

LOCAL GOVERNMENT FINANCES

NOVEMBER 3, 1983

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STATEMENT TO THE
ASSEMBLY REVENUE AND TAXATION COMMITTEE
LOS ANGELES, CALIFORNIA
NOVEMBER 3, 1983

YOU HAVE ASKED US TO PRESENT INFORMATION ON VARIOUS ASPECTS OF LOCAL GOVERNMENT FINANCES. I'D LIKE TO BEGIN BY DISCUSSING THE SOURCES OF LOCAL GOVERNMENT REVENUE. ON PAGE 2 OF THIS STATEMENT, WE PRESENT A TABLE WHICH IDENTIFIES THE VARIOUS SOURCES OF REVENUE FOR CITIES AND COUNTIES. FOR COMPARATIVE PURPOSES, WE HAVE ALSO INCLUDED THIS INFORMATION FOR NON-ENTERPRISE SPECIAL DISTRICTS AND SCHOOLS. THE INFORMATION IN THIS TABLE IS BASED ON DATA FROM THE STATE CONTROLLER'S OFFICE, AND IT HIGHLIGHTS THE DIFFERING REVENUE STRUCTURES OF LOCAL AGENCIES. FOR EXAMPLE:

- CITIES RECEIVE THE LARGEST PROPORTION OF THEIR TOTAL REVENUE--SOME 38 PERCENT OF IT--FROM CHARGES FOR CURRENT SERVICES, PRIMARILY SEWER, WATER AND ELECTRIC SERVICE FEES.
- THIRTY-TWO PERCENT OF CITY REVENUE COMES FROM GENERAL TAXES, INCLUDING 13 PERCENT FROM SALES TAX, AND 8 PERCENT FROM THE PROPERTY TAX.
- REVENUES FROM THE STATE AND FEDERAL GOVERNMENTS AMOUNT TO 16 PERCENT OF THE CITIES' REVENUE BUDGET.
- UNLIKE CITIES, COUNTIES RECEIVE ONLY A SMALL PORTION OF THEIR REVENUE FROM CURRENT SERVICE CHARGES--ABOUT 8 PERCENT.
- COUNTIES ARE MORE DEPENDENT UPON THE PROPERTY TAX THAN CITIES, WITH 22 PERCENT OF TOTAL REVENUES COMING FROM THIS SOURCE. COUNTIES, ON THE OTHER HAND, RECEIVE A VERY SMALL PORTION OF THE LOCAL SALES TAX, AMOUNTING TO ONLY 2 PERCENT OF TOTAL REVENUE.

Table 1
Local Government Source of Revenue
as a Percentage of the Total^a

Revenue Source	Cities ^b	Counties ^c	Non-Enterprise Special Districts	Local Education
Taxes and Assessments	32%	25%	36%	22%
Property	(8)	(22)	(22)	(22)
Sales	(13)	(2)	--	--
Utility Users	(3)	--	--	--
Business License	(2)	--	--	--
Local District	-- ^d	--	(11) ^e	--
Other	(5) ^d	(1)	(3) ^f	--
Fines and Penalties	1	1	--	--
Revenue from Use of Money	8	4	29	--
Sales, Rentals, Fees	--	--	--	8
Current Services Charges	38	8	8	--
Other Governmental Agencies	16	59	21	70
State	(6)	(34)	(4)	(62)
Federal	(9)	(25)	(11)	(8)
Other	(1)	--	(6)	--
Other Revenue	<u>5</u>	<u>2</u>	<u>6</u>	<u>--</u>
Total Percent	100%	100%	100%	100%
Total Revenues	\$10.3 billion	\$10.0 billion	\$1.9 billion	\$14.0 billion

- a. Based on actual data for 1981-82 as reported by the Controller; data may not add due to rounding.
- b. Includes city-owned enterprise activities.
- c. Excludes revenue associated with county-owned enterprise activities (\$1.5 billion total).
- d. Includes voter approved debt.
- e. Includes Special District Augmentation Fund monies.
- f. Includes proceeds for indebtedness.

- FEDERAL AND STATE AID IS THE LARGEST SOURCE OF COUNTY REVENUE--60 PERCENT--SPLIT 35 PERCENT FROM THE STATE AND 25 PERCENT FROM THE FEDERAL GOVERNMENT.
- NON-ENTERPRISE SPECIAL DISTRICTS ARE HEAVILY DEPENDENT ON LOCAL SOURCES OF FUNDS, AS FULLY 65 PERCENT OF THEIR REVENUE COMES FROM TAXES, ASSESSMENTS AND INTEREST EARNINGS.
- FINALLY, SCHOOL DISTRICTS RECEIVE THE BULK OF THEIR FUNDING FROM THE STATE, ALTHOUGH THIS CAN VARY DRAMATICALLY FROM COUNTY TO COUNTY. STATEWIDE, THE STATE PROVIDES 62 PERCENT OF SCHOOL DISTRICT REVENUES, WHILE 22 PERCENT IS RAISED THROUGH LOCAL PROPERTY TAXES.

SO WHERE DOES BAILOUT FIT INTO ALL OF THIS? AS YOU KNOW, BAILOUT IS THE VALUE OF HEALTH AND WELFARE "BUYOUTS" FOR COUNTIES PLUS THE INCREASED SHARE OF PROPERTY TAX REVENUES TAKEN FROM THE SCHOOLS AND GIVEN TO CITIES, COUNTIES, AND SPECIAL DISTRICTS (LESS THE ONGOING REVENUE LOSS RESULTING FROM THE REPEAL OF THREE SMALL SUBVENTIONS IN 1981-82). SCHOOLS, REMEMBER, DID NOT EXPERIENCE ANY NET LOSS OF REVENUE AS A RESULT OF THIS SHIFT, BECAUSE UNDER EXISTING LAW THE STATE "GUARANTEES" A SPECIFIED LEVEL OF FUNDING--SO WHAT THE SCHOOLS DON'T RECEIVE IN PROPERTY TAX REVENUES, THE STATE MAKES UP WITH INCREASED GENERAL FUND APPORTIONMENTS.

THE PORTION OF BAILOUT THAT REPRESENTS THE SHIFT OF PROPERTY TAX REVENUES IS INCLUDED WITHIN THE PROPERTY TAX REVENUE SOURCE CATEGORY; IT IS NOT PART OF THE REVENUE-FROM-THE-STATE CATEGORY, WHILE THE PORTION OF BAILOUT THAT CORRESPONDS TO THE HEALTH AND WELFARE BUYOUTS FOR COUNTIES IS NOT REFLECTED AS PART OF COUNTY REVENUES. THIS IS BECAUSE THE STATE DID NOT PROVIDE COUNTIES WITH ADDITIONAL REVENUES FOR THESE HEALTH AND WELFARE PROGRAMS; INSTEAD, THE STATE ASSUMED A GREATER SHARE OF THESE PROGRAM COSTS. IN SHORT, THE HEALTH AND

WELFARE BUYOUTS REDUCED COUNTY EXPENDITURES RATHER THAN INCREASING COUNTY REVENUES.

IN THE SIX YEARS SINCE BAILOUT WAS FIRST ENACTED IN 1979-80, CITIES, COUNTIES, AND SPECIAL DISTRICTS HAVE RECEIVED A TOTAL OF JUST OVER \$5 BILLION IN INCREASED REVENUE. THIS REPRESENTS APPROXIMATELY 40 PERCENT OF THE COST OF THE TOTAL BAILOUT PACKAGE FOR LOCAL AGENCIES OTHER THAN SCHOOLS. THE OTHER 60 PERCENT, OR ALMOST \$9.5 BILLION, REPRESENTS THE STATE'S ASSUMPTION OF PROGRAM COSTS FORMERLY BORNE BY THE COUNTIES. TABLE 2 ON THIS PAGE IDENTIFIES BY FISCAL YEAR THE VALUE OF THIS PROPERTY TAX SHIFT.

Table 2
Value of AB 8 Property Tax Shift
(in millions)

Year:	<u>1979-80</u>	<u>1980-81</u>	<u>1981-82</u>	<u>1982-83</u>	<u>1983-84</u>	Total 1979-80 to 1983-84
Amount:	\$781	\$921	\$1,024	\$1,140	\$1,231	\$5,097

THE COST TO THE STATE OF PROVIDING ALL THIS AID TO LOCAL GOVERNMENTS IS OBVIOUSLY SIGNIFICANT. IN THE CURRENT-YEAR, AN ESTIMATED \$18 BILLION, OR APPROXIMATELY 72 PERCENT, OF THE STATE'S ENTIRE BUDGET--THAT'S BOTH GENERAL AND SPECIAL FUND SUPPORT--IS FOR LOCAL ASSISTANCE. HOWEVER, NOT ALL OF THIS \$18 BILLION IN LOCAL ASSISTANCE IS ACTUALLY AVAILABLE TO LOCAL GOVERNMENT.

LOCAL ASSISTANCE, AS THE TERM IS USED IN THE BUDGET, ENCOMPASSES A WIDE VARIETY OF PROGRAMS. SOME OF THESE PROGRAMS DO NOT PROVIDE ASSISTANCE TO LOCAL GOVERNMENT AGENCIES; INSTEAD, THEY PROVIDE ASSISTANCE TO INDIVIDUALS. SUCH

PAYMENTS MAY BE MADE DIRECTLY TO INDIVIDUALS, BYPASSING THE LOCAL AGENCY ALTOGETHER OR THROUGH AN INTERMEDIARY, SUCH AS THE FEDERAL OR COUNTY GOVERNMENT. THE RENTER'S TAX RELIEF PROGRAM, WHICH PROVIDES A CREDIT OF \$60 FOR SINGLE AND \$137 FOR MARRIED TAXPAYERS, IS AN EXAMPLE OF A PROGRAM WHICH PROVIDES ASSISTANCE DIRECTLY TO AN INDIVIDUAL. SSI/SSP PAYMENTS WHICH ARE DISTRIBUTED BY THE FEDERAL GOVERNMENT, AND AFDC PAYMENTS WHICH ARE DISTRIBUTED BY COUNTY GOVERNMENTS ARE EXAMPLES OF LOCAL ASSISTANCE PROGRAMS WHICH PROVIDE ASSISTANCE TO INDIVIDUALS THROUGH AN INTERMEDIARY.

IN ADDITION TO LOCAL ASSISTANCE PAYMENTS MADE DIRECTLY TO INDIVIDUALS, THERE ARE ALSO LOCAL ASSISTANCE MONIES WHICH ARE DISTRIBUTED TO LOCAL GOVERNMENTS, BUT STILL DO NOT INCREASE THE FISCAL RESOURCES OF THE LOCAL GOVERNMENT ENTITY. THESE TYPES OF LOCAL ASSISTANCE FUNDS MERELY REPLACE REVENUES WHICH OTHERWISE WOULD BE LOST TO THE LOCAL AGENCY. FOR EXAMPLE, THE HOMEOWNER'S PROPERTY TAX RELIEF PROGRAM PROVIDES REIMBURSEMENT TO LOCAL GOVERNMENTS FOR THE PROPERTY TAX REVENUE LOST AS A RESULT OF THE HOMEOWNER'S EXEMPTION. THUS, THE PROGRAM SHOULD REALLY BE CONSIDERED AS ASSISTANCE TO HOMEOWNERS, RATHER THAN LOCAL GOVERNMENTS.

AN ESTIMATED \$6 BILLION, OR APPROXIMATELY 1/3 OF ALL LOCAL ASSISTANCE IN THE STATE'S CURRENT BUDGET CAN BE CATEGORIZED AS AID TO INDIVIDUALS--EITHER DIRECTLY OR THROUGH AN INTERMEDIARY--AND THUS IS NOT REVENUE WHICH INCREASES A LOCAL AGENCY'S FISCAL RESOURCES. TABLE 3, IDENTIFIES 12 OF THESE PROGRAMS AND THEIR FUNDING LEVEL FOR THE CURRENT YEAR. THE LARGEST SINGLE ONE OF THESE PROGRAMS IS MEDI-CAL, WITH AN ESTIMATED ANNUAL BUDGET FOR 1983-84 OF JUST UNDER \$2 BILLION.

ALL OF THE INFORMATION I'VE PRESENTED SO FAR REALLY DOESN'T GIVE US MUCH OF A HANDLE ON THE FISCAL CONDITION OF CITIES AND COUNTIES. IN THE LAST SEVERAL

Table 3
 Major General Fund Supported
 Local Assistance Programs More Appropriately
 Categorized as Assistance to Individuals
 (in millions)

<u>Program</u>	<u>1983-84 Funding Level</u>
Medi-Cal ^a	\$1,987
AFDC ^b	1,385
SSI/SSP	1,112
Developmental Services	566
Personal Property Tax Relief	329
Renters' Tax Relief	464
Homeowners' Property Tax Relief	336
Senior Citizens Renters' Tax Relief	41
Senior Citizens' Property Tax Assistance	10
Subvention for Open Space	13
Senior Citizens' Property Tax Postponement	7
Payments to Local Government for Sales/Property Tax Losses	<u>4</u>
Total, Aid to Individuals	\$6,254

- a. Excludes county administration.
 b. Grant payments only.

YEARS, THE MOST POPULAR WAY OF EVALUATING LOCAL GOVERNMENT'S FISCAL CONDITION HAS BEEN THROUGH MEASURING THE GROWTH IN GENERAL PURPOSE REVENUES. GENERAL PURPOSE REVENUES ARE THOSE REVENUES WHICH ARE NOT TIED TO THE SUPPORT OF ANY PARTICULAR PROGRAM OR ACTIVITY. THEY ARE "NO STRINGS ATTACHED" REVENUES THAT MAY BE SPENT BY LOCAL GOVERNMENT FOR ANY PURPOSE AUTHORIZED BY LAW OR CHARTER. ALTHOUGH THE MEASURE HAS ITS LIMITATIONS, IT DOES PROVIDE AN INDICATION OF THE RELATIVE EXTENT TO WHICH LOCAL AGENCIES CAN ADDRESS LOCAL NEEDS FOR SERVICES.

SPECIFICALLY, GENERAL PURPOSE REVENUES INCLUDE THE PROCEEDS FROM LOCAL TAXES, INTEREST EARNINGS, BAILOUT MONIES, STATE DISCRETIONARY SUBVENTIONS SUCH AS TAX RELIEF AND SHARED REVENUES, AND FEDERAL REVENUE SHARING FUNDS. THEY EXCLUDE LOCAL FEES AND CHARGES FOR SERVICES PROVIDED, AS THESE FUNDS ARE AUTHORIZED SPECIFICALLY TO COVER THE COST OF THE PARTICULAR SERVICE.

TABLE 4, IDENTIFIES THE ANNUAL GROWTH OF GENERAL PURPOSE REVENUES FOR CITIES AND COUNTIES SINCE THE PASSAGE OF PROPOSITION 13, INCLUDING A PROJECTION FOR 1984-85. FOR COMPARATIVE PURPOSES, WE HAVE INCLUDED INFORMATION ON THE GROWTH IN GENERAL FUND REVENUES.

DURING THE FIVE YEAR PERIOD FROM 1978-79 TO THE CURRENT-YEAR, THE STATE'S GENERAL FUND REVENUES INCREASED AT AN AVERAGE ANNUAL RATE OF 8.2 PERCENT, BUT BOTH CITIES AND COUNTIES WERE CLOSE BEHIND EACH WITH AVERAGE ANNUAL GROWTH RATES OF 7.4 PERCENT.

IF WE LOOK AT JUST THE PROJECTED GROWTH RATE FOR NEXT YEAR, 1984-85, WE SEE THAT CITIES WITH 16.0 PERCENT WILL EXPERIENCE THEIR LARGEST GROWTH IN GENERAL PURPOSE REVENUES SINCE THE PASSAGE OF PROPOSITION 13. COUNTIES, WITH A PROJECTED GROWTH RATE OF 12.3 PERCENT, WILL HAVE THEIR LARGEST INCREASE IN GENERAL PURPOSE REVENUES SINCE 1980-81, AND BOTH THE COUNTIES AND THE CITIES WILL HAVE A LARGER RATE OF GROWTH THAN THE STATE. THIS HIGH RATE OF GROWTH IS

Table 4
 General Purpose Revenue Growth
 1977-78 to 1984-85
 (in millions)

	<u>1977-78</u>	<u>1978-79</u>	<u>Percent Change</u>	<u>1979-80</u>	<u>Percent Change</u>	<u>1980-81</u>	<u>Percent Change</u>	<u>1981-82</u>	<u>Percent Change</u>	<u>1982-83</u>	<u>Percent Change</u>	<u>1983-84</u>	<u>Percent Change</u>	<u>1984-85</u>	<u>Percent Change</u>
Counties	\$4,422.0	\$3,196.3	-27.7%	\$3,448.6	7.9%	\$3,873.1	12.3%	\$4,195.1	8.3%	\$4,384.6	4.5%	\$4,562.5 ^a	4.1%	\$5,123.2 ^a	12.3%
Cities	3,417.4	3,441.9	0.7	3,933.3	14.3	4,414.1	12.2	4,678.9	6.0	4,685.3	0.1	4,922.2 ^a	5.4	5,708.4 ^a	16.0
State General Fund	13,695.0	15,218.5	11.1	17,984.6	18.2	19,023.1	5.8	20,960.3	10.2	20,489.7	-2.3	23,017.0	12.3	24,850.0	8.0

a. Assumes reenactment of federal revenue sharing at 1982-83 levels.

b. Projected.

LARGELY THE RESULT OF THE 1983-84 SUBVENTION REDUCTIONS, ALTHOUGH THE IMPROVEMENT IN THE ECONOMY HELPS, TOO.

HOW IMPORTANT ARE THE STATE SUBVENTIONS TO GENERAL PURPOSE REVENUE GROWTH? OVERALL, WE HAVE IDENTIFIED SEVEN KEY SUBVENTIONS PROVIDED TO CITIES AND COUNTIES BY THE STATE. THESE SUBVENTIONS AND THEIR CURRENT YEAR FUNDING LEVEL ARE IDENTIFIED IN TABLE 5.

TABLE 5
MAJOR STATE SUBVENTIONS TO LOCAL AGENCIES

<u>SUBVENTIONS</u>	<u>1983-84 FUNDING LEVEL</u>
● HOMEOWNERS PROPERTY TAX EXEMPTION	(\$336 MILLION)
REMBURSEMENT	
● BUSINESS INVENTORY REIMBURSEMENT	(\$322 MILLION)
● VEHICLE LICENSE IN-LIEU FEES	(\$460 MILLION)
● TRAILER COACH IN-LIEU FEES	(\$30 MILLION)
● CIGARETTE TAX	(\$80 MILLION)
● OPEN SPACE	(\$14 MILLION)
● GEOTHERMAL RESOURCES	(\$4 MILLION)

THE SEVEN SUBVENTIONS COMPRISE 5.8 PERCENT OF GENERAL PURPOSE REVENUES FOR CITIES AND 15 PERCENT FOR COUNTIES IN THE CURRENT YEAR. BY THE WAY, IN TERMS OF SOURCES OF LOCAL GOVERNMENT REVENUES AS IDENTIFIED IN TABLE 1, PROCEEDS FROM THE FIRST TWO SUBVENTIONS IDENTIFIED, HOMEOWNERS' AND BUSINESS INVENTORY, ARE CLASSIFIED IN THE REVENUE CATEGORY OF "PROPERTY TAX," RATHER THAN "REVENUE FROM THE STATE" BECAUSE THEY MERELY REPLACE PROPERTY TAX REVENUE LOST TO LOCAL

AGENCIES BECAUSE OF PROPERTY TAX EXEMPTIONS. REVENUE FROM THE OTHER FIVE SUBVENTIONS ARE REPRESENTED IN THE "REVENUE FROM THE STATE" CATEGORY.

IN DISCUSSING STATE SUBVENTIONS RELATIVE TO LOCAL FISCAL AFFAIRS, HOWEVER, THE LEGISLATURE IS GENERALLY CONCERNED ONLY WITH THE THREE LARGEST SUBVENTIONS: BUSINESS INVENTORY, VEHICLE LICENSE FEE AND CIGARETTE TAX. (ALTHOUGH HOMEOWNERS IS THE SECOND LARGEST SUBVENTION IT IS EXCLUDED BECAUSE IT IS CONSTITUTIONALLY ESTABLISHED AND THEREFORE NOT SUBJECT TO REDUCTION BY THE LEGISLATURE). TOGETHER, THESE THREE SUBVENTIONS COMPRISE 4.8 PERCENT OF ALL GENERAL PURPOSE REVENUES FOR CITIES AND 11.6 PERCENT FOR COUNTIES IN THE CURRENT YEAR. THESE PERCENTAGES ARE ARTIFICIALLY LOW, HOWEVER, BECAUSE OF THE \$348 MILLION REDUCTION IN SUBVENTIONS CITIES AND COUNTIES HAVE SUSTAINED IN THE CURRENT YEAR. IF WE WERE TO RESTORE THESE REDUCTIONS, STATE SUBVENTIONS WOULD COMPRISE 9.9 PERCENT OF CITIES' GENERAL PURPOSE REVENUES AND 13 PERCENT OF COUNTIES' GENERAL PURPOSE REVENUES IN THE CURRENT YEAR.

ONE OF THE PROBLEMS WITH THE USE OF THIS MEASURE RELATES TO THE FACT THAT SOME PORTION OF THE GENERAL PURPOSE REVENUE BUDGET FOR COUNTIES MUST BE USED TO FUND THE NET COUNTY COST OF STATE AND FEDERALLY CONTROLLED PROGRAMS. IN CERTAIN YEARS, NET COUNTY COSTS MAY INCREASE FASTER THAN THE OVERALL GROWTH IN GENERAL PURPOSE REVENUES, SO THAT A COUNTY MIGHT FIND IT HAD A SMALLER SHARE OF ITS GENERAL PURPOSE REVENUES AVAILABLE FOR COUNTY PROGRAMS THAN IT DID THE YEAR BEFORE.

A SIMILAR PROBLEM EXISTS WHEN YOU TRY TO COMPARE STATE REVENUE GROWTH TO COUNTY GENERAL PURPOSE REVENUE GROWTH. THERE IS LITTLE "EARMARKING" OF STATE GENERAL FUND REVENUES, BUT AS WITH COUNTIES THE REAL STORY CONCERNS THE AMOUNT OF MONEY "LEFT OVER" AFTER SATISFYING THE FUNDING REQUIREMENTS FOR THE MAJOR STATE HEALTH, WELFARE AND EDUCATION PROGRAMS.

THIS CONCLUDES MY PRESENTATION. I WOULD BE HAPPY TO ANSWER ANY QUESTIONS
YOU MIGHT HAVE.