

Proposition 172— How Did it Affect Spending for Public Safety?

SUMMARY

On November 2, 1993, California voters enacted Proposition 172, which established a permanent statewide half-cent sales tax for support of local public safety functions in cities and counties. This measure was placed before the voters by the Legislature and the Governor as partial mitigation for the property tax transfers included in the 1993-94 state budget agreement. Currently, the Legislature is considering several maintenance of effort (MOE) requirements for Proposition 172 expenditures for public safety, including AB 3746 and AB 142X (both Mountjoy) and AB 2788 (W. Brown).

This Policy Brief reviews how counties—the primary beneficiaries of Proposition 172—have budgeted these new funds in 1993-94 and assesses the impact of public safety MOE requirements on county budgets. We present the following findings:

- ❖ Survey data show that counties will spend approximately \$5 billion statewide for public safety functions in 1993-94, an increase of about \$100 million over the 1992-93 level of spending.
- ❖ We estimate that enactment of Proposition 172 prevented 1993-94 reductions in county expenditures for public safety totaling roughly \$700 million statewide.
- ❖ Assembly Bills 3746 and 142X would result in large, immediate, and ongoing expenditure reductions for nonpublic safety programs in most counties, roughly on the order of \$1.4 billion statewide.
- ❖ Any MOE requirement reduces local discretion to tailor the mix of services at the local level to meet local needs and reduces the accountability of local officials. This would be especially true over time as county fiscal conditions continue to erode.

INTRODUCTION

By approving Proposition 172 at the November 1993 statewide special election, California voters established a permanent statewide half-cent sales tax for support of local public safety activities. Proposition 172 was placed on the ballot by the Legislature and the Governor to partially replace the \$2.6 billion in property taxes shifted from local agencies to local school districts as part of the 1993-94 state budget agreement.

Currently, there is a widespread and escalating debate concerning the underlying purpose of Proposition 172. This debate centers on the issue of whether or not Proposition 172 funds were intended to supplement previous levels of local support for local public safety services. Assembly Bills 2788 (W. Brown) and 3746 and AB 142X (both Mountjoy), currently pending before the Legislature, would generally require that counties and cities fund local public safety services at prior-year levels in order to receive Proposition 172 funds. These requirements are usually referred to as "maintenance of effort" requirements, or MOEs.

The purpose of this Policy Brief is to review how counties have budgeted Proposition 172 funds in 1993-94, and to offer our conclusions concerning the potential impact of public safety MOEs on local budgets and services. This review focuses on county governments, because roughly 94 percent of Proposition 172 revenue is allocated to counties.

BACKGROUND

The 1993-94 budget agreement transferred \$2.6 billion of local government property tax revenue to K-14 school districts in 1993-94. This transfer reduced the state's costs for school apportionments by a corresponding amount. The allocation of the 1993-94 transfer by type of local jurisdiction is summarized in Figure 1. As the figure shows, counties account for over \$2 billion of the total. The 1993-94 transfer was in addition to a similar \$1.3 billion transfer which was part of the 1992-93 budget agreement. As a result, after adjusting for transfers which were temporary, local government jurisdictions in California will receive \$3.7 billion less in annual property tax allocations on an

ongoing basis than they did prior to 1992-93. Of this permanent transfer, \$2.5 billion—or nearly 70 percent—comes from counties.

Figure 1 also shows that the 1993-94 transfer was offset partially by increased allocations of sales tax revenues and vehicle license fees. Under the provisions of SB 509 (Ch 73/93), the state enacted a temporary half-cent sales tax which was operative for the first six months of the 1993-94 fiscal year. This tax was made permanent by the voters' approval of Proposition 172.

Figure 1

1993-94 Property Tax Shifts and Public Safety Sales Tax Allocations By Type of Local Government July 1993 Estimates

(In Millions)

	Property Tax Shift ^a	Sales Tax Allocations	Vehicle License Fees (Net)	Net Reduction 1993-94
Counties	\$2,023	\$1,365	\$2 ^b	\$656
Cities	313	93	115	105
Special districts	244	—	—	244
Redevelopment agencies	65	—	—	65
Totals	\$2,645	\$1,458	\$117	\$1,070

^a Includes per capita-based property tax shifts.

^b Net of elimination of property tax administration reimbursements from school districts.

The figure reflects the full-year allocation of these sales taxes, as anticipated at the time of the 1993-94 budget agreement. The vehicle license fee offset was largely one-time funding. Taking all of the offsets into account, the net county budgetary impact amounted to about one-third of the amount of the property tax transfer.

Property tax revenues are the major source of county general purpose

revenues, accounting for over 60 percent of these revenues prior to the 1993-94 property tax shift. These revenues support both services that counties must provide and fund due to state requirements (such as welfare and health care), and many services that are of a more “discretionary” nature (such as sheriff’s patrols in unincorporated areas as well as parks and library programs) where counties determine the amount of service provided.

We estimate that county general purpose revenue prior to the 1993-94 shift totaled about \$8.9 billion. The budget agreement’s net reduction of \$656 million equates to a reduction of about 7 percent of general purpose revenue. If Proposition 172 had not been approved, this reduction would have been about 14 percent. Reductions in the level of property tax revenues or other general purpose revenues allocated to counties necessarily result in disproportionate reductions in the level of funding available to support discretionary local functions, for two reasons. First, counties have little control over funding levels in mandatory programs, so they cannot be significantly reduced. This means that

discretionary programs must bear the brunt of reductions in general purpose revenues. Second, counties have few means by which to replace these lost tax revenues. For ex-

ample, counties cannot use benefit assessments or fees to pay for general governmental programs such as libraries or public safety, and they have limited authority to impose local taxes.

“Because of their “discretionary” spending nature, local public safety functions were at risk for significant budget reductions as counties adjusted their budgets to accommodate the property tax transfers in 1992-93 and 1993-94.”

Provisions of Proposition

172. Under Proposition 172, funds from the statewide half-cent sales tax are allocated to each county based on its relative share of statewide taxable sales. This countywide “pot” is then allocated to each of the cities within that county, and the county itself, generally in proportion to its share of the property tax transfer. Senate Bill 509 prohibits the allocations to cities from replacing more than half of their net 1993-94 property tax loss; any funds not allocated to the cities are retained by the county. We estimate that counties will receive roughly 94 percent of the half-cent sales tax revenue available statewide, due to the fact that they bore the lion’s share of the property tax transfer.

Under Proposition 172, cities and counties must use their allocations from the half-cent sales tax to support “public safety” functions. Senate Bill 509 defines public safety functions to include, but not be limited to: police and sheriffs, fire protection, county district attorneys, ocean lifeguards, and county corrections. City and county costs related to courts are specifically excluded from this definition of public safety. While SB 509 does not

mention how probation costs are to be treated, we assume for purposes of this analysis that probation can be included as public safety spending. (Assembly Bill 3746 and AB 142X would explicitly include probation in the definition of public safety services.)

“Prior to the property tax shifts of the last two years, public safety expenditures . . . consumed nearly one-half of county general purpose revenues.”

Because of their “discretionary” spending nature, local public safety functions were at risk for significant budget reductions as counties adjusted their budgets to accommodate the property tax transfers in 1992-93 and 1993-94. Neither Proposition 172 nor SB 509, however, explicitly *required* that counties maintain prior levels of local support for public safety, or that the half-cent sales tax revenues be used only to *supplement* prior levels of spending for these functions. Consequently, local jurisdictions may use the sales tax revenues to offset reductions in local support for public safety that resulted from the property tax transfers.

PROPOSITION 172 AND COUNTY BUDGET PLANNING

Because Proposition 172 was not before the voters until November 1993, counties had to prepare their 1993-94 budgets without knowing whether Proposition 172 funds would be available. In addition to absorbing an uncertain level of budget cuts from the state budget agreement, counties also were attempting to accommodate the adverse budgetary consequences of the ongoing recession in the state’s economy. County revenue growth has been relatively slow, and the demand for public services has been relatively high. Even without the property tax shifts of the past two years, we

estimate that growth in county general purpose revenues has averaged less than 2 percent per year since 1991-92. Thus, even without the cuts necessitated by the state budget, county budgets were being stretched and cut in response to the state’s recession.

As indicated earlier, counties that prepared their budgets assuming passage of Proposition 172 had to accommodate, on average, a reduction in general purpose revenue of 7 percent. Counties that assumed failure of Proposition 172 had to accommodate a reduction in general purpose revenue of 14 percent. Because counties faced rising costs in *mandatory* programs funded by general purpose revenue, the actual reduction required in *discretionary* programs was significantly higher.

Public Safety Is the Largest Category of Discretionary Spending. Prior to the property tax shifts of the last two years, statewide public safety expenditures (1) represented roughly one-quarter of total county expenditures and (2) consumed nearly one-half of county general purpose revenues. Because state budget actions in 1992-93 and 1993-94 significantly reduced county general purpose revenues without making significant changes in mandated programs, the proportion of general purpose revenues available for discretionary expenditures has declined. As general purpose revenues shrink and as program costs increase, it is more difficult for counties to insulate any particular area of discretionary expenditure from reductions. Under these circumstances, all discretionary programs—including public safety—were at risk for a share of the 1993-94 budget reductions.

Figure 2

County Public Safety Expenditures 1993-94 Versus 1992-93

	Counties with Increased Expenditures			
	Total	Increase of Less Than 5 Percent	Increase of 5 to 10 Percent	Increase Over 10 Percent
Law enforcement:	41	20	13	8
Sheriff	44	25	9	10
District Attorney	44	14	17	13
Probation	35	14	10	11
Public Defender	39	18	8	13
Fire protection	18	3	3	12

	Counties with Decreased Expenditures			
	Total	Decrease of Less Than 5 Percent	Decrease of 5 to 10 Percent	Decrease Over 10 Percent
Law enforcement:	16	13	3	—
Sheriff	13	10	2	1
District Attorney	13	8	3	2
Probation	22	9	8	5
Public Defender	18	10	3	5
Fire protection	15	6	1	8

Source: California State Association of Counties, survey information dated 5/18/94 covering 57 counties (only 33 of which provide fire protection).

WHAT CHOICES HAVE COUNTIES MADE TO DATE?

No data are available on a county-by-county basis as to how counties allocated the necessary 1993-94 budget reductions. However, based on our review of data collected by the California State Association of Counties (CSAC), it appears that counties, in general, increased their *total* spending on public safety activities in 1993-94. The CSAC survey data (which covers all

counties except Tehama County) compare each county's 1993-94 public safety expenditure plan with its 1991-92 and 1992-93 expenditures for public safety. Figure 2 summarizes the data included in the CSAC survey. It shows that 41 of the 57 counties surveyed increased overall spending for law enforcement (which comprises about 90 percent of public safety) between 1992-93 and 1993-94. Total public safety expenditures for 1993-94 for the surveyed counties are estimated at \$5.0 billion, compared with \$4.9 billion in 1992-93. Thus,

despite a statewide *decline* in county general purpose revenues, counties were able to slightly *increase* public safety spending.

The real impact of Proposition 172 on public safety spending in 1993-94, however, is the difference between what counties are spending and what *they would have spent* had Proposition 172 failed (that is, if there had been no sales tax extension beyond January 1, 1994). Given that the failure of Proposition 172 certainly would have resulted in reduced funding levels for public safety, we estimated the rough magnitude of such reduced spending. In making this estimate, we assumed a proportionate reduction in public safety expenditures—that is, a reduction that would have occurred in each county if it had reduced public safety expenditures by the same percentage as the net reduction in its general purpose revenues resulting from the 1993-94 state budget actions. In other words, a proportionate reduction is the cut that would be applied to *all* programs funded by general purpose revenue if they all shared equally in the revenue loss. Because a significant portion of programs funded by general purpose revenues are mandatory, a proportionate reduction in discretionary programs—including public safety—probably understates the size of the reductions actually needed.

Based on these assumptions, public safety spending would have been about \$700 million lower than what counties are actually spending in 1993-94. Thus, the passage of Proposition 172 not only allowed some growth in public safety spending in 1993-94, it prevented significant reductions.

HOW WOULD THE COUNTIES FARE WITH THE MOE REQUIREMENTS?

Our review indicates that conclusions about how counties have spent the funds from Proposition 172 are highly dependent upon what “base” is chosen for comparison. For example, AB 3746 and AB 142X specify that counties must maintain local support for public safety at the *higher* of the 1991-92 or 1992-93 levels, *without considering the expenditure of any Proposition 172 funds*. Figure 3 shows that, using this basis for comparison, none of the 57 counties responding to the CSAC survey would satisfy this requirement in 1993-94. In fact, counties would need to shift \$1.4 billion from support of other local programs to public safety activities in order to minimally meet the requirements of AB 3746.

Alternatively, all but 16 counties would meet the spending-level requirements of

Figure 3

**How Do Counties Measure Up?
Proposed Maintenance of Effort Requirements
Versus 1993-94 County Public Safety Budgets**

(Dollars in Millions)

MOE Requirement	Number of Counties Meeting Requirement	Amount Short of Funding Test
AB 3746/AB 142X	0	\$1,372
AB 2788	41	\$54

AB 2788. This measure requires that counties maintain their level of funding for public safety services at the 1992-93 level or have an agreement with their public safety entities allowing a lower level of spending. Proposition 172 funds, however, may be counted for the purpose of meeting the spending-level requirement.

As shown in Figure 3, we estimate that 16 counties would need to spend roughly \$54 million more on public safety than they currently have budgeted in order to reach the spending-level requirements of AB 2788. Three counties—Alameda, Los Angeles, and San Francisco—account for about 84 percent of the AB 2788 shortfall. (Our estimate does not adjust local public safety spending for expenditures from sources excluded under AB 2788 because no county-by-county data exist for these exclusions. Nor does our estimate reflect that some counties may have entered into agreements for lower levels of spending. Consequently, our estimate likely represents *the maximum shortfall*. The actual shortfall could be substantially less.)

The Outlook for 1994-95. For at least two reasons, counties will face increased pressure in 1994-95 and beyond to balance support for local public safety with support for all other areas of county expenditures. First, most counties claimed a one-time credit in 1993-94 that partially offset the current-year transfer of property taxes to the schools. This credit resulted from counties reducing their property tax transfers by the amount of delinquent property taxes advanced to school districts when counties elected to begin operating their property tax systems under the so-

called “Teeter Plan.” Of the 53 counties not already using the “Teeter Plan,” only six have elected not to participate. Counties

electing to join Teeter in the current year face large incremental increases—possibly totaling in the hundreds of millions of dollars statewide—in their property tax transfers to the

“ . . . counties will have to redirect revenues from local discretionary programs, including public safety, to meet increasing obligations, primarily in the areas of health, welfare, and the courts.”

schools in 1994-95, as the one-time credit drops out and the full effect of the 1993-94 property tax transfer is implemented. To the extent that these counties used the credit in 1993-94 to finance *ongoing* costs, they will face another round of budget reductions in 1994-95.

Second, county fiscal capacity, which has been declining for some time, will continue to decline in 1994-95 and beyond. This is because statewide growth in county program costs will continue to grow faster than the local revenue base available to support them. Thus, counties will have to redirect revenues from local discretionary programs, including public safety, to meet increasing obligations, primarily in the areas of health, welfare, and the courts.

IMPACT OF PROPOSED MOE REQUIREMENTS

Imposition of a public safety MOE requirement of the type envisioned in AB 3746 would result in large, immediate, and ongoing expenditure reductions for nonpublic safety programs in most counties. This is because such an MOE requirement would force counties to redirect funds from other discretionary spending categories to public safety

in order to satisfy the MOE requirements. Some counties have calculated the kind of expenditure reductions that would be necessary if an MOE for public safety were imposed based on the higher of 1991-92 or 1992-93 expenditure levels (with no credit for Proposition 172 spending). For example, San Joaquin County estimates that spending in all discretionary expenditure categories, other than public safety, would be reduced by at least 98 percent. To comply with an MOE like the one proposed in AB 3746, Los Angeles County has calculated that it would have to shut down virtually *all* general government functions—including the county's revenue departments. In both these examples, the counties would be faced with the choice of (1) accepting the Proposition 172 funds while closing down virtually all remaining local functions or (2) refusing an allocation of revenues from Proposition 172 in order to preserve even minimal levels of other local governmental services.

Imposition of an MOE requirement like that contained in AB 2788 would require less extreme changes in county expenditure plans and, based on 1993-94 data, probably would affect no more than 16 counties. Nevertheless, such an MOE would reduce local discretion to tailor the mix of services at the local level to meet local needs.

CONCLUSION

Our review indicates that Proposition 172 enabled counties to spend about \$700 million more for public safety in 1993-94 than they would have spent had the measure failed passage last November. The impact of MOE require-

ments would be to mandate increased public safety budgets at the expense of other local services. In the case of the requirements proposed in AB 3746, the MOE requirement could force counties to choose between maintaining some minimal level of other local services or receiving an allocation of Proposition 172 funds. In the case of the AB 2788 requirement, there would be little impact in the short run, but it could have significant implications over time as county fiscal conditions continue to erode.

Taking public safety activities "off the table" when it comes to development and approval of county budgets could result in virtually no local discretion to address local needs outside of the public safety area. Because Proposition 172 has resulted in counties spending more for public safety in 1993-94 than otherwise would have happened, and because we believe it is important that some measure of local discretion be maintained with respect to local budget decisions, we recommend that local governments be given the maximum possible control over their budgetary decision-making.

This policy brief was prepared by Sarah Olsen, (916) 445-6442, under the direction of Peter Schaafsma. For additional copies contact the Legislative Analyst's Office, State of California, 925 L Street, Suite 1000, Sacramento, CA 95814, (916) 445-2373.