L Y S T ' S   O F F I C E

Presented to:

The Conference Committee on the Budget

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65 YEARS OF SERVICE

Local Governments Throughout Nation

☑ ***No Mention of Local Government in U.S. Constitution.*** States free to design systems that meet residents' needs and preferences.

☑ ***Most States Have County and Municipal Governments That Provide a Wide Array of Region Wide and Municipal Services.*** Most states also have special districts that provide a narrow range of services, such as fire protection or flood control.

☑ ***Considerable Variation Among the States.***

- In some East Coast states, cities and towns have broad responsibilities and counties have few responsibilities.
- Hawaii has no legal municipalities below the county level.
- Some states have independent school districts. Others have school districts that are under the control of a city or county.

California's Approach to Local Government

While California's local governance system appears complex, California has fewer local governments per capita than most other states.

- ☑ ***58 Counties.*** Serve as agents of the state for social services and health programs. Provide countywide services (such as jails, district attorney, assessor, and elections). Provide municipal services in unincorporated areas. Intergovernmental transfers (mostly from the state and federal government) make up nearly two-thirds of county revenues. Property, sales, and other taxes make up one-sixth.

- ☑ ***480 Cities.*** Number of cities is growing slowly as voters create new cities, in search of local control over land use and municipal services. Local taxes make up about one-third of city revenues. Most of the remainder comes from fees and service charges. Full service cities provide a wide range of municipal services (such as police, fire, parks, and library). Other cities rely on their county or special districts to provide some of these services.

- ☑ ***425 Redevelopment Agencies.*** Have two extraordinary powers: property tax increment financing and eminent domain. Number of redevelopment project areas has doubled since the early 1980s.

- ☑ ***Nearly 3,400 Special Districts.*** Most provide a single service (such as fire protection or waste disposal). About two-thirds have independently elected boards or board members appointed for terms.

- ☑ ***Over 1,000 K-12 and Community College Districts.*** Number of K-12 districts has declined somewhat over the years as elementary and high school districts reorganize into unified school districts.

Key Factors in California's System of Local Governance

- ☑ ***Limited Fiscal Authority.*** No authority to increase the 1 percent property tax rate or change allocation of property tax among local governments. Other tax increases require approval by local voters.

- ☑ ***Bigger County Role.*** California counties play a larger role concerning administration of safety net programs than counties in many other states.

- ☑ ***Greater Use of Redevelopment.*** Statewide, redevelopment agencies receive nearly 12 percent of property tax revenues. In Riverside and San Bernardino Counties, agencies receive more than 25 percent of countywide property taxes.

- ☑ ***Blurred Lines Separate State and Local Resources and Responsibilities.*** Difficult for Californians to know which level of government to hold accountable.

- ☑ ***Significant Recent Changes in State-Local Duties and Responsibilities.***

Major Milestones:
38 Years of the State-Local Fiscal Relationship

Proposition
Statute
Budget

1972

SB 90
Limited local government authority to raise property taxes. Requires the state to reimburse local governments for new state-mandated programs.

1978

Proposition 13
Set property tax rate at 1 percent, cutting local government property taxes by over half. Transferred control over property tax allocation to state. Established acquisition-based assessment system. Requires new local special taxes to be approved by two-thirds of voters.

SB 154
Used state's budget surplus to provide a one year "bailout" for local governments.

1979

AB 8
Established ongoing "bailout" for local governments. State assumed many county health and welfare costs, and increased school aid. Developed permanent property tax allocation system. Included a "deflator" to reduce state costs if revenues were insufficient.

Proposition 4
Generally limits local and state spending of tax proceeds to prior-year amount, adjusted for population and inflation (later amended to per capita personal income growth). Requires state to reimburse local entities for mandated costs.

1981

General Law City Taxing Authority (SB 326)
Gave general law cities the same taxing authority as charter cities.

State Budgets, 1981-83
Despite low state revenues, state did not activate AB 8 deflator. Instead, state permanently repealed three local subventions: liquor license fee, highway carrier's uniform business tax, and financial aid to local agencies.

1983

Mello-Roos Community Facilities Act
Created program to assist communities financing infrastructure. New special taxes subject to two-thirds voter approval.

1984

State Budget
Permanently repealed AB 8 deflator and local government personal property tax subvention.

1986

Proposition 47
Constitutionally guaranteed VLF revenues for cities and counties. (Guarantee later limited to revenues raised under a 0.65 percent VLF rate.)

1988

Brown-Presley Trial Court Funding Act
Increased state funding for county-operated trial courts, through the establishment of block grants.

1990

SB 2557
Allowed counties to charge local entities to recover the costs of booking persons into county jails and administering the property tax. (Authority to charge schools for tax administration eliminated in 1991.)

1991

Realignment
Major shift of authority from state to counties for mental health and other programs. Funding changes intended to be fiscally neutral and included: new sales and VLF taxes and changed state/county cost sharing ratios.

1992

Education Revenue Augmentation Fund (ERAF) 1992-93 and 1993-94
Annually shifts about one-sixth of statewide property taxes from cities, counties, and special districts to schools. Reduces state education costs by an equal amount. (Additional $1.3 billion property tax shift in 2004-05 and 2005-06.)

1993

Community Redevelopment Law Reform Act
Narrowed the definition of blight, set time limits for redevelopment projects, and required mitigation payments.

Proposition 172
Established a state half-cent sales tax for support of local public safety.

1996

Proposition 218
Constrained local authority to raise revenues from taxes, assessments, and fees. Some revenue raising methods subject to increased approval requirements.

1997

Welfare Reform
Provided counties with more flexibility regarding (1) delivery of welfare-to-work services and (2) receipient participation requirements.

Trial Court Funding
Cap placed on county trial court spending, resulting in future increases in state funding.

1999

State Budgets 1999-2004
Reduced VLF rate and backfilled local losses with state subventions. Beginning 2004, state subventions replaced with property taxes.

2004

Proposition 57
Pledged one-quarter cent of the Bradley-Burns sales tax as repayment for a state deficit-financing bond (the "triple flip"). Local losses replaced with property taxes shifted from schools. School losses offset by increased state aid.

Proposition 1A
Major reduction to Legislature's authority over the property tax and Bradley-Burns sales tax. Expanded state's requirement to pay for mandates.

Proposition 63
Imposed additional 1% tax on personal income above $1 million to expand county mental health programs.

2007

SB 81
Shifted funding and responsibility for nonviolent juvenile offenders from the state to counties.

2009

State Budget
Shifted redevelopment revenues and borrowed local property taxes to reduce state costs by almost $4 billion.

2010

Gas Tax Swap
Increased state's fiscal flexibility by replacing state's sales tax on gaoline with an excise tax. Reduces ongoing funding for local transit.

Proposition 13 and AB 8

☑ **Proposition 13 (1978).** Provisions (including subsequent amendments):

- ***Property Tax Limit.*** The maximum property tax rate is 1 percent of the "full cash value" of the property. Any property tax rate approved by two-thirds of local voters for debt is in addition to the 1 percent rate.
- ***Assessment Limit.*** Full cash value is determined when a property changes hands, or 1975-76, whichever is later. Increases in assessed value are limited to 2 percent annually, or the consumer price index, whichever is less.
- ***Allocation of Property Tax.*** Property tax revenues are to be collected by the counties and apportioned "according to law."
- ***New or Increased Taxes.*** New or increased state taxes must be approved by two-thirds of the Legislature. Local governments may impose "special taxes" if they are approved by two-thirds of the local voters.

☑ **AB 8 (Chapter 282, Statutes of 1979 [L. Greene]).** Proposition 13 implementation provisions:

- ***County Program Costs.*** State assumed responsibility for $1 billion of county costs (Medi-Cal, Supplemental Security Income/State Supplementary Program, and Aid to Families with Dependent Children).
- ***Tax Shift.*** Directed county auditors to reallocate some property taxes from schools to cities, counties, and special districts. (The state backfilled schools for their revenue losses.)
- ***Property Tax Allocation System.*** Designed system to reflect (1) location of growth in assessed valuation and (2) taxation decisions of the mid-1970s (local governments that received high property tax revenues during the mid-1970s get a higher share of tax revenues today).

Components of 1991 Realignment

Transferred Programs—State to County		
Mental Health—Community-based mental health programs; state hospital services for county patients; Institutions for Mental Diseases		
Public Health—AB 8 County Health Services; Local Health Services		
Indigent Health—Medically Indigent Services Program; County Medical Services Program		
Local Block Grants—County Revenue Stabilization Program; County Justice Subvention Program		
	State/County Shares of Nonfederal Program Costs (Percent)	
County Cost-Sharing Ratio Changes	**Prior Law**	**Realignment**
Health		
• California Children's Services	75/25	50/50
Social Services		
• Aid to Families with Dependent Children—Foster Care (AFDC-FC)	95/5	40/60
• Child Welfare Services	76/24	70/30
• In-Home Supportive Services	97/3	65/35
• County Services Block Grant	84/16	70/30
• Adoption Assistance Program	100/0	75/25
• Greater Avenues for Independence program	100/0	70/30
• AFDC—Family Group and Unemployed Parent (AFDC-FG&U)[a]	89/11	95/5
• County Administration (AFDC-FC, AFDC-FG&U, Food Stamps)[a]	50/50	70/30
Local Revenue Fund		
• Sales tax—half-cent		
• Vehicle License Fee—24.33 percent		

[a] The AFDC-FG&U program was subsequently replaced by CalWORKs.

Proposition 1A (2004) Changes to Legislative Authority Over Local Finance

☑ **Property Tax.** The Legislature may not:

- Permanently shift property tax revenues from noneducation local governments to schools.
- Change any city, county, or special district's share of the property tax without a two-thirds vote of both houses of the Legislature.
- Use property taxes to reimburse noneducation agencies for mandated programs.

☑ ***Sales Tax.*** With minor exceptions, the Legislature may not reduce any local sales tax rate, limit existing local authority to levy a sales tax, or change the allocation of local sales tax revenues.

☑ ***Vehicle License Fee (VLF).*** The Legislature may not reduce the VLF rate below 0.65 percent, unless it provides replacement funding to cities and counties.

☑ ***Mandates.*** Generally requires the state to pay noneducation mandate bills in the annual budget, or suspend or repeal the mandate. Expands the definition of a mandate to include certain shifts of program financial responsibility from the state to local government.

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Considerations Relating to Realignment

- ☑ **Realigning Some State-County Programs Makes Sense**
- ☑ **Programs, Not Taxes, Should Be the Focus of Realignment**
- ☑ **Realignment Plans Are Not Easily Changed**
- ☑ **Counties Will Need Control Over Realigned Programs**
- ☑ **Roughly Match Revenues and Expenditures**
- ☑ **Details Matter in Designing the Structure of Realignment**
- ☑ **Achieving General Consensus Will Be Critical**

Factors to Weigh in Assigning Program Responsibilities

- ☑ Programs where statewide uniformity is vital, where statewide benefits are the overriding concern, or where the primary purpose of the program is income redistribution—usually are more effectively controlled and funded by the state.
  - Reduces inappropriate service level variation.
  - Focuses state attention on programs integral to state goals.
  - Allows income support programs to reflect the resources of the state—not a single county.
- ☑ Programs where innovation and responsiveness to community interests are paramount—usually are more effectively controlled by local governments.
  - Facilitates citizen access to the decision-making process and encourages experimentation.
  - Allows community standards and priorities to influence allocation of scarce resources.
- ☑ Coordination of closely linked programs is facilitated when all programs are controlled and funded by one level of government, usually local government.
  - Increases attention to programmatic outcomes.
  - Reduces incentives for cost shifting among programs.
- ☑ If state and local governments share a program's costs, the state's share should reflect its level of program control. If the costs of closely linked programs are shared, the cost sharing arrangements should be similar across programs.
  - Increases accountability to the public.
  - Promotes efficiency in expenditures and discourages inappropriate cost shifting.