

SPEECH TO THE HOG, DOG & FROG SOCIETY  
OF SAN DIEGO COUNTY

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SPEECH TO THE HOG, DOG & FROG SOCIETY  
OF SAN DIEGO COUNTY

I. INTRODUCTION

A. ICEBREAKER

B. FOCUS OF MY REMARKS

1. MY REMARKS PRIMARILY ADDRESS A SUBJECT THAT IS A HOT TOPIC IN SACRAMENTO THESE DAYS: FISCAL STABILITY AT THE LOCAL LEVEL.
2. SPECIFICALLY, I WANT TO:
  - a. PUT ONE OF THE PRIMARY CONTRIBUTORS TO INSTABILITY -- CUTS IN STATE AID -- IN PERSPECTIVE;
  - b. ASSESS THE EXTENT TO WHICH THE GOVERNOR'S PROPOSED REFORMS IN THE AREA OF STATE/LOCAL FISCAL RELATIONSHIPS WOULD STABILIZE LOCAL REVENUES; AND
  - c. OFFER SOME SUGGESTIONS OF MY OWN ON HOW TO INCREASE FISCAL STABILITY.
3. THERE ARE TWO DIMENSIONS OF "FISCAL STABILITY" THAT I WANT TO PAY PARTICULAR ATTENTION TO:
  - a. FIRST, THE TRADE-OFF BETWEEN FISCAL STABILITY AND OTHER GOALS OF IMPORTANCE TO COUNTIES.
  - b. SECOND, THE COMPATIBILITY OF FISCAL STABILITY AND POLITICAL STABILITY.

C. TRANSITION

## II. BACKGROUND

### A. OVERVIEW

1. TO UNDERSTAND THE SYSTEM OF LOCAL GOVERNMENT FINANCE IN CALIFORNIA TODAY, ONE MUST HAVE SOME UNDERSTANDING OF HOW THIS SYSTEM HAS EVOLVED OVER TIME.
2. THOSE OF YOU WHO DO NOT HAVE THIS UNDERSTANDING ARE IN LUCK, BECAUSE I AM NOW GOING TO DISTILL 135 YEARS WORTH OF HISTORY INTO ABOUT FOUR MINUTES.
3. FOR SIMPLICITY, I WILL DIVIDE THIS PERIOD INTO TWO PARTS:
  - a. 1849 - JUNE 6, 1978
  - b. JUNE 6, 1978 - THE PRESENT
4. IF THERE IS ANYONE WHO DOESN'T UNDERSTAND THE BASIS FOR THIS DIVISION, THEY PROBABLY WILL NOT UNDERSTAND MUCH OF WHAT I HAVE TO SAY THIS EVENING.

### B. 1849 - 1978

1. THOSE SEEKING "FISCAL INDEPENDENCE" FOR COUNTIES HAVE AN AWFULLY TOUGH ROW TO HOE.
2. IN EFFECT, THE STATE'S FIRST CONSTITUTION (1849) RESOLVED THIS MATTER BY DECLARING THAT COUNTIES SHOULD BE, IN PART, ADMINISTRATIVE AGENCIES OF THE STATE.
3. EVEN SO, BY THE LATE NINETEENTH CENTURY, COUNTIES HAD BEEN ACCORDED BROAD POWERS OF SELF GOVERNMENT ALTHOUGH THEY NEVER WERE ABLE TO ACHIEVE THE KIND OF INDEPENDENCE THAT CITIES ACHIEVED.
4. WHETHER CHARTERED OR NOT, HOWEVER, COUNTIES REMAIN UNDER THE DIRECT AUTHORITY OF THE LEGISLATURE.

5. WHILE FISCAL INDEPENDENCE PROBABLY IS TOO MUCH TO EXPECT, IT CERTAINLY IS REASONABLE FOR COUNTIES TO SEEK AND EXPECT "HOME RULE" POWERS.
6. WHAT PUTS THE "SELF" IN "SELF-GOVERNMENT"? WHY, IT'S THE GOVERNMENT'S ABILITY TO LEVY TAXES SO THAT THE REVENUES NEEDED TO RESPOND TO CONSTITUENT NEEDS AND DEMANDS CAN BE OBTAINED.
7. UNTIL 1978, COUNTIES HAD THIS ABILITY, USING THE LOCAL PROPERTY TAX.
8. THE PROPERTY TAX WAS AN IDEAL SOURCE OF REVENUE TO MEET LOCAL NEEDS:
  - a. COUNTIES WOULD DETERMINE HOW MUCH THEY WANTED TO SPEND.
  - b. THEN THEY WOULD PROJECT THEIR REVENUES FROM OTHER TAX SOURCES, SUCH AS BUSINESS LICENSE FEES OR THEIR PORTION OF THE SALES TAX.
  - c. FINALLY, COUNTIES WOULD LEVY WHATEVER AMOUNT OF PROPERTY TAX WAS NEEDED TO MAKE UP THE GAP BETWEEN OTHER REVENUES AND EXPENDITURES.
9. THE FISCAL RELATIONSHIP BETWEEN THE STATE AND ITS LOCAL GOVERNMENTS BEGAN TO UNDERGO A PROFOUND CHANGE TOWARD THE MIDDLE OF THE 20TH CENTURY.
  - a. FIRST, AFTER WORLD WAR II, LOCAL EXPENDITURES BEGAN TO MUSHROOM, PARTLY IN RESPONSE TO THE ENORMOUS GROWTH IN THE STATE'S POPULATION.
  - b. SECOND, LOCAL SOURCES OF REVENUE OTHER THAN THE PROPERTY TAX WERE NOT AS SENSITIVE TO ECONOMIC GROWTH AS THE SALES AND INCOME TAXES ON WHICH THE STATE DEPENDED.

10. AS A CONSEQUENCE, THE STATE BEGAN TO FUND THE COSTS OF SOME OF THE MORE RAPIDLY GROWING LOCAL RESPONSIBILITIES, SUCH AS TEACHERS' PENSIONS, AID TO THE AGED, SCHOOL APPORTIONMENTS, AND SCHOOL BUILDINGS.
11. THIS PATTERN HAS CONTINUED UNABATED TO THE PRESENT:
  - a. THE STATE, WITH ITS GREATER ACCESS TO FUNDING, HAS TAKEN ON THE RESPONSIBILITY FOR FINANCING THE HIGHER LEVELS OF SERVICE DESIRED BY THE PUBLIC WHICH COUNTIES GENERALLY WERE UNABLE TO PROVIDE WITHOUT SHARP INCREASES IN EXISTING TAX RATES.
  - b. FOR THE MOST PART, HOWEVER, THESE PROGRAMS ARE STILL OPERATED BY LOCAL GOVERNMENTS.
12. EVEN SO, AS RECENTLY AS JUNE 5, 1978, LOCAL GOVERNMENTS STILL ENJOYED A CONSIDERABLE AMOUNT OF FISCAL AUTONOMY DUE TO THEIR CONTROL OF THE PROPERTY TAX.
  - C. 1978 - PRESENT
    1. IN ONE FELL SWOOP, PROPOSITION 13 CHANGED ALL THIS. BY CAPPING THE PROPERTY TAX RATE, PROPOSITION 13 ELIMINATED THE COUNTIES' FISCAL AUTONOMY.
    2. WITHOUT THE POWER TO SET PROPERTY TAX RATES, LOCAL GOVERNMENTS BECAME HEAVILY DEPENDENT UPON THE STATE TO FINANCE LOCALLY-CONCEIVED PROGRAMS.
    3. THE STATE RESPONDED WITH THE SO-CALLED LOCAL GOVERNMENT BAIL-OUT THAT'S PUTTING ABOUT \$2.8 BILLION IN STATE MONEY INTO CITIES, COUNTIES, AND SPECIAL DISTRICTS THIS YEAR (ANOTHER \$3.3 BILLION GOES TO LOCAL SCHOOL DISTRICTS).

### III. FISCAL STABILITY

#### A. FISCAL RELIEF AND FISCAL STABILITY

1. THE FISCAL RELIEF PROVIDED UNDER SB 154 AND AB 8 WAS CERTAINLY WELCOMED BY LOCAL GOVERNMENTS.
2. I SHUDDER TO THINK WHAT WOULD HAVE HAPPENED TO LOCAL SERVICES HAD THE STATE NOT STEPPED IN TO PARTIALLY FILL THE BREACH.
3. AB 8, HOWEVER, BROUGHT A NEW SOURCE OF INSTABILITY TO LOCAL GOVERNMENTS' FISCAL PLANNING.
4. IT DID THIS BY PUTTING COUNTIES AND EVERYONE ELSE ON NOTICE THAT THE STATE MIGHT HAVE TO RENEGE ON ITS PROMISES FOR PROVIDING FISCAL RELIEF -- PROMISES THAT IT MADE IN GOOD FAITH.
5. I AM REFERRING, OF COURSE, TO THE "AB 8 DEFLATOR," WHICH SET UP A MECHANISM FOR AUTOMATICALLY REDUCING FISCAL RELIEF IN THE EVENT STATE REVENUES TURNED OUT TO BE LESS THAN ANTICIPATED.
6. THIS BRINGS ME TO THE FIRST OF THE TRADE-OFFS I MENTIONED AT THE OUTSET OF MY REMARKS.

#### B. WHERE THE DEFLATOR CAME FROM

1. THE AB 8 DEFLATOR WAS NOT PART OF THE ORIGINAL FISCAL RELIEF PACKAGE.
2. RATHER, IT WAS ADDED RELATIVELY LATE IN THE PROCESS OF HAMMERING OUT A PERMANENT BAIL-OUT FOR LOCAL GOVERNMENTS.
3. THE DEFLATOR WAS DESIGNED TO ACCOMMODATE TWO POTENTIALLY CONTRADICTIONARY GOALS: LOCAL GOVERNMENTS' DESIRE FOR MORE FISCAL RELIEF AND THE LEGISLATURE'S DESIRE FOR MORE FISCAL FLEXIBILITY.

- a. IF IT HAD LOCKED IN THE LEVELS OF FISCAL RELIEF SOUGHT BY THE LOCAL GOVERNMENTS, THE LEGISLATURE WOULD HAVE BEEN CUTTING ITS OWN POLITICAL THROAT BY FORCING THE STATE TO EAT ANY REVENUE SHORTFALLS. -ELABORATE-
  - b. IF, ON THE OTHER HAND, THE LEGISLATURE HAD PLAYED IT SAFE AND HELD THE LEVEL OF FISCAL RELIEF TO WHAT COULD EASILY BE SUSTAINED, EVEN DEEPER CUTS IN LOCAL SERVICES WOULD HAVE BEEN NECESSARY IN 1978 AND 1979.
  - c. THE DEFLATOR WAS SOME ENTERPRISING STAFFER OR LOBBYIST'S SOLUTION TO THE PROBLEM.
4. AS I RECALL, THE CITIES AND COUNTIES WERE NOT REAL KEEN ON THE DEFLATOR, BUT THEY WERE CERTAINLY WILLING TO ACCEPT THE UNCERTAINTY IT PRESENTED IN ORDER TO SECURE THE HIGHER LEVEL OF FISCAL RELIEF.
  5. I REMEMBER THIS WELL BECAUSE I WAS THE ONE WHO TOLD THE AB 8 CONFERENCE COMMITTEE THAT THE STATE COULD NOT AFFORD THE LEVEL OF FUNDING SOUGHT BY LOCAL GOVERNMENT, AND THE DEFLATOR WAS PUSHED FORWARD AS AN INSURANCE POLICY "IN CASE THE ANALYST TURNS OUT TO BE RIGHT".
  6. WE ALL NEED TO KEEP THE ORIGINS OF THE DEFLATOR IN MIND -- PARTICULARLY WHEN WE STAND READY TO CONDEMN THE LEGISLATURE FOR SETTING UP SUCH A DASTARDLY MECHANISM.
  7. SOMETIMES, A LITTLE UNCERTAINTY IS BETTER THAN THE ALTERNATIVES.
  8. IF IT WEREN'T, STOCK BROKERS WOULD BE OUT OF BUSINESS.

IV. THE GOVERNOR'S PROPOSAL

- A. THE GOVERNOR HAS MADE A NUMBER OF PROPOSALS TO RATIONALIZE THE STATE'S FINANCIAL RELATIONSHIP WITH LOCAL GOVERNMENTS.
- B. GENERALLY SPEAKING, WE THINK THESE PROPOSALS ARE CONSTRUCTIVE, AND WE ARE FAVORABLY DISPOSED TO MOST OF THEM.
- C. SPECIFICALLY, WE THINK IT MAKES A GREAT DEAL OF SENSE:
1. TO REPEAL THE DEFLATOR;
  2. TO ALLOW LOCAL GOVERNMENTS TO RAISE THE PROPERTY TAX RATE TO RETIRE VOTER-APPROVED DEBT;
  3. TO REPLACE THE CURRENT PROCESS FOR PROVIDING STATE REIMBURSEMENT OF MANDATED COSTS WITH A BLOCK GRANT;
  4. TO REALIGN PROGRAM RESPONSIBILITIES IN THE HEALTH AND WELFARE AREA; AND
  5. TO REPLACE THE B I E SUBVENTION WITH OTHER REVENUES.
- D. THE QUESTION REMAINS, HOWEVER: TO WHAT EXTENT WOULD THESE CHANGES, PLUS CONSTITUTIONAL PROTECTION FOR THE V L F AND CIGARETTE SUBVENTIONS, ENHANCE FISCAL STABILITY AT THE COUNTY LEVEL?
- E. MY ASSESSMENT IS THAT THE CHANGES WOULD BRING ABOUT ONLY A MODEST IMPROVEMENT IN THE COUNTIES' FISCAL STABILITY.
- F. WHY DO I SAY THIS? FOR TWO REASONS:
1. FIRST, SO LONG AS THERE IS INSTABILITY IN STATE REVENUES, THERE WILL ALWAYS BE INSTABILITY IN COUNTY REVENUES.
    - a. AS ADMINISTRATIVE AGENTS OF THE STATE (REFERRING BACK TO THE 1849 CONSTITUTION), A COUNTY'S FISCAL DESTINY IS INEVITABLY TIED UP WITH THE STATE'S.

- b. BETWEEN 25 AND 30 PERCENT OF WHAT YOU SPEND COMES FROM SACRAMENTO, AND THIS WILL BE TRUE REGARDLESS OF WHETHER THE DEFLATOR IS REPEALED OR THE V L F SUBVENTION IS GIVEN CONSTITUTIONAL PROTECTION.
  - c. THE DEGREE TO WHICH THE AMOUNTS COMING FROM THE STATE KEEP PACE WITH EITHER THE PROMISES CONTAINED IN EXISTING LAW, THE REQUIREMENTS SET FORTH IN SB 90, OR YOUR EXPECTATIONS, WILL DEPEND ON THE CONDITION OF THE STATE'S BUDGET.
    - (1) WHEN STATE REVENUES COLLAPSE, AS THEY DID BETWEEN JUNE 1981 AND DECEMBER 1982, YOU'RE GOING TO FIND YOUR REVENUES FROM THE STATE DRYING UP AS WELL.
    - (2) THAT'S REALITY -- MADE SO BY THE FACT THAT, OTHER THAN FUNDING UNIVERSITIES AND PRISONS, MOST OF WHAT THE STATE DOES WITH ITS MONEY IS TURN IT OVER TO LOCAL GOVERNMENTS AND SCHOOLS FOR EXPENDITURE.
    - (3) AND GIVEN THE WAY RECENT CONGRESSES AND PRESIDENTS HAVE MANAGED TO LOUSE UP THE NATION'S ECONOMY, THE LIKELIHOOD THAT STATE REVENUES WILL STABILIZE IS NOT VERY GREAT.
2. THE SECOND REASON WHY I CONCLUDE THAT THE GOVERNOR'S PROPOSALS WILL RESULT IN ONLY A MODEST IMPROVEMENT IN FISCAL STABILITY AT THE COUNTY LEVEL HAS TO DO WITH THE RATIONALE FOR V L F REDUCTIONS.
- a. THESE REDUCTIONS WERE MADE IN EACH OF THE LAST THREE YEARS AS A MEANS OF REDUCING FISCAL RELIEF TO LOCAL GOVERNMENTS, EVEN THOUGH THESE SUBVENTIONS ARE NOT PART OF THE FISCAL RELIEF PACKAGE.

b. WHY? BECAUSE IT IS EASIER TO CUT V L F SUBVENTIONS THAN TO REDIRECT CITIES' AND COUNTIES' PROPERTY TAX MONEY BACK TO THE SCHOOLS FROM WHENCE IT CAME.

c. IF THE V L F SUBVENTIONS ARE GIVEN CONSTITUTIONAL PROTECTION, HOWEVER, THERE IS NOTHING TO STOP THE LEGISLATURE FROM ACHIEVING THE SAME OBJECTIVE -- A REDUCTION IN STATE COSTS -- BY (1) REDIRECTING A PORTION OF THE \$1.3 BILLION IN PROPERTY TAX REVENUES THAT THE LEGISLATURE SHIFTED FROM SCHOOLS TO CITIES AND COUNTIES BACK TO SCHOOLS OR (2) CHANGING, SAY, AFDC SHARING RATIOS.

G. IN SHORT

1. PROPOSALS SUCH AS REPEAL OF THE DEFLATOR AND LOCKING IN V L F SUBVENTIONS WILL PROVIDE SOME TACTICAL BENEFITS TO THE COUNTIES (IN THAT YOU WON'T HAVE TO STEER A BILL SUSPENDING THE DEFLATOR THROUGH THE LEGISLATURE EACH YEAR).
2. THEY WILL NOT, HOWEVER, PROVIDE STRATEGIC BENEFITS TO THE COUNTIES.
3. WHICH IS NOT TO CONDEMN OR CRITICIZE THE PROPOSALS, BUT MERELY TO PUT THEM IN PERSPECTIVE.

V. R X FOR LOCAL GOVERNMENT FINANCE

A. TO SUM UP --

1. IT SEEMS TO ME THAT COMPLETE FISCAL INDEPENDENCE FOR COUNTIES IS A WILL OF THE WISP, AND
2. THE GOVERNOR'S PROPOSAL WILL RESULT IN ONLY MODEST GAINS IN TERMS OF FISCAL STABILITY.

- B. CAN ANYTHING BE DONE TO IMPROVE FISCAL INDEPENDENCE AND STABILITY AT THE COUNTY LEVEL?
- C. I SEE THREE STEPS THAT THE LEGISLATURE COULD TAKE THAT WOULD MOVE IN THIS DIRECTION:
1. FIRST, THE LEGISLATURE COULD GIVE COUNTIES A GREATER DEGREE OF FLEXIBILITY IN ADMINISTERING STATE-CONTROLLED PROGRAMS.
    - a. THE GOVERNOR'S REALIGNMENTS ARE A GOOD START
    - b. THERE ARE, HOWEVER, NUMEROUS OTHER AREAS WHERE THE STATE IS OVERLY PRESCRIPTIVE IN TERMS OF HOW COUNTY PROGRAMS SHOULD BE ADMINISTERED.
    - c. ONE AREA THAT'S ESPECIALLY RIPE FOR IMPROVEMENT IS THE TRIAL COURT SYSTEM.
    - d. IN OUR ANALYSIS, WE RECOMMEND SEVERAL CHANGES IN STATE LAW THAT WOULD ALLOW COUNTIES TO ADMINISTER THE COURTS MORE EFFECTIVELY.
  2. SECOND, THE STATE SHOULD COMPLY WITH THE CONSTITUTIONAL AND STATUTORY REQUIREMENTS THAT COUNTIES AND OTHER LOCAL GOVERNMENTS BE REIMBURSED FOR MANDATED COSTS.
    - a. CURRENTLY, THERE ARE TWO PROBLEMS STANDING IN THE WAY OF THIS OBJECTIVE:
      - (1) FIRST, TOO MANY GROUPS IN SACRAMENTO ARE SPENDING TOO MUCH TIME TRYING TO END-RUN THE REQUIREMENTS (BINDING ARBITRATION).
      - (2) SECOND, THE LEGISLATURE IS TOO PRONE TO LET THE COURTS MAKE THE KEY DECISIONS ON WHAT COUNTIES SHOULD AND SHOULDN'T DO (ESCAPE CLAUSE).

- (3) THE COUNTIES AREN'T ENTIRELY CLEAN IN THIS AREA EITHER. THEY OFTEN ARE TOO INFLEXIBLE IN WHAT THEY DEMAND REIMBURSEMENT FOR (MILEAGE ALLOWANCES).
- b. THESE PROBLEMS CANNOT BE SOLVED WITH A CHANGE IN LAW -- CURRENT LAW IS ADEQUATE TO DO THE JOB.
- c. WHAT IS NEEDED IS A GREATER ACCEPTANCE OF THE REIMBURSEMENT OBLIGATION IN SACRAMENTO.
3. THIRD, AND BY FAR THE MOST IMPORTANT STEP THAT THE LEGISLATURE COULD TAKE TO IMPROVE THE COUNTIES' FISCAL STABILITY AND INDEPENDENCE, IS TO AUTHORIZE COUNTIES TO IMPOSE ADDITIONAL TAXES.
- a. THIS IS ESSENTIAL IF SELF-GOVERNMENT AT THE LOCAL LEVEL IS TO BE PRESERVED.
- b. MORE IMPORTANTLY, THERE WOULD APPEAR TO BE LITTLE REASON WHY THE STATE WOULD WANT TO DENY THE VOTERS OF ANY LOCALITY THE RIGHT TO TAX THEMSELVES IN ORDER TO MAINTAIN OR IMPROVE SERVICES IN ACCORDANCE WITH LOCAL PRIORITIES.
- c. THIS, HOWEVER, IS EXACTLY WHAT STATE LAW DOES TO THE EXTENT THAT IT PREVENTS LOCAL VOTERS FROM INCREASING THE SALES TAX OR IMPOSING AN INCOME TAX SURCHARGE.
- d. IF COUNTIES, FOR EXAMPLE, WERE GIVEN THIS AUTHORITY:
- (1) IT WOULD PROVIDE STRATEGIC, NOT JUST TACTICAL, BENEFITS IN TERMS OF FISCAL INDEPENDENCE.
- (2) IT WOULD ALSO PROVIDE A MEANS FOR STABILIZING THE EXPENDITURE SIDE OF LOCAL BUDGETS.

e. THERE IS, HOWEVER, A CATCH:

- (1) WITH THE AUTHORITY TO RAISE TAXES GOES THE ACCOUNTABILITY FOR DOING SO (OR NOT DOING SO).
- (2) I SUSPECT THERE ARE MANY MEMBERS OF COUNTY BOARDS OF SUPERVISORS WHO ARE NOT EAGER TO HAVE THIS ACCOUNTABILITY -- WHO WOULD PREFER TO LEAVE IT WITH THE LEGISLATURE.
- (3) THIS IS BECAUSE THEY SEE THIS MOVE TOWARD FISCAL STABILITY AS INCOMPATIBLE WITH POLITICAL STABILITY -- THEIR OWN!
- (4) IT IS NOT REALISTIC, HOWEVER, TO EXPECT THAT THE LEGISLATURE WILL BUY-IN TO SUCH A SYSTEM WHERE IT BEARS THE ACCOUNTABILITY FOR RAISING TAXES, AND LOCAL GOVERNMENTS GET THE PROCEEDS.
- (5) I DON'T SEE ANY REFORMS EMERGING THAT HAVE THIS SPLIT BETWEEN ACCOUNTABILITY AND REVENUES (AGONY OF TAXATION -- ECSTASY OF EXPENDITURE).

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