

STATE AND LOCAL FINANCE

NOVEMBER 10, 1983

LEGISLATIVE ANALYST

STATE OF CALIFORNIA

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SACRAMENTO, CALIFORNIA 95814

STATEMENT TO THE SENATE LOCAL GOVERNMENT COMMITTEE  
SAN DIEGO, CALIFORNIA  
NOVEMBER 10, 1983

WE HAVE BEEN ASKED TO APPEAR TODAY AND DISCUSS THE TYPES OF FISCAL AND POLICY ISSUES WHICH MAY BE ASSOCIATED WITH PROPOSALS TO RESTRUCTURE OUR SYSTEM OF STATE AND LOCAL FINANCE. OUR DISCUSSION IS INTENDED TO PROVIDE A BROAD FRAMEWORK FOR EVALUATING THE DIFFERENT PROPOSALS THAT MAY COME BEFORE YOU, FOCUSING PRIMARILY ON THEIR POTENTIAL TO IMPROVE THE ABILITY OF THE STATE AND ITS' LOCAL GOVERNMENTS TO PROVIDE QUALITY PUBLIC SERVICES IN AN EFFICIENT AND RESPONSIVE MANNER. I WOULD FIRST LIKE TO BRIEFLY DESCRIBE FIVE OF THE EXISTING PROPOSALS SO AS TO PROVIDE SOME BACKGROUND FOR OUR LATER DISCUSSION OF THE POLICY ISSUES.

I. DESCRIPTION OF CURRENT PROPOSALS.

SCA 23 BY SENATOR AYALA. THIS PROPOSAL WOULD AMEND THE CONSTITUTION TO GUARANTEE THAT LOCAL GOVERNMENTS ANNUALLY RECEIVE A SPECIFIED LEVEL OF THREE STATE SUBVENTIONS--VEHICLE LICENSE FEES, CIGARETTE TAXES AND BUSINESS INVENTORY REIMBURSEMENTS. IN OTHER WORDS, THE LEGISLATURE WOULD BE CONSTITUTIONALLY PROHIBITED FROM MAKING REDUCTIONS IN THESE SUBVENTIONS TO COMPENSATE FOR A REDUCTION IN STATE REVENUES. THIS PROPOSED AMENDMENT IS PRESENTLY PENDING BEFORE THE ASSEMBLY REVENUE AND TAXATION COMMITTEE.

AB 2100 BY ASSEMBLYMAN FARR. THIS MEASURE WOULD REALIGN STATE AND COUNTY GOVERNMENT RESPONSIBILITIES FOR FUNDING SPECIFIED HUMAN SERVICES PROGRAMS AND THE OPERATION OF TRIAL COURTS. IT ALSO WOULD SHIFT LOCAL SALES TAX AND VEHICLE LICENSE FEES REVENUES FROM THE COUNTIES TO THE STATE, AS A MEANS OF COMPENSATING THE STATE FOR THE INCREASED STATE COSTS ASSOCIATED WITH THE BILL. SIGNIFICANT PROVISIONS OF THIS MEASURE INCLUDE:

- o STATE ASSUMPTION OF THE ENTIRE COST OF TRIAL COURTS, WITH ALL TRIAL COURT REVENUES BEING DEPOSITED INTO THE GENERAL FUND.
- o ELIMINATION OF THE CURRENTLY REQUIRED COUNTY SHARE FOR VARIOUS WELFARE AND SOCIAL SERVICES PROGRAMS.
- o REORGANIZATION OF THE FUNDING SOURCES AND ORGANIZATIONAL STRUCTURE OF VARIOUS CHILDREN'S SERVICES PROGRAMS.
- o A SHIFT OF THE COUNTY SHARE OF VEHICLE LICENSE FEE AND LOCAL SALES TAX COLLECTIONS TO THE STATE.

THIS MEASURE IS PRESENTLY PENDING BEFORE THE ASSEMBLY WAYS AND MEANS COMMITTEE.

THE LOCAL OPTION SALES TAX PLAN BY ASSEMBLYMAN ROBINSON (ASSEMBLY PRE-PRINT NO. 4) THIS PROPOSAL WOULD ELIMINATE THREE EXISTING STATE SUBVENTIONS TO LOCAL GOVERNMENT (VEHICLE LICENSE FEES, BUSINESS INVENTORY REIMBURSEMENTS AND THE CIGARETTE TAX) AND IN EXCHANGE, AUTHORIZE CITIES AND COUNTIES TO IMPOSE AN ADDITIONAL 1 CENT SALES TAX. SPECIFICALLY, CITIES WOULD BE ALLOCATED A PORTION OF THE NEW SALES TAX REVENUES EQUAL TO 110 PERCENT OF THEIR REVENUE LOSS RESULTING FROM REPEAL OF THE THREE SUBVENTIONS. COUNTIES AND SPECIAL DISTRICTS WOULD RECEIVE 100 PERCENT. REDEVELOPMENT AGENCIES WOULD LOSE THEIR SHARE OF THE BUSINESS INVENTORY SUBVENTION. AN AMOUNT OF THE NEW SALES TAX REVENUE EQUAL TO THE VALUE OF REDEVELOPMENT AGENCIES' BUSINESS INVENTORY SUBVENTION WOULD BE ALLOCATED TO K-12 SCHOOLS. THE STATE SALES TAX RATE WOULD BE REDUCED BY  $\frac{1}{2}$  CENT INITIALLY, AND COULD BE REDUCED BY ANOTHER  $\frac{1}{2}$  CENT AT A LATER TIME IF RESOURCES ARE SUFFICIENT.

THE GOVERNOR'S NEW PARTNERSHIP TASK FORCE ON STATE AND LOCAL

GOVERNMENT. AS I'M SURE YOU KNOW, THE GOVERNOR CONVENED A TASK FORCE TO STUDY AND MAKE RECOMMENDATIONS ON A NEW PARTNERSHIP BETWEEN STATE AND LOCAL GOVERNMENT. THIS TASK FORCE RELEASED AN INTERIM REPORT ON OCTOBER FIFTH; A FINAL REPORT WILL BE AVAILABLE BY DECEMBER 31, 1983. THE INTERIM REPORT CONTAINS A NUMBER OF RECOMMENDATIONS FOR RESTRUCTURING THE RELATIONSHIP BETWEEN THE STATE AND LOCAL GOVERNMENT. THE SIGNIFICANT RECOMMENDATIONS IN THIS REPORT ARE:

- o REPEAL OF THE AB 8 DEFLATOR, THEREBY ASSURING LOCAL GOVERNMENT THAT THERE WILL BE NO AUTOMATIC REDUCTION IN STATE SUBVENTIONS.
- o ELIMINATION OF THE VEHICLE LICENSE FEE, BUSINESS INVENTORY, AND CIGARETTE TAX SUBVENTIONS. IN THEIR PLACE, A PORTION OF THE STATE SALES TAX WOULD BE TURNED OVER TO LOCAL GOVERNMENTS.
- o SHIFT THE ENTIRE RESPONSIBILITY FOR SPECIFIED HEALTH AND WELFARE PROGRAMS TO COUNTIES (INSTEAD OF A STATE/COUNTY SPLIT) AND GIVE THE COUNTIES AN ADDITIONAL PORTION OF THE STATE SALES TAX (IN ADDITION TO THAT GIVEN THEM TO REPLACE SUBVENTIONS) TO COVER THE INCREASED COSTS FOR THESE PROGRAMS.
- o PROVIDE CHARTER COUNTIES WITH THE SAME REVENUE RAISING AUTHORITY THAT IS PRESENTLY AVAILABLE TO CITIES. THAT IS, ALLOW COUNTIES TO LEVY ANY TAX WHICH STATE LAW DOES NOT PROHIBIT THEM FROM LEVYING, SUBJECT TO VOTER APPROVAL. IN ADDITION, COUNTIES WOULD BE GIVEN THE AUTHORITY TO LEVY A TIPPLER'S TAX.
- o AMEND THE CONSTITUTION TO REAUTHORIZE LOCAL GOVERNMENTS TO ISSUE GENERAL OBLIGATION BONDS SUBJECT TO 2/3 VOTER APPROVAL.

- o REQUIRE THAT ALL NEW STATE-MANDATED LOCAL PROGRAMS BE FULLY REIMBURSED BY THE STATE, OR OTHERWISE THESE PROGRAMS WOULD BE PERMISSIVE.
- o GUARANTEE THAT A SPECIFIED PORTION OF THE SPECIAL DISTRICT AUGMENTATION FUND BE DISTRIBUTED TO SPECIAL DISTRICTS NOT UNDER THE CONTROL OF A COUNTY BOARD OF SUPERVISORS.

PROJECT INDEPENDENCE. THIS IS A PROPOSED CONSTITUTIONAL AMENDMENT ORIGINALLY SPONSORED BY THE LEAGUE OF CALIFORNIA CITIES, THE COUNTY SUPERVISORS ASSOCIATION OF CALIFORNIA, AND THE CALIFORNIA SCHOOL BOARDS ASSOCIATION. GENERALLY, THIS PROPOSAL EARMARKS THE MAJORITY OF EXISTING STATE GENERAL FUND REVENUES FOR PAYMENT TO LOCAL GOVERNMENTS AND SCHOOLS, CONSOLIDATES THE ADMINISTRATION AND CONTROL OF CERTAIN HEALTH AND WELFARE PROGRAMS AT THE COUNTY LEVEL, AND GRANTS ADDITIONAL REVENUE RAISING AUTHORITY TO LOCAL AGENCIES. SIGNIFICANT PROVISIONS OF THIS PROPOSAL, IN THE MOST RECENT VERSION WE HAVE SEEN, INCLUDE:

- o A GUARANTEE THAT THE EXISTING VEHICLE LICENSE FEES, CIGARETTE TAX AND BUSINESS INVENTORY SUBVENTIONS TO LOCAL GOVERNMENTS WILL BE CONTINUED TO BE PROVIDED IN THE FUTURE.
- o PROHIBIT THE LEGISLATURE FROM ALTERING THE EXISTING DISTRIBUTION OF LOCAL PROPERTY TAX REVENUES.
- o REPLACE THE EXISTING SYSTEM OF PARTIAL STATE FUNDING FOR SPECIFIC COUNTY ADMINISTERED HEALTH AND WELFARE PROGRAMS WITH A CONSOLIDATED SUBVENTION OF FUNDS EQUAL TO THE PROCEEDS OF A PORTION OF THE STATE'S SALES TAX RATE (3/4 OF 1 CENT) AND FIFTEEN PERCENT OF THE STATE PERSONAL INCOME TAX.

- o DEDICATE THE PROCEEDS OF 2½ CENTS OF THE STATE'S SALES TAX AND 50 PERCENT OF THE STATE PERSONAL INCOME TAX TO FINANCE K-12 SCHOOL APPORTIONMENTS. ADDITIONALLY, SCHOOLS WOULD BE AUTHORIZED TO LEVY ADDITIONAL TAXES (OTHER THAN SALES OR PROPERTY TAXES) TO COMPLEMENT THEIR OTHER SOURCES OF STATE AND LOCAL FUNDING.
- o DEDICATE THE PROCEEDS OF ½ CENT OF THE STATE SALES TAX AND 2 PERCENT OF THE STATE PERSONAL INCOME TAX TO FINANCE COMMUNITY COLLEGE APPORTIONMENTS. COMMUNITY COLLEGES WOULD ALSO BE GRANTED THE AUTHORITY TO RAISE ADDITIONAL FUNDS THROUGH NEW TAXES.
- o AUTHORIZE A ½ CENT LOCAL OPTION SALES TAX.
- o BROADEN LOCAL HOME RULE BY GIVING CHARTER COUNTIES THE AUTHORITY TO ADOPT CHARTER CITY TYPE STATUS.
- o REQUIRE REIMBURSEMENT OF NEW STATE-MANDATED COSTS, OR THE MANDATE BECOMES PERMISSIVE.
- o REAUTHORIZE GENERAL OBLIGATION BOND FINANCING.

## II. ANALYSIS OF FISCAL ISSUES

WE HAVE BEEN ASKED TO PROVIDE THE COMMITTEE WITH AN ASSESSMENT OF THE FISCAL ISSUES ASSOCIATED WITH THESE PROPOSALS. WHILE IT IS NOT POSSIBLE TO MAKE DEFINITIVE ESTIMATES OF FISCAL IMPACT IN ALL CASES, DUE TO A LACK OF DATA OR A LACK OF SPECIFICITY IN THE PROPOSALS, WE CAN PROVIDE YOU WITH SOME IDEA OF HOW THE PROPOSALS WOULD AFFECT THE STATE.

SCA 23 (AYALA). THIS PROPOSAL WOULD HAVE NO DIRECT FISCAL IMPACT, AS IT MERELY GUARANTEES THAT EXISTING SUBVENTIONS BE PROVIDED. IT DOES RAISE A FISCAL ISSUE, HOWEVER, BECAUSE IT WOULD LIMIT YOUR OPTIONS FOR RESPONDING TO FUTURE STATE REVENUE SHORTFALLS. SHOULD THE STATE FIND ITSELF IN

ANOTHER BUDGETARY CRISIS, YOUR CHOICES WOULD BE LIMITED TO RAISING TAXES, MAKING REDUCTIONS IN SUBVENTIONS FOR HEALTH AND WELFARE OR EDUCATION PROGRAMS, OR REDUCING OTHER STATE PROGRAMS. TO A CERTAIN EXTENT, THIS PROPOSAL INVOLVES A TRADE OFF BETWEEN PROTECTION OF STATE PROGRAMS AND PROTECTION OF LOCAL PROGRAMS, IN THE EVENT OF AN ECONOMIC DOWNTURN. YOU COULD, OF COURSE, STILL REDUCE LOCAL GOVERNMENT DISCRETIONARY REVENUE BY REDISTRIBUTING THE LOCAL PROPERTY TAX, BUT THIS MAY BE ADMINISTRATIVELY DIFFICULT TO ACCOMPLISH.

AB 2100 (FARR). THIS PROPOSAL INVOLVES DRAMATIC COST SHIFTS BETWEEN THE STATE AND THE COUNTIES. THE MEASURE APPEARS TO HAVE A MINIMAL NET FISCAL IMPACT INITIALLY, BUT MAY RESULT IN HIGHER STATE COSTS IN THE LONG RUN. FOR EXAMPLE, BY ELIMINATING THE COUNTY SHARE OF COST FOR CERTAIN HEALTH AND WELFARE PROGRAMS, THE MEASURE WOULD REDUCE THE FISCAL INCENTIVE OF COUNTIES TO ADMINISTER THESE PROGRAMS IN THE MOST COST-EFFECTIVE MANNER. SIMILARLY, IF THE STATE ASSUMES FULL RESPONSIBILITY FOR FUNDING THE TRIAL COURTS, THERE IS A POTENTIAL LONG TERM PROBLEM BECAUSE ISSUES LIKE STAFFING AND SALARY LEVELS MAY NOT BE CONTROLLED BY THE STATE. FURTHER, YOU WOULD INEVITABLY RUN INTO PRESSURE FOR STATEWIDE EQUALIZATION OF STAFFING AND SALARY LEVELS, WHICH COULD BE AN EXPENSIVE PROPOSITION.

ASSEMBLY PREPRINT NO. 4 (ROBINSON). THIS MEASURE RESULTS IN AN OVERALL INCREASE IN TAX COLLECTIONS, AT LEAST IN THE SHORT RUN, AND PROVIDES CITIES AND COUNTIES WITH A SUBSTANTIAL INCREASE IN FUNDS ASSUMING THAT THEY ENACT THE SALES TAX. IN EFFECT, HOWEVER, THE STATE TRADES THE EXISTING SUBVENTIONS FOR STATE SALES TAX REVENUE, AND THIS RAISES THE ISSUE OF THE LONG TERM IMPLICATIONS OF DIFFERING GROWTH RATES FOR THESE SOURCES

OF REVENUE. OUR ANALYSIS OF THE ISSUE INDICATES THAT THE SALES TAX REVENUE CAN BE EXPECTED TO GROW FASTER THAN THE SUBVENTION REVENUES, SO THIS SHIFT IN SOURCES WOULD PROVIDE LOCAL GOVERNMENTS WITH MORE MONEY OVER TIME THAN THEY WOULD HAVE RECEIVED FROM THE SUBVENTIONS. HOW MUCH MORE MONEY WOULD BE TRANSFERRED DEPENDS ON WHAT YOU ASSUME ABOUT THE BUSINESS INVENTORY SUBVENTION. IF YOU ASSUME THAT THE FULL STATUTORY COLA WOULD BE PROVIDED, THEN THE SHIFT MAY BE ONLY \$15 - \$20 MILLION PER YEAR. RECOGNIZING THE HISTORY OF FUNDING FOR THIS COLA, HOWEVER, YOU HAVE TO REGARD THIS ESTIMATE AS A MINIMUM.

ANOTHER ISSUE RELATES TO THE IMPACT ON STATE COSTS AND REVENUES OF THIS ADDITIONAL SALES TAX. BECAUSE THE TAX IS DEDUCTIBLE IN DETERMINING YOUR TAXABLE INCOME, STATE PERSONAL INCOME TAX REVENUES WOULD BE REDUCED BY UP TO \$50 MILLION PER YEAR, ON AN ONGOING BASIS. THIS MEASURE ALSO REDUCES STATE COSTS FOR K-12 APPORTIONMENTS, AS ALMOST \$50 MILLION OF THE NEW SALES TAX MONIES WOULD BE ALLOCATED TO SCHOOL DISTRICTS.

GOVERNOR'S NEW PARTNERSHIP TASK FORCE. THIS PROPOSAL ALSO RAISES THE ISSUE OF SHIFTING REVENUE SOURCES, BUT WITH ANOTHER TWIST. IN ADDITION TO THE REPLACEMENT OF SUBVENTIONS, STATE SALES TAX MONIES WOULD PRESUMABLY REPLACE EXISTING STATE FUNDING FOR THE SO-CALLED "CAPITATED" HEALTH AND WELFARE PROGRAMS. OUR ANALYSIS INDICATES THAT THIS WOULD ALSO RESULT IN A LONG TERM TRANSFER OF STATE FUNDS TO THE COUNTIES, AS THE RATE OF GROWTH IN STATE FUNDING FOR THESE PROGRAMS IS SUBSTANTIALLY LOWER THAN THE RATE OF GROWTH IN THE SALES TAX. THIS RAISES AGAIN THE QUESTION OF PRIORITIES FOR THE USE OF STATE FUNDS. BECAUSE THE PROPOSAL WOULD REQUIRE THE COUNTIES TO SPEND ANY OF THE EXCESS SALES TAX FUNDS FOR THE CAPITATED PROGRAMS, IT IN

EFFECT ASSUMES THAT THESE PROGRAMS HAVE A HIGHER PRIORITY FOR FUNDING THAN ANY ALTERNATIVE USE OF THE FUNDS BY EITHER THE STATE OR LOCAL GOVERNMENTS.

PROJECT INDEPENDENCE. THIS MEASURE REPRESENTS THE MOST DRAMATIC PROPOSAL FOR RESTRUCTURING STATE AND LOCAL FINANCES, AND RAISES MANY OF THE ISSUES ALREADY DISCUSSED. IT WOULD GUARANTEE THAT THE EXISTING STATE SUBVENTIONS BE CONTINUED, AND PRECLUDES THE REDISTRIBUTION OF THE PROPERTY TAX, SO YOU WOULD HAVE NO WAY OF SPREADING THE IMPACT OF SHORTFALLS IN STATE REVENUES TO LOCAL AGENCIES. THE MEASURE WOULD EARMARK ALMOST 60 PERCENT OF GENERAL FUND REVENUE FOR DISTRIBUTION TO COUNTIES, SCHOOLS, AND COMMUNITY COLLEGES, SO YOUR CONTROL OVER HOW THE BULK OF STATE REVENUES ARE EXPENDED WOULD BE SEVERLY RESTRICTED. THIS RAISES THE QUESTION OF WHY THE STATE SHOULD CONTINUE TO BE RESPONSIBLE FOR RAISING THESE REVENUES, BECAUSE IT CERTAINLY WOULD NOT BE DIRECTLY ACCOUNTABLE FOR HOW THEY ARE SPENT.

OVER TIME, THE MEASURE WOULD ALSO RESULT IN A SHIFT OF FUNDS FROM THE STATE TO LOCAL GOVERNMENTS, BECAUSE OF THE DIFFERENCE IN THE GROWTH RATE FOR STATE REVENUES AS OPPOSED TO THE RATE OF GROWTH IN STATE FUNDING FOR THESE PROGRAMS. IRONICALLY, IF YOU WERE FORCED TO RAISE THE INCOME OR SALES TAX TO MAINTAIN STATE SERVICES, LOCAL GOVERNMENTS WOULD BE ALLOCATED A PORTION OF WHAT YOU RAISED, BY VIRTUE OF THE LANGUAGE DEDICATING TO THEM A SPECIFIC PORTION OF THESE TAX PROCEEDS.

### III. ANALYSIS OF POLICY ISSUES

AS YOU CAN SEE, THESE PROPOSALS VARY DRAMATICALLY IN TERMS OF THEIR COMPLEXITY AND THE NUMBER OF PROBLEMS THAT THEY ATTEMPT TO ADDRESS. IN THIS REGARD, IT MIGHT BE HELPFUL TO RUN DOWN THE LIST OF MAJOR PROBLEMS THAT THE LOCAL GOVERNMENT REPRESENTATIVES HAVE ATTRIBUTED TO OUR EXISTING

SYSTEM OF STATE/LOCAL FINANCE, SO THAT WE HAVE A BETTER IDEA OF WHAT THE PROPOSALS MIGHT BE ATTEMPTING TO ACCOMPLISH.

- o LOCAL REVENUES ARE SUBJECT TO EXCESSIVE MANIPULATION BY THE STATE.
- o LOCAL REVENUES ARE INADEQUATE TO ADDRESS LOCAL NEEDS.
- o STATE CONTROL OVER LOCALLY ADMINISTERED PROGRAMS LEADS TO INCREASED STATE REQUIREMENTS WITHOUT COMMENSURATE INCREASES IN STATE FUNDING, AND IMPAIRS THE ABILITY OF LOCAL AGENCIES TO EFFECT ECONOMIES AND EFFICIENCIES.
- o LOCAL SPENDING PRIORITIES CANNOT RECEIVE ADEQUATE ATTENTION, DUE TO THE DEMANDS PLACED ON LOCALLY-RAISED REVENUES BY STATE-MANDATED PROGRAMS.
- o TOO HIGH A PROPORTION OF AVAILABLE RESOURCES IS DEDICATED TO ADMINISTRATIVE ACTIVITIES AS OPPOSED TO ACTUAL SERVICES.
- o LOCAL AGENCIES HAVE INADEQUATE FISCAL INCENTIVE TO ENSURE THAT STATE/COUNTY SHARED PROGRAMS ARE ADMINISTERED AS EFFICIENTLY AS POSSIBLE.
- o COMPETITION BETWEEN STATE AND LOCAL PROGRAMS FOR AVAILABLE RESOURCES LEADS TO THE EROSION OF LOCAL HOME RULE.
- o NEITHER THE STATE NOR LOCAL GOVERNMENTS ARE DIRECTLY RESPONSIBLE FOR THE RESULTS OF MANY PROGRAMS.

THESE PROBLEMS POINT UP TWO BASIC QUESTIONS THAT MUST BE RESOLVED IN DETERMINING HOW YOU WANT TO CHANGE THE SYSTEM.

FIRST, IS THE EXISTING OVERALL LEVEL OF RESOURCES AVAILABLE TO LOCAL AGENCIES ADEQUATE, OR SHOULD IT BE INCREASED, HELD CONSTANT, OR EVEN REDUCED?

AS I MENTIONED A MOMENT AGO, THE PURPOSE OF PROVIDING STATE FUNDING FOR THESE LOCALLY ADMINISTERED PROGRAMS HAS TRADITIONALLY BEEN TO ACHIEVE STATEWIDE OBJECTIVES. THUS, THIS QUESTION REALLY POINTS UP A CLASH IN VIEWPOINTS OVER WHO SHOULD DETERMINE STANDARDS FOR THESE PROGRAMS, AND WHO SHOULD BE RESPONSIBLE FOR FUNDING PROGRAM COSTS. GENERALLY, WHOEVER HAS THE GREATEST CONTROL OVER PROGRAM COSTS SHOULD BEAR THE GREATEST SHARE OF THOSE COSTS. IF YOU ACCEPT THE NOTION THAT THE STATE NEED NO LONGER ASSURE THAT MINIMUM LEVELS OF SERVICE BE PROVIDED, AND THAT COUNTIES SHOULD BE PERMITTED TO DETERMINE HOW MUCH SERVICE TO PROVIDE, THEN IT SEEMS LOGICAL THAT THEY RAISE THE FUNDS TO SUPPORT THOSE SERVICES.

THE ANSWERS TO THESE QUESTIONS WILL IN LARGE PART DETERMINE WHAT GOES INTO ANY PROPOSAL TO CHANGE THE FINANCING OF LOCAL GOVERNMENTS. BASICALLY, THERE ARE THREE TYPES OF CHANGES THAT HAVE BEEN DISCUSSED, AS FOLLOWS:

- o PROGRAM REALIGNMENT, WHERE STATE OR LOCAL RESPONSIBILITIES FOR ADMINISTRATION, FINANCING, OR CONTROL OF SPECIFIC PROGRAMS MAY BE ALTERED. PROGRAM REALIGNMENT MAY WORK TO CONSOLIDATE ADMINISTRATION, FINANCING AND CONTROL OF PROGRAMS, OR IT MAY WORK TO SEPARATE THESE RESPONSIBILITIES.
- o SHIFTING SOURCES OF REVENUE, WHERE EXISTING SOURCES OF LOCAL REVENUE ARE REPLACED BY OTHER SOURCES OF REVENUE, EITHER STATE OR LOCALLY RAISED,
- o INCREASING THE LEVEL OF LOCAL RESOURCES, WHERE THE AMOUNT OF FUNDS TO LOCAL AGENCIES FOR LOCAL PURPOSES IS INCREASED. THIS CAN BE ACCOMPLISHED THROUGH A VARIETY OF METHODS, INCLUDING REDUCTIONS IN THE LOCAL SHARE OF PROGRAM COSTS, INCREASES IN LOCAL REVENUE

WE HAVE SOME PROBLEMS IN TRYING TO ADVISE YOU HOW TO TRY TO ANSWER THIS QUESTION, AS SO MUCH OF THE ANSWER IS DEPENDENT ON YOUR PERSPECTIVE ABOUT HOW MUCH STATE AND LOCAL GOVERNMENT SHOULD BE RESPONSIBLE FOR DOING. IT IS DIFFICULT TO EVEN DETERMINE WHAT KINDS OF DATA MIGHT BE HELPFUL TO YOU IN EVALUATING THE QUESTION. ONE THING IS CLEAR, HOWEVER, AND THAT IS THAT THE NEED FOR ADDITIONAL RESOURCES VARIES DRAMATICALLY FROM ONE LOCAL GOVERNMENT AGENCY TO THE NEXT. SIMPLY STATED, YOU HAVE AGENCIES IN THIS STATE SITTING ON SIGNIFICANT BUDGET SURPLUSES, WHILE OTHERS ARE FACING SEVERE FISCAL PROBLEMS. AT PRESENT, WE SIMPLY DON'T HAVE THE KNOWLEDGE OR THE DATA THAT WOULD ENABLE US TO DESIGN A SYSTEM OF FINANCING OR A SET OF FORMULAS THAT COULD COMPENSATE FOR THE DIFFERENCES IN LOCAL NEEDS.

PERHAPS MORE GERMANE TO THE DISCUSSION IS THE QUESTION OF HOW MUCH OF THE NEED FOR RESOURCES SHOULD BE SATISFIED BY THE STATE, AND HOW MUCH SHOULD LOCAL AGENCIES BE REQUIRED TO RAISE FOR THEMSELVES. THIS DEPENDS IN LARGE PART ON WHAT NEEDS THE MONEY IS INTENDED TO ADDRESS. THE STATE HAS TRADITIONALLY PROVIDED MONEY TO LOCAL AGENCIES AS A MEANS OF ACHIEVING STATEWIDE OBJECTIVES, LEAVING LOCAL AGENCIES TO THEIR OWN SOURCES TO SATISFY LOCAL OBJECTIVES. MANY OF THE PROPOSALS INCREASE THE LEVEL OF STATE AID, BUT NO INCREASE IN THE ACHIEVEMENT OF STATEWIDE OBJECTIVES CAN BE ATTRIBUTED TO THEM. IN SUCH CASES, YOU HAVE TO ASK HOW THIS INCREASED STATE AID CAN BE JUSTIFIED, WHEN OTHER POTENTIAL STATEWIDE USES OF THE FUNDS CAN DEMONSTRATE STATEWIDE BENEFITS.

SECOND, IS STATE CONTROL OF LOCALLY ADMINISTERED PROGRAMS (SUCH AS MENTAL HEALTH, ALCOHOL AND DRUG ABUSE, AND FOSTER CARE) NECESSARY TO ENSURE THE PROVISION OF AN ACCEPTABLE LEVEL OF SERVICES TO THE PROGRAM BENEFICIARIES?

RAISING AUTHORITY, AND INCREASED STATE AID. AS WE DISCUSSED, A SHIFT IN SOURCES OF REVENUE MAY ALSO RESULT IN INCREASING THE LEVEL OF LOCAL RESOURCES, AS THE GROWTH RATES OF THE SOURCES SHIFTED MAY DIFFER.

AS I MENTIONED, THERE ARE A NUMBER OF DIFFERENT WAYS TO PURSUE EACH OF THESE TYPES OF CHANGES. HOWEVER, WE THINK THAT ANY OF THESE PROPOSALS WHICH YOU CONSIDER SHOULD BE EVALUATED IN THE LIGHT OF CERTAIN VERY SPECIFIC CRITERIA. THESE CRITERIA, WHICH ARE ALL TO SOME EXTENT INTERRELATED, SHOULD HELP YOU TO DETERMINE WHETHER SPECIFIC PROPOSALS REPRESENT AN IMPROVEMENT OVER THE CURRENT SYSTEM, PROVIDE NO ADVANTAGE OVER THE CURRENT SYSTEM, OR ARE ACTUALLY LESS DESIRABLE THAN THE CURRENT SYSTEM.

ACCOUNTABILITY. WOULD THE PROPOSAL INCREASE THE LEVEL OF STATE OR LOCAL GOVERNMENT ACCOUNTABILITY FOR PROGRAM COSTS AND BENEFITS? PROPOSALS WHICH CONSOLIDATE THE ADMINISTRATION, FUNDING, AND DETERMINATION OF SERVICE LEVELS FOR STATE/COUNTY SHARED PROGRAMS TEND TO INCREASE ACCOUNTABILITY. FURTHER, PROPOSALS WHICH VEST FULL RESPONSIBILITY FOR FUNDING A PROGRAM WITH THE STATE, BUT REQUIRE THE LOCALS TO ADMINISTER THE PROGRAM TEND TO DIMINISH THE LEVEL OF ACCOUNTABILITY. ULTIMATELY, A HIGH LEVEL OF ACCOUNTABILITY REQUIRES THAT THE ENTITY WHO DECIDES HOW THE MONEY IS SPENT ALSO BE THE ENTITY WHICH ACTUALLY SPENDS AND RAISES THE MONEY.

FOR EXAMPLE, A PROPOSAL TO HAVE THE STATE FULLY FUND THE COSTS OF FOSTER CARE PROGRAMS, BUT HAVE COUNTIES ADMINISTER THEM, WOULD TEND TO REDUCE ACCOUNTABILITY. WHILE THE STATE WOULD BE RESPONSIBLE FOR FUNDING THE ENTIRE PROGRAM, IT WOULD NOT BE DIRECTLY ACCOUNTABLE FOR THE COSTS AND BENEFITS OF THE PROGRAM BECAUSE IT WOULD NOT BE PROVIDING THE SERVICE. THE

COUNTIES WOULD NOT BE DIRECTLY ACCOUNTABLE, EITHER, BECAUSE THE PROGRAM DECISIONS WOULD CONTINUE TO BE MADE AT THE STATE LEVEL.

INCENTIVES TO MANAGE RESOURCES EFFICIENTLY. DOES THE PROPOSAL INCREASE OR DECREASE THE INCENTIVES OF THE STATE AND/OR LOCAL AGENCIES TO MANAGE RESOURCES EFFICIENTLY? OUR REVIEW OF MANY OF THE SHARED STATE/LOCAL PROGRAMS INDICATES THAT LOCAL AGENCIES GENERALLY MUST HAVE A SIGNIFICANT STAKE IN THE COST OF THESE PROGRAMS FOR COST EFFECTIVE LOCAL PROGRAM ADMINISTRATION TO BE OBTAINED. PROPOSALS WHICH WOULD ELIMINATE THE COUNTY SHARE OF COST FOR PROGRAMS THAT ARE ADMINISTERED LOCALLY TEND TO DECREASE THE COUNTY'S INCENTIVES TO MANAGE EFFICIENTLY. PROPOSALS WHICH WOULD TURN OVER BOTH FUNDING AND PROGRAM CONTROL TO THE COUNTIES TEND TO INCREASE THESE INCENTIVES. FOR EXAMPLE, A RECENT REVIEW OF THE STATE-ONLY AFDC-U PROGRAM FOUND THAT COUNTIES HAD INCORRECTLY CLASSIFIED A SUBSTANTIAL NUMBER OF CASES AS INELIGIBLE FOR FEDERAL ASSISTANCE. IT WAS NOT UNTIL THE STATE LIMITED AID FOR THESE RECIPIENTS TO A THREE-MONTH PERIOD, LEAVING COUNTIES FACED WITH THE PROSPECT OF PROVIDING GENERAL RELIEF AT 100 PERCENT COUNTY COST, THAT COUNTIES BEGAN REEVALUATING THE ELIGIBILITY OF THESE INDIVIDUALS. AS IT TURNED OUT, ABOUT 65 PERCENT OF THE AFFECTED AFDC-U RECIPIENTS WERE SUBSEQUENTLY FOUND ELIGIBLE FOR FEDERAL ASSISTANCE.

ABILITY TO EFFECT EFFICIENCIES AND ECONOMIES. DOES THE PROPOSAL INCREASE THE ABILITY OF LOCAL AGENCIES TO EFFECT ECONOMIES AND EFFICIENCIES IN ADMINISTERING PROGRAMS AND DELIVERING SERVICES? IN MANY CASES WE HAVE FOUND THAT STATE IMPOSED PROGRAM REQUIREMENTS ACTUALLY PRECLUDE COUNTIES FROM MAKING CHANGES IN ADMINISTRATIVE PRACTICES--CHANGES WHICH COULD LEAD TO COST SAVINGS FOR BOTH THE STATE AND LOCAL GOVERNMENTS WITHOUT EFFECTING

PROGRAM BENEFICIARIES. PROPOSALS WHICH REDUCE OR ELIMINATE THE STATE'S AUTHORITY OVER SPECIFIC PROGRAMS OBVIOUSLY INCREASE THE ABILITY OF COUNTIES TO MAKE THESE KINDS OF CHANGES.

ABILITY TO SET PRIORITIES. DOES THE PROPOSAL INCREASE THE ABILITY OF LOCAL AGENCIES TO SET PRIORITIES AND ADDRESS LOCAL NEEDS? MOST OF THE PROPOSALS BEFORE YOU AT THIS TIME PROVIDE FOR GREATER LOCAL REVENUE RAISING AUTHORITY, AS WELL AS GREATER LEVELS OF STATE FUNDING. OBVIOUSLY, ADDITIONAL FUNDING INCREASES THE ABILITY OF LOCAL AGENCIES TO ADDRESS LOCAL NEEDS. ANOTHER WAY TO INCREASE LOCAL AGENCIES ABILITY TO SET PRIORITIES IS TO INCREASE THEIR CONTROL OVER HOW MUCH THEY HAVE TO SPEND FOR EXISTING STATE-MANDATED OR CONTROLLED PROGRAMS.

FLEXIBILITY. IS THE PROPOSAL FLEXIBLE? THAT IS, CAN IT BE ALTERED RELATIVELY EASILY TO REFLECT SUBSEQUENT CHANGES THAT MIGHT OCCUR IN THE ECONOMY, STATE OR LOCAL FISCAL NEEDS, THE POLITICAL CLIMATE, OR EVEN JUST TO INCORPORATE NEW OR BETTER IDEAS. THIS IS MORE A PHILOSOPHICAL QUESTION THAN A PRACTICAL ONE. LOCAL AGENCIES ARE CONCERNED WITH STABILITY AND PREDICTABILITY, CONCEPTS WHICH COULD ALSO IMPLY RIGIDITY. GIVEN THE OLD SAYING THAT THE ONLY PREDICTABLE THING IN LIFE IS THAT THINGS KEEP CHANGING, YOU MAY WISH TO CONSIDER WHETHER OR NOT IT IS DESIRABLE TO LIMIT YOUR OPTIONS FOR THE FUTURE. FOR EXAMPLE, GIVEN THE LIKELIHOOD OF FUTURE DOWNTURNS IN THE ECONOMY, YOU COULD BE IN A POSITION WHERE THE OVERALL LEVEL OF STATE REVENUES IS INADEQUATE TO SUPPORT STATE PROGRAMS, AT LEAST ON A SHORT TERM BASIS. IN SUCH CASES, YOU HAVE TRADITIONALLY FACED A TRADE OFF BETWEEN STATE AND LOCAL PROGRAM NEEDS, AND ALTERED YOUR FUNDING ARRANGEMENTS TO REFLECT STATEWIDE PRIORITIES. THIS HAS MEANT REDUCED STATE

SUPPORT FOR LOCAL PROGRAMS, BUT IT HAS ALSO MEANT THAT STATE PROGRAMS WERE CUT LESS THAN THEY MIGHT OTHERWISE HAVE BEEN. AGAIN, BECAUSE YOU WERE RESPONSIBLE FOR RAISING THE FUNDS, YOU HAD TO BE ABLE TO JUSTIFY HOW YOU USED THE AVAILABLE FUNDS.