

ORANGE COUNTY BOARD OF SUPERVISORS' LEGISLATIVE SEMINAR

OCTOBER 22, 1984

LEGISLATIVE ANALYST

STATE OF CALIFORNIA

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SACRAMENTO, CALIFORNIA 95814

SPEECH TO THE ORANGE COUNTY
BOARD OF SUPERVISORS' LEGISLATIVE SEMINAR

OCTOBER 22, 1984

I. INTRODUCTION

A. ICE BREAKERB. PURPOSE OF MY REMARKS

1. FISCAL OUTLOOK FOR 1985-86.
2. COMMENTS ON A COUPLE OF SPECIFIC ISSUES THAT THE STATE AND COUNTIES HAVE A MUTUAL INTEREST IN.

C. CAVEAT

1. EVERYTHING I SAY THIS MORNING COULD TURN OUT TO BE AS RELEVANT AS THE PITCHING ROTATION THAT JIM FREY, MANAGER OF THE CHICAGO CUBS, PUT TOGETHER FOR THE WORLD SERIES.
2. THAT'S BECAUSE THERE'S THIS MEASURE ON THE NOVEMBER 6TH BALLOT WHICH COULD MOOT EVERYTHING I'M ABOUT TO TELL YOU.
3. SO IF PROPOSITION 36 IS APPROVED ON THE 6TH, I SUGGEST THAT YOU BEGIN YOUR DAY ON THE 7TH BY THROWING AWAY YOUR NOTES FROM THIS SESSION.

--LET ME BEGIN WITH A LITTLE BACKGROUND--

II. BACKGROUNDA. 1984 IN PERSPECTIVE

1. IT SEEMS TO ME THAT COUNTY GOVERNMENTS DID PRETTY WELL DURING THE RECENTLY-CONCLUDED SESSION OF THE LEGISLATURE.

- A. YOU FINALLY GOT RID OF THE DREADED DEFLATOR WHICH, ALTHOUGH IT NEVER WAS ACTIVATED, PUT YOU AT A TACTICAL DISADVANTAGE IN PROTECTING YOUR FISCAL INTERESTS BEFORE THE LEGISLATURE.
 - B. YOU ALSO PUT STATE SUBVENTIONS ON A MORE RATIONAL FOOTING BY TRADING THE BUSINESS INVENTORY SUBVENTION FOR MORE VLF MONEY.
 - C. THIS TRADE, MOREOVER, HAS LEFT YOU WITH MORE MONEY THAN YOU OTHERWISE WOULD HAVE RECEIVED--\$129 MILLION MORE FOR ALL 55 COUNTIES THIS YEAR, AND \$850 MILLION NEXT YEAR.
2. YOU ALSO GOT WHAT I THINK ARE PRETTY REASONABLE COST-OF-LIVING ADJUSTMENTS TO THE AMOUNTS THE STATE PROVIDES IN SUPPORT OF COUNTY-RUN PROGRAMS.

B. SIGNIFICANCE OF THESE CHANGES

1. WHEN THE GOVERNOR'S PROPOSALS FOR STABILIZING LOCAL GOVERNMENT FINANCING WERE FIRST SUBMITTED TO THE LEGISLATURE, I STATED THAT:
 - A. THESE CHANGES WOULD BRING ABOUT ONLY A MODEST IMPROVEMENT IN THE COUNTIES' FISCAL STABILITY.
 - B. "TACTICAL, BUT NOT STRATEGIC IMPROVEMENTS" IS HOW I CHARACTERIZED THEM.
2. I AM STILL OF THIS MIND.
3. NO ONE IN THIS ROOM SHOULD BELIEVE FOR ONE MOMENT THAT:
 - A. YOUR REVENUES HAVE BEEN STABILIZED;

(1) THEY SIMPLY CAN NEVER BE MORE STABLE THAN THE ECONOMY THAT YIELDS THEM, AND

(2) WE'RE A LONG WAY FROM MASTERING THE EBBS AND FLOWS OF ECONOMIC ACTIVITY.

B. YOUR SUBVENTIONS FROM THE STATE WILL NOW COME IN A TAMPER-PROOF CONTAINER:

-- AS YOU ALL KNOW, THE LEGISLATURE DOES NOT NEED A DEFLATOR TO DEFLATE THE AMOUNT OF STATE AID GOING TO LOCAL GOVERNMENTS.

4. I SAY THIS:

A. NOT TO BELITTLE THE CHANGES ENACTED IN 1984--THEY ARE SIGNIFICANT;

B. BUT RATHER TO KEEP THEM IN PERSPECTIVE.

5. FRANKLY, I DON'T THINK IT IS POSSIBLE TO INVITE LANGUAGE THAT WILL GUARANTEE STABILITY FOR COUNTY REVENUES.

-- WITH THIS AS BACKGROUND, LET ME NOW TURN TO THREE ISSUES THAT HAVE AND WILL CONTINUE TO RECEIVE A LOT OF ATTENTION IN SACRAMENTO --

III. BUDGET OVERVIEW

A. 1984-85

1. THE STATE'S GENERAL FUND TODAY IS IN THE BEST SHAPE IT HAS BEEN IN SINCE FISCAL YEAR 1977-78.

2. THE RED INK OF 1983 HAS BEEN REPLACED WITH WHAT YOU MAY CHARACTERIZE AS A "SURPLUS" (BUT I WON'T) AMOUNTING TO \$664 MILLION.

3. WE ESTIMATE THAT THIS UNCOMMITTED BALANCE WILL GROW TO APPROXIMATELY \$1.2 BILLION BY JUNE 30, 1985.
4. THIS GROWTH IS INDICATIVE OF A HEALTHY MARGIN OF REVENUES OVER EXPENDITURES.
5. WHAT IS PARTICULARLY NOTEWORTHY IS THAT THE STATE'S RESERVE GREW AT THE SAME TIME SPENDING WAS GROWING BY 14 PERCENT!
6. SIGNIFICANCE OF THE UNCOMMITTED BALANCE:
 - A. AS I NOTED A MOMENT AGO, I DO NOT CONSIDER THE \$1.2 BILLION THAT WE'RE PROJECTING TO BE UNCOMMITTED AT THE END OF THIS YEAR TO BE A "SURPLUS".
 - B. "SURPLUS", TO ME, SIGNIFIES "EXCESS" OR "UNNEEDED".
 - C. AND I CAN ASSURE YOU THAT JUST AS SURE AS THERE IS A FEDERAL RESERVE SYSTEM AND A U.S. CONGRESS, THERE IS A NEED FOR STATE GOVERNMENT TO HOLD FUNDS IN RESERVE.
 - D. IF WE LEARNED ANYTHING DURING THE DIFFICULT DAYS OF 1982 AND 1983, THE STATE MUST HAVE SOME BREATHING ROOM WHEN REVENUES UNEXPECTEDLY TAKE A TURN FOR THE WORSE.
 - E. THE RESERVE GIVES IT THAT BREATHING ROOM, AND THUS PROTECTS ALL OF THOSE WHO DEPEND ON STATE GOVERNMENT FOR A PORTION OF THEIR INCOME--INCLUDING ORANGE COUNTY--FROM DISRUPTIVE CHANGES IN FUNDING LEVELS.
7. SOME MAY ARGUE THAT \$1.2 BILLION IS MORE INSURANCE AGAINST A REVENUE SHORTFALL THAN WE NEED.
 - A. THAT MAY BE;
 - B. I, HOWEVER, AM NOT ONE OF THOSE WHO THINKS SO.

C. \$1.2 BILLION WORKS OUT TO ABOUT 4.7 PERCENT OF GENERAL FUND EXPENDITURES.

D. IN CONTRAST, THE LAST RECESSION REDUCED REVENUES BY 11 PERCENT.

B. 1985-86

1. WHAT'S THE OUTLOOK FOR 1985-86?
2. IF THE ECONOMY STAYS HEALTHY, AND FORGETTING ABOUT THE MEASURES ON THE NOVEMBER BALLOT FOR THE MOMENT, THE UPCOMING FISCAL YEAR SHOULD BE ANOTHER GOOD ONE.
3. AS AN ORDER OF MAGNITUDE, I CAN SEE REVENUES IN 1985-86 GROWING TO A LEVEL THAT IS \$1 BILLION ABOVE WHAT IT WOULD COST TO MAINTAIN THIS YEAR'S LEVEL OF SERVICES NEXT YEAR.
4. THIS, THEN, IS WHAT WOULD BE AVAILABLE TO FUND NEW PROGRAMS, EXPAND EXISTING PROGRAMS, AND PROVIDE FURTHER TAX RELIEF.

IV. ISSUES OF IMPORTANCE TO LOCAL GOVERNMENT

A. "INFRASTRUCTURE"

1. DOING SOMETHING TO UPGRADE CALIFORNIA'S INFRASTRUCTURE IS AN OBJECTIVE THAT APPEARS TO COMMAND WIDE-SPREAD SUPPORT IN SACRAMENTO.
2. IT MAY BE THE ONE GOAL THAT BOTH HOUSES OF THE LEGISLATURE, BOTH PARTY CAUCUSES, AND ALL BRANCHES OF GOVERNMENT SUPPORT.
3. DURING 1984, THE LEGISLATURE ENACTED TWO BILLS THAT WILL HELP YOU PROVIDE THE PUBLIC FACILITIES THAT ARE NEEDED IN ORDER TO PROVIDE SERVICES TO THE PUBLIC.

- A. FIRST, IT PLACED ON THE JUNE 1986 BALLOT AN AMENDMENT TO THE STATE CONSTITUTION THAT WOULD REOPEN THE GENERAL OBLIGATION BOND MARKET TO LOCAL GOVERNMENT.
- (1) THIS MEASURE WOULD ALLOW LOCAL GOVERNMENTS TO INCREASE PROPERTY TAX RATES ABOVE THE 1 PERCENT LIMIT ESTABLISHED BY PROPOSITION 13 IN ORDER TO PAY OFF VOTER-APPROVED GENERAL OBLIGATION BONDS.
 - (2) A SIMILAR MEASURE APPEARED AS PROPOSITION 4 ON THE NOVEMBER 1980 BALLOT--AND IT WENT DOWN IN FLAMES.
 - (3) PERSONALLY, I THINK SUCH A CHANGE IN OUR CONSTITUTION IS ESSENTIAL.
 - (4) THE PROBLEM IT RAN INTO IN 1980, HOWEVER, MAY PLAGUE IT IN 1986 AS WELL: THE CHARGE THAT IT IS "TAMPERING WITH PROPOSITION 13".
 - (5) BETWEEN NOW AND JUNE 1986, WE NEED TO FIND A WAY OF RECONCILING AN EXCEPTION TO THE 1 PERCENT TAX RATE LIMIT WITH PROPOSITION 13'S PRINCIPAL THRUST.
 - (6) I THINK THIS CAN BE DONE; IN FACT, I THINK THE "EXCEPTION" IS MORE IN KEEPING WITH THE "SPIRIT OF 13" THAN THE CURRENT POLICY OF FINANCING LOCAL FACILITIES.
 - (A) THE CURRENT PRACTICE EITHER SHIFTS THE FUNDING RESPONSIBILITY TO THE STATE LEVEL, WHERE IT IS LESS SUBJECT TO VOTER CONTROL

- OR -

(B) NECESSITATES THE USE OF CREATIVE FINANCING TECHNIQUES THAT CONCEAL THE TRANSACTION FROM VOTER SCRUTINY.

(7) SOMEONE OUGHT TO TRY AND CONVINCE HOWARD JARVIS OF THIS.

B. SECOND, THE LEGISLATURE IN 1984 MADE IT EASIER TO USE THE MELLO-ROOS COMMUNITY FACILITIES ACT AS A MEANS OF FINANCING INFRASTRUCTURE.

4. OTHER APPROACHES TO FINANCING INFRASTRUCTURE:

A. I DOUBT THAT THE ENACTMENT OF THESE TWO BILLS WILL KEEP "INFRASTRUCTURE" OFF THE COUNTY'S AGENDA.

B. AT THIS POINT, IT SEEMS AS THOUGH THERE ARE TWO DIFFERENT ROUTES THAT THE LEGISLATURE CAN TAKE:

(1) ONE ROUTE FOLLOWS THE DIRECTION SET BY THE LEGISLATURE IN 1984. ITS DESTINATION IS A SYSTEM THROUGH WHICH LOCAL GOVERNMENTS ARE ABLE TO FINANCE NEEDED INFRASTRUCTURE THEMSELVES.

(A) THE NEXT BIG STEP ALONG THIS ROUTE MIGHT BE TO HAVE THE STATE CONSOLIDATE THE DEBT OFFERING OF LOCAL GOVERNMENTS AND ISSUE ITS OWN INSTRUMENTS ON THEIR BEHALF.

(1) THIS WOULD REDUCE LOCAL BORROWING COSTS BY TAPPING THE ECONOMIES THAT GO WITH LARGE ISSUES.

- (II) IT WOULD, HOWEVER, LEAVE RESPONSIBILITY FOR PAYING OFF THE DEBT WITH THOSE ENTITIES BENEFITTING DIRECTLY FROM THE PUBLIC FACILITIES.
- (B) AN ALTERNATIVE STEP WOULD BE TO FACILITATE THE CREATION OF SPECIAL PURPOSE DEVELOPMENT OR REDEVELOPMENT DISTRICTS.
 - (I) PERSONALLY, I'M NOT IN FAVOR OF THIS ALTERNATIVE, SINCE IT WOULD
 - (II) FURTHER FRAGMENT LOCAL GOVERNMENT, AND
 - (III) PROLIFERATE THE PROBLEMS THAT NOW RESULT FROM THE ACTIVITIES OF REDEVELOPMENT AGENCIES.
- (2) THE OTHER ROUTE THAT THE LEGISLATURE MIGHT CHOOSE TO FOLLOW IS ILLUSTRATED BY ASSEMBLYMAN ROOS' BILL.
 - (A) THIS BILL WOULD MAKE GREATER RELIANCE ON STATE TAX RESOURCES TO FINANCE LOCAL PUBLIC FACILITIES.
 - (B) EXCEPT IN THE CASE OF MULTI-COUNTY FACILITIES, SUCH AS MASS TRANSIT, FLOOD CONTROL, HIGHWAYS, WASTE TREATMENT AND THE LIKE, I DON'T SEE THIS AS THE WAY TO GO.
 - (C) I SUSPECT THAT THOSE OF YOU WHO SUPPORTED PROJECT INDEPENDENCE DON'T WANT TO SEE THIS HAPPEN EITHER.

B. REIMBURSEMENT OF MANDATED COSTS

1. THE SECOND ISSUE THAT I SEE OCCUPYING A LOT OF OUR TIME NEXT YEAR IS THE REIMBURSEMENT-OF-MANDATED-COSTS-ISSUE.
2. AS YOU MAY KNOW, THE OLD SYSTEM FOR CONSIDERING MANDATED COSTS ISSUES HAS BEEN REPLACED WITH A NEW SYSTEM.
 - A. STARTING JANUARY 1, CLAIMS FOR REIMBURSEMENT WILL GO TO A NEW COMMISSION ON STATE MANDATES, WHICH WILL RECEIVE, REVIEW, AND MAKE FINDINGS ON LOCAL AGENCY CLAIMS; THE BOARD OF CONTROL WILL NO LONGER CONSIDER THESE CLAIMS.
 - B. THE COMMISSION, MOREOVER, WILL BE ABLE TO SATISFY ABOUT 70 PERCENT OF THE CLAIMS THAT COME IN WITHOUT HAVING TO PUSH A BILL THROUGH THE LEGISLATURE.
3. I THINK THIS NEW SYSTEM IS IN BOTH THE STATE'S AND THE COUNTIES' BEST INTERESTS.
 - A. THE STATE WILL BE IN A BETTER POSITION TO DEFEND ITSELF AGAINST UNREASONABLE CLAIMS.
 - B. THE COUNTIES WILL FIND IT EASIER TO SECURE REIMBURSEMENT FOR BONA FIDE MANDATES, AND WILL IN MANY CASES AVOID THE COST OF LITIGATION.
4. WHETHER IT LIVES UP TO ITS POTENTIAL, HOWEVER, ULTIMATELY WILL DEPEND ON THE REASONABLENESS OF THE CLAIMANTS (THAT'S YOU) AND THE PAYORS (THAT'S THE LEGISLATURE).
5. THE LEGISLATURE, FOR EXAMPLE, WILL HAVE TO DO A BETTER JOB OF ACCEPTING RESPONSIBILITY FOR THE MANDATES IT IMPOSES.

- A. TOO OFTEN, IT SEEKS TO IGNORE THE MANDATORY NATURE OF THE POLICIES IT SETS (A CLASSIC CASE IN POINT IS THE BINDING ARBITRATION BILL).
- B. IT ALSO TOO OFTEN SHIRKS THE FINANCIAL RESPONSIBILITY FOR THE DUTIES IT IMPOSES ON LOCAL GOVERNMENTS, BY SAYING THAT "THEY SHOULD HAVE BEEN DOING IT ALL ALONG".
6. LOCAL GOVERNMENTS, HOWEVER, ALSO NEED TO BE MORE REASONABLE IN WHAT THEY SEEK REIMBURSEMENT FOR.
7. IN THIS REGARD, I'VE JUST GOTTA MENTION THE BLUNDER THAT YOUR NEIGHBORS TO THE NORTH, IN CONCERT WITH THE CITY OF SACRAMENTO, COMMITTED EARLIER THIS YEAR.
 - A. TOGETHER, THEY HAVE SOLD THE STATE COURTS ON A DEFINITION OF "MANDATE" THAT, FROM THEIR STANDPOINT AND OURS, COULDN'T BE WORSE.
 - B. AS YOU KNOW, IN 1978 THE LEGISLATURE PASSED A LAW REQUIRING LOCAL GOVERNMENTS TO PROVIDE UNEMPLOYMENT INSURANCE BENEFITS TO THEIR EMPLOYEES.
 - C. THUS, USING A LITERAL DEFINITION, THE LAW CONSTITUTES A MANDATE, FOR WHICH THE STATE IS LIABLE.
 - D. THE STATE ARGUED THAT, AS A PRACTICAL MATTER, IT WAS THE FEDERAL GOVERNMENT THAT MANDATED COVERAGE, SINCE HAD THE STATE NOT ACTED, CALIFORNIA EMPLOYERS WOULD HAVE BEEN HIT BY A \$2 BILLION TAX BILL.
 - E. THE PLAINTIFFS SEIZED ON THIS POINT AS PROOF THAT THE STATE, RATHER THAN THE FEDERAL GOVERNMENT, WAS RESPONSIBLE FOR THE MANDATE:

- (1) THE STATE COULD HAVE CHOSEN NOT TO REQUIRE COVERAGE;
- (2) THE FACT THAT SUCH A CHOICE WOULD COST THE STATE \$2 BILLION PER YEAR IS IMMATERIAL.

F. THUS, THANKS TO LOS ANGELES COUNTY AND THE CITY OF SACRAMENTO, THE STATE CAN DISCLAIM RESPONSIBILITY FOR ANY COSTS IMPOSED ON A LOCAL GOVERNMENT SO LONG AS THE LOCALITY CAN CHOOSE NOT TO COMPLY.

G. FOR EXAMPLE, IF THE LEGISLATURE WERE TO PASS A LAW LIMITING VLF SUBVENTIONS TO ONLY THOSE COUNTIES THAT VOLUNTARILY CHOSE TO PROVIDE FOR BINDING ARBITRATION, THERE WOULD BE NO MANDATE?!

H. THAT'S RIDICULOUS.

8. IT IS THIS KIND OF UNREASONABLENESS THAT THREATENS TO UNDERMINE WHAT I THINK IS A VITAL PRINCIPLE OF GOVERNMENT: THE UNIT OF GOVERNMENT THAT DECIDES WHAT IS GOOD PUBLIC POLICY OUGHT TO BACK ITS DECISION WITH MONEY AND NOT STICK SOME OTHER UNIT OF GOVERNMENT WITH THE TAB.

9. ANYWAY, HAVING STRENGTHENED THE CLAIMS REIMBURSEMENT PROCESS, IT SEEMS TO ME THAT THE NEXT STEP SHOULD BE SIMPLY THE MECHANISM FOR PROVIDING REIMBURSEMENT.

A. ONE ELEMENT OF THIS IS TO REIMBURSE AS MANY MANDATES AS WE CAN ON A FORMULA BASIS.

B. THIS WOULD AVOID ALL OF THE DEAD WEIGHT COSTS THAT ARE INCURRED IN PREPARING AND PROCESSING INDIVIDUAL CLAIMS FOR REIMBURSEMENT.

C. HERE AGAIN, BOTH THE STATE AND THE COUNTIES SHOULD COME OUT AHEAD.

C. LOCAL GOVERNMENT FINANCE

1. AS I SEE IT, THERE ARE TWO KEY PIECES OF UNFINISHED BUSINESS LEFT ON THE LOCAL GOVERNMENT FINANCE AGENDA:

A. TAXING AUTHORITY, AND

B. PROGRAM REALIGNMENT.

2. TAXING AUTHORITY

A. REGARDING THE FORMER, I CONTINUE TO BELIEVE THAT WE CANNOT HAVE ACCOUNTABILITY AT THE LOCAL LEVEL UNTIL BOARDS OF SUPERVISORS AND CITY COUNCILS HAVE SOME SIGNIFICANT SAY IN HOW MUCH MONEY THEY HAVE TO SPEND.

(1) THUS, I FAVOR EXTENDING LIMITED TAXING POWER TO CITIES AND COUNTIES.

(2) IF YOU WANT TO MAKE SUCH TAXING POWER SUBJECT TO VOTER APPROVAL, THAT'S OKAY WITH ME.

(3) IT MAKES NO SENSE, HOWEVER, TO PREVENT A LOCALITY FROM TAXING ITSELF MORE HEAVILY TO INCREASE THE LEVEL OR QUALITY OF SERVICES AVAILABLE IN THAT LOCALITY.

B. SECONDLY, THERE IS STILL MUCH TO BE DONE IN RATIONALIZING THE RESPONSIBILITIES THAT THE STATE AND COUNTIES SHARE IN NUMEROUS PROGRAM AREAS.

V. CONCLUDING REMARKS

A. AS I HINTED AT THE OUTSET OF MY REMARKS, IF PROPOSITION 36 IS APPROVED BY THE VOTERS 15 DAYS FROM NOW, I DOUBT THAT WE'LL BE SPENDING MUCH TIME TALKING ABOUT PROGRAM REALIGNMENTS, TAXING AUTHORITIES, MANDATE REIMBURSEMENTS, OR INFRASTRUCTURE.

B. THE CHALLENGE OF IMPLEMENTING PROPOSITION 36 WILL SWEEP EVERYTHING ELSE ASIDE.

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