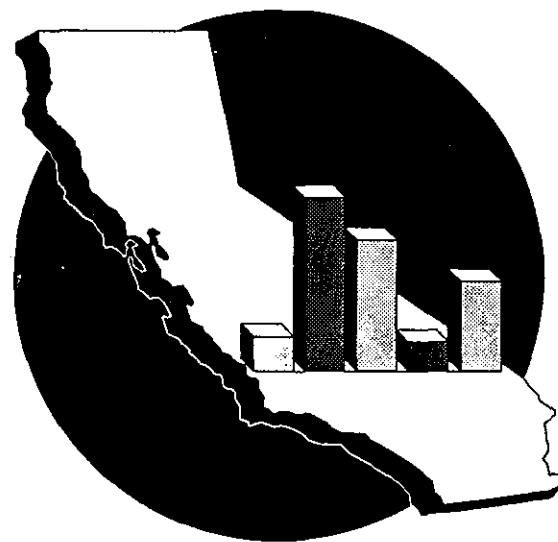


# COUNTIES AND THE STATE BUDGET

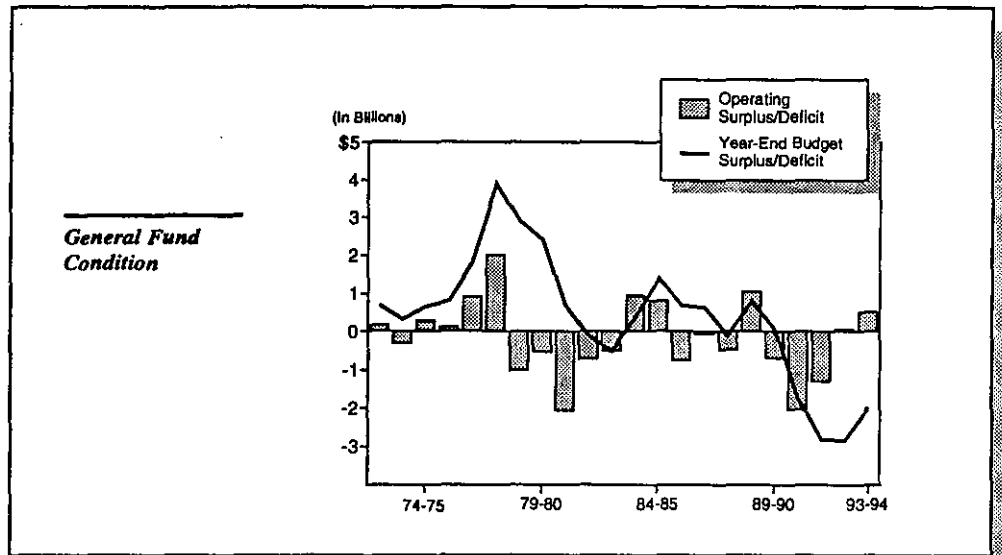


*Elizabeth G. Hill*  
*Legislative Analyst*

Presented to  
Newly Elected Supervisors



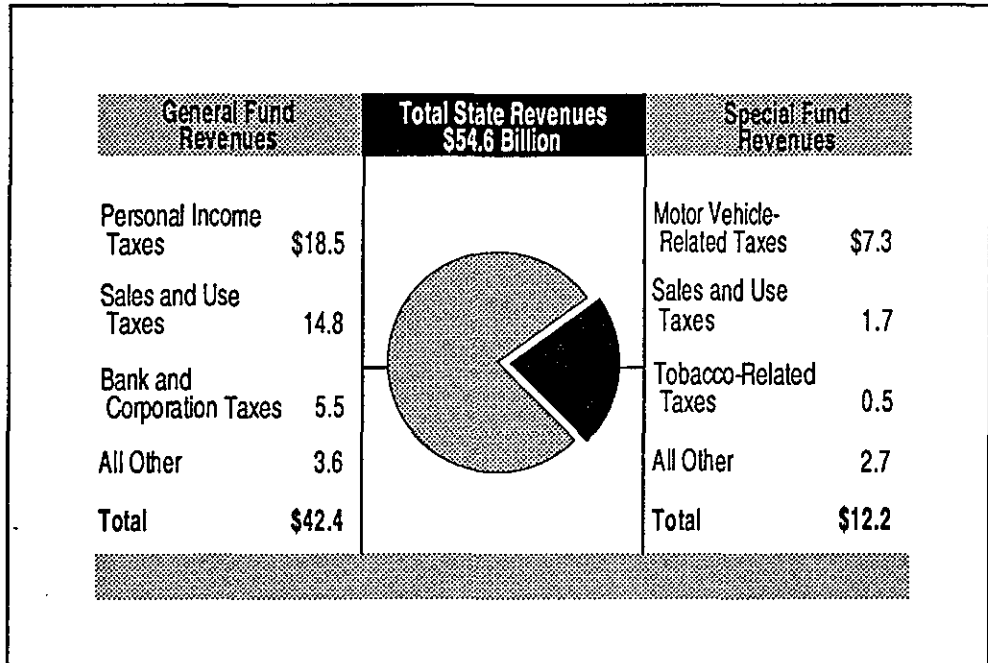
## Past Operating Shortfalls Have Resulted in Budget Deficits



- ✓ Since 1978, on an operating basis, expenditures have exceeded revenues in 11 of the 16 years.
- ✓ The positive operating balances for 1992-93 and 1993-94 would be negative if the off-budget Proposition 98 loans were counted.



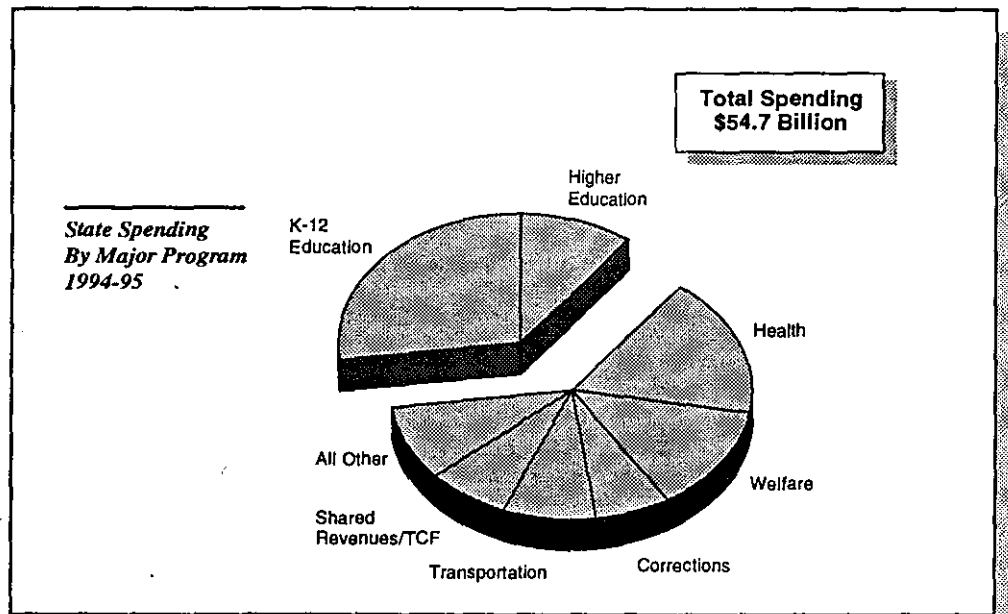
## Total State Revenues—1994-95



- Almost two-thirds of all state revenues come from income and sales tax.
- Special fund revenues are usually earmarked for specific purposes such as transportation funding.



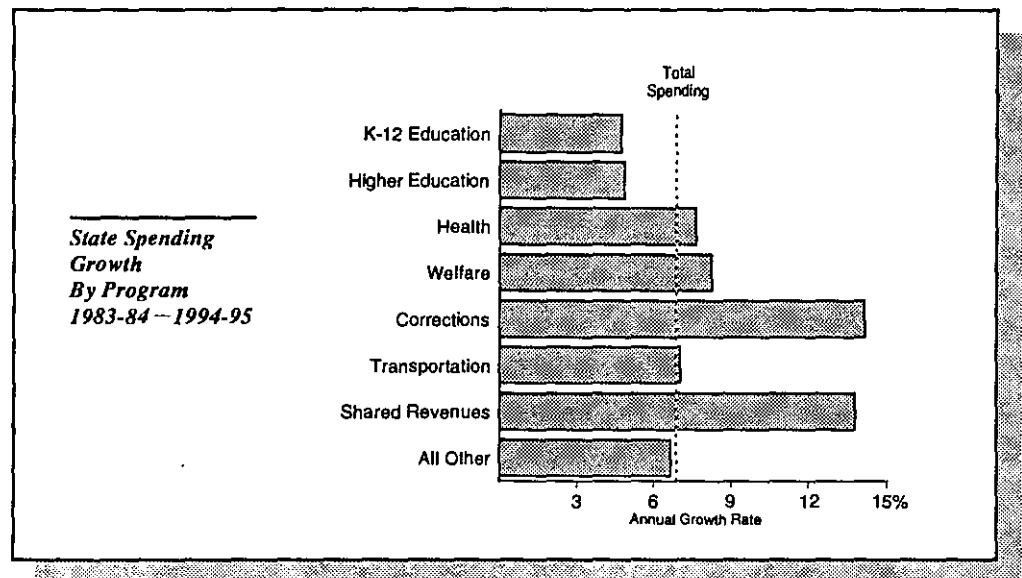
## Education Receives the Largest Share of State Spending



- ☑ Three-fourths of state spending is in just four programmatic areas—education, health, welfare, and corrections.



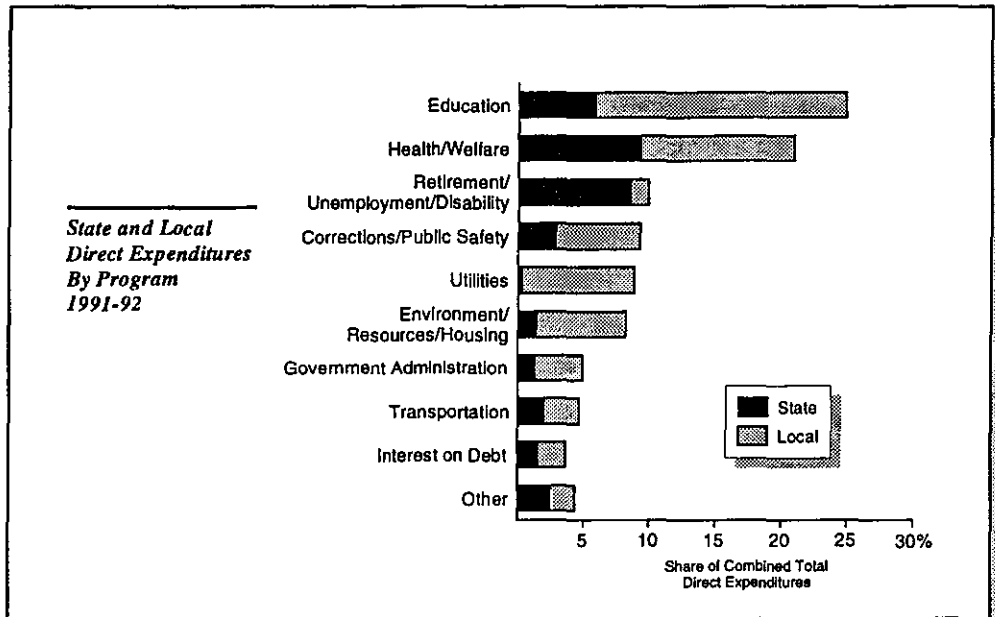
## Spending Growth Varies Considerably By Program Area



- ✓ State spending for K-12 reflects shift of some prior state costs to the local property tax.
- ✓ Corrections spending has grown twice as fast as total spending over this period.



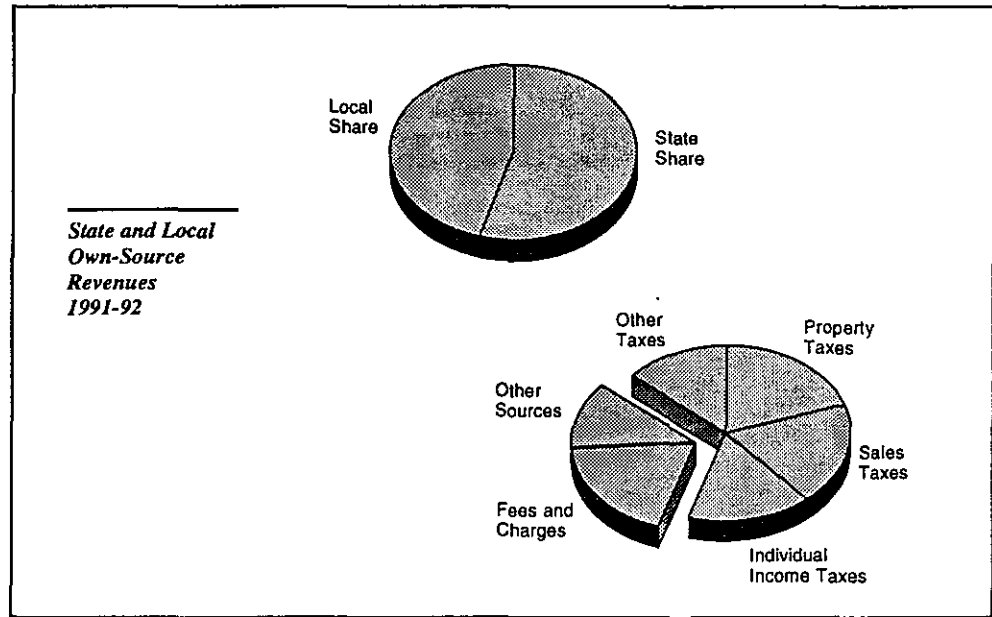
## State/Local Fiscal Relationship Varies by Program



- ✓ About 35 percent of all direct spending on programs is state spending and about 65 percent is local.
- ✓ Direct spending refers to the point at which spending actually occurs and does not reflect intergovernmental transfers of funds for program support.
- ✓ The linkages between program funding, decision-making authority, and service delivery vary widely.



## State and Local Own-Source Revenues



- California state and local own source revenues (excluding utility related revenues) totaled \$105 billion in 1991-92.
- In terms of types of revenues, no single source predominates.
- Tax collections represent two-thirds of combined revenues.
- Fees raise almost as much revenue as the property tax.



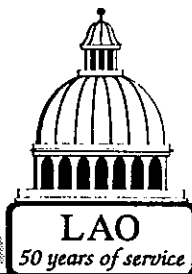
## Local Revenue Sources

**Local Revenue Sources**

1991-92	Sales Tax	Property Tax and Assessments	Other Taxes	User Charges	State Aid	Other
Counties	2%	23%	1%	9%	36%	29%
Cities	13%	12%	9%	38%	6%	22%
Special Districts:						
Nonenterprise	0%	36%	0%	43%	3%	18%
Enterprise	2%	8%	0%	68%	0%	22%
Redevelopment	1%	67%	0%	0%	1%	31%

- County funding is more heavily dependent upon state actions than other local entity funding.
- State budget actions in 1992-93 and 1993-94 shifting property tax revenues to school districts hit counties the hardest, although most local entities experienced some reduction.





## Two-Year Budget Plan Adopted Last July Out of Balance

(In Billions)

	General Fund Impact <sup>a</sup>
<b>Reduced 1993-94 carryover deficit</b>	\$0.5
<b>1994-95</b>	
Improved revenues	\$0.8
Spending increases	-0.4
<b>1995-96</b>	
Improved revenues	\$0.6
Spending increases	-0.3
<b>Reduced encumbrance obligations</b>	\$0.1
<b>Underlying Improvement</b>	<b>\$1.3</b>
<b>Federal immigrant funds<sup>b</sup></b>	
1994-95	-\$0.7
1995-96	-2.6
<b>Federal funds shortfall</b>	<b>-\$3.3</b>
<b>Budget Gap</b>	<b>-\$2.0</b>
<sup>a</sup> Measures change between July 1994 and January 1995 budget estimates. Excludes Governor's proposed budget solutions and proposals, including realignment and tax reduction. <sup>b</sup> Based on current federal appropriations and authorizations.	

- The state's underlying revenue and expenditure trends have improved by \$1.3 billion.
- Commitments of federal immigrant funds fall \$3.3 billion short of the July assumptions.



# Governor's Budget General Fund Condition 1994-95 and 1995-96

(Dollars in Millions)

	1994-95	1995-96	Percent Change	
			As Presented	Adjusted for Realignment <sup>b</sup>
Prior-year balance	-\$1,119	-\$459		
Revenues and transfers	42,353	42,538	0.4%	2.8%
<b>Total resources available</b>	<b>\$41,234</b>	<b>\$42,078</b>		
Expenditures	\$41,693	\$41,726	0.1%	2.5%
<b>Ending balance June 30, 1993</b>	<b>-\$459</b>	<b>\$352</b>		
<b>Reserve</b>	<b>-\$740<sup>a</sup></b>	<b>\$92</b>		
<b>Other obligations</b>	<b>\$281</b>	<b>\$260</b>		

<sup>a</sup> The budget shows a positive reserve of \$285 million due to the inclusion of \$1,025 million of deficit borrowing as a budget resource.

<sup>b</sup> Adjusted to include \$1,021 million of revenues and costs that would be shifted to counties in 1995-96 under the Governor's realignment proposal.

- Proposed revenues and spending in 1995-96 are almost unchanged from estimated 1994-95 amounts. This lack of growth, however, reflects the effect of the Governor's realignment proposal.
- Adjusted for realignment, proposed General Fund revenues and spending both increase modestly in 1995-96.



# Governor's Proposed Resolution Of the 1995-96 Budget Gap<sup>a</sup>

(In Billions)

<b>Program reductions/savings</b>	<b>\$1.4</b>
Welfare	
AFDC grant reductions and reforms	0.4
SSI/SSP grant reductions	0.4
Restrict eligibility	0.1
Medi-Cal	
Eliminate optional benefits and prenatal services for undocumented persons	0.2
Various cost containment measures	0.1
Proposition 98—tax cut reduces school funding guarantee	0.1
Other reductions/savings	0.2
Augment funding for disasters and emergencies	-0.1
Other augmentations, including REACH and AIM	-0.1
<b>Shifts to other levels of government</b>	<b>\$0.9</b>
Federal Government	
Additional reimbursements for illegal immigrant costs	0.5
Increased refugee funding	0.1
Eliminate SSI/SSP administrative charge	0.1
<b>Subtotal</b>	<b>(\$0.6)</b>
Counties—unfunded realignment costs	\$0.2
<b>Taxes</b>	<b>-\$0.2</b>
Tax reduction proposal	-0.2
<b>Total solutions</b>	<b>\$2.1</b>
<b>Establish 1995-96 General Fund reserve</b>	<b>0.1</b>

<sup>a</sup> Detail does not add to totals due to rounding.



# Governor's State/County Realignment Plan<sup>a</sup> 1995-96

(In Millions)

<b>State Costs Shifted to Counties</b>	
Increase county share of AFDC costs	\$1,157
Shift programs to counties	
Foster care	329
Child welfare and abuse prevention	298
Adoption	83
<b>Total</b>	<b>\$1,868</b>
<b>State Resources Shifted to Counties</b>	
Shift state sales tax revenues	\$710
Increase state trial court block grants	605
Return trial court fines and forfeiture revenues	311
<b>Total</b>	<b>\$1,626</b>
<b>Net State Savings</b>	<b>\$241</b>

<sup>a</sup> Detail may not add to totals due to rounding.

- The administration proposes to offset net county costs with mandate and maintenance of effort relief.



# 1995-96 Governor's Budget Major Budget Risks

(In Billions)

	Potential Deterioration By End of 1995-96
<b>Federal Actions</b>	
Welfare grant reductions and other savings dependent on federal legislation/waivers	\$0.9
Additional immigrant/refugee funding	0.6
Medicaid administrative/case-management funds	0.4
<b>Local Actions</b>	
AFDC grant savings to state from realignment	0.1
<b>Pending Litigation</b>	
<i>CTA v. Gould</i> invalidating Proposition 98 loans	3.0
<i>PERS v. Wilson</i> requiring payment of deferred retirement contributions	1.0
<i>Welch v. Anderson</i> challenging 1994-95 AFDC welfare grant reductions	0.1



## State Revenue Effects of the Tax Reduction Proposal<sup>a</sup> 1995-96 through 1998-99

(In Billions)

State Revenue Effects	1995-96	1996-97	1997-98	1998-99	Four- Year Total
<b>Personal Income Tax</b>					
Continuation of high-income tax brackets after 1995	\$0.3	\$0.8	\$0.9	\$1.0	\$3.0
Phase-in of 15 percent tax cut	-0.4	-1.5	-2.7	-3.6	-8.3
<b>Net effect</b>	<b>(-\$0.1)</b>	<b>(-\$0.7)</b>	<b>(-\$1.9)</b>	<b>(-\$2.7)</b>	<b>(-\$5.3)</b>
<b>Bank and Corporation Tax</b>					
Phase-in of 15 percent tax cut	-\$0.1	-\$0.4	-\$0.7	-\$1.0	-\$2.3
<b>Total State Revenue Effect</b>	<b>-\$0.2</b>	<b>-\$1.1</b>	<b>-\$2.6</b>	<b>-\$3.6</b>	<b>-\$7.6</b>

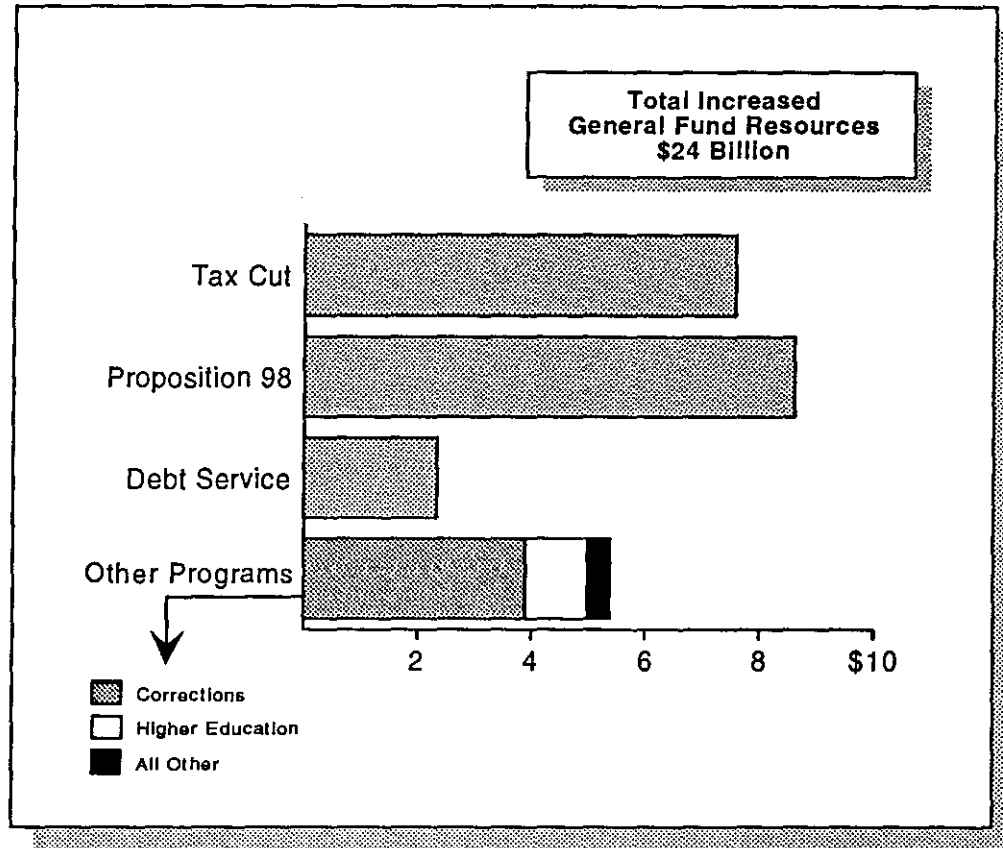
<sup>a</sup> Source: Department of Finance. Detail may not add to totals due to rounding.

- The high-income tax rates established in 1991 would continue rather than return to 9.3 percent in 1996.**
- Tax rates for both individuals and businesses would be reduced by a total of 15 percent from their 1995 level.**



# Tax Reduction Proposal Use of Increased Resources 1995-96 through 1998-99

(In Billions)



- ✓ After taking into account commitments the administration has made to corrections and higher education, there would be virtually no room for growth in the remaining approximately 40 percent of the budget.



## The Trigger Process For the 1995-96 Budget

### 1995

#### January 10

- Governor presents 1995-96 budget.

#### May—June

- Governor updates 1995-96 budget proposal and cash projections. Controller reviews projections and identifies any 1995-96 General Fund cash shortfall (a year-end cash deficit that exceeds the amount of available borrowable funds).
- Governor must propose legislation/budget changes to eliminate any 1995-96 cash shortfall.

#### June

- Enact 1995-96 budget. Budget must not result in any year-end cash shortfall.

#### October

- 1995-96 cash-flow financing: sell \$2 billion of revenue anticipation notes due June 1996.

#### October 15

- 1995-96 trigger determination: Controller reestimates year-end cash position with input and review by Legislative Analyst. A 1995-96 cash shortfall triggers subsequent actions.

#### October 31

- Governor must propose legislation for spending cuts/revenue increases to eliminate any 1995-96 cash shortfall identified by the Controller.

#### December 1

- Deadline to enact legislation to eliminate any 1995-96 cash shortfall.

#### December 5

- 1995-96 automatic spending cuts: If legislation not enacted, Director of Finance makes automatic spending cuts to eliminate 1995-96 cash shortfall.

### 1996

#### April

- Repay \$4 billion of revenue anticipation warrants issued in July 1994.

#### June

- Repay revenue anticipation notes issued in August 1995.



# COUNTIES

## Counties Provide State and Municipal Services

California's 58 counties play a dual role in providing services to their residents. First, counties are charged with the responsibility to administer a variety of *state-required* programs. Second, the counties administer a variety of *local* programs. These include some programs of state interest, such as public health and social services, as well as municipal services provided to residents of unincorporated areas of the county. In some cases, counties also provide municipal services to residents of incorporated areas, by agreement or contract with the city. The state-required and local responsibilities of counties are summarized below.

---

*County  
Responsibilities*

---

### State-Required Programs

Welfare (such as Aid to Families with Dependent Children) and general assistance  
County health services  
In-Home Supportive Services  
Mental health  
Corrections  
Trial courts

### Municipal Services

Fire protection  
Sheriff patrol and other sheriff activity  
Libraries  
Park and recreation facilities and services

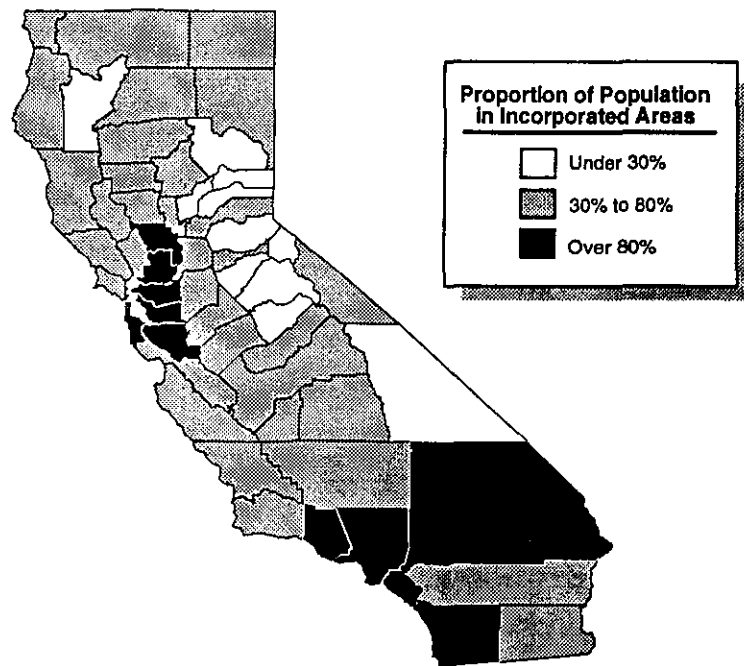
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## Great Variation in Portion of Population Living in Unincorporated Areas

In counties where much of the population lives in incorporated areas, residents receive most of the local services from cities. In other counties, the county government is more involved in the provision of municipal-type services to residents, although these counties may depend on special districts to provide some of these services.

As shown below, 12 counties have more than 80 percent of their population living in cities. These counties generally tend to be the most populous counties in the state, but some smaller counties also are highly incorporated, due to the adoption of growth management policies. In contrast, three counties—Alpine, Mariposa, and Trinity—have no cities. Consequently, all municipal services in these counties are provided by the county, or by special districts.

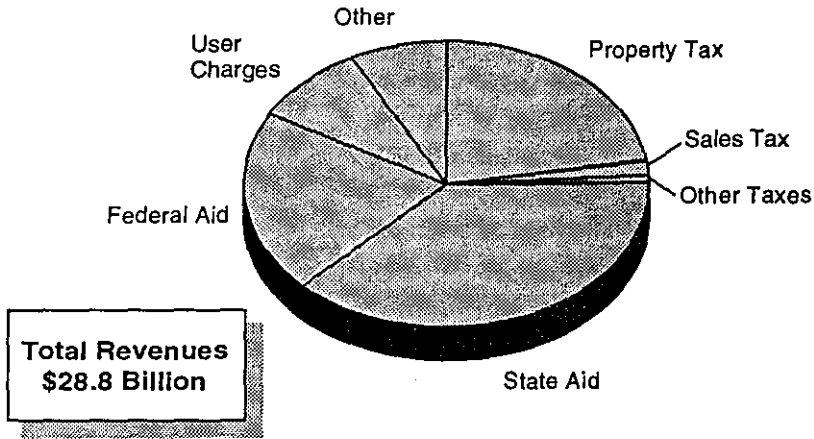
*Counties Show Great Variation in Proportion Of Population Living in Incorporated Areas*



## County Budgets Are Largely Driven By State Policy Choices

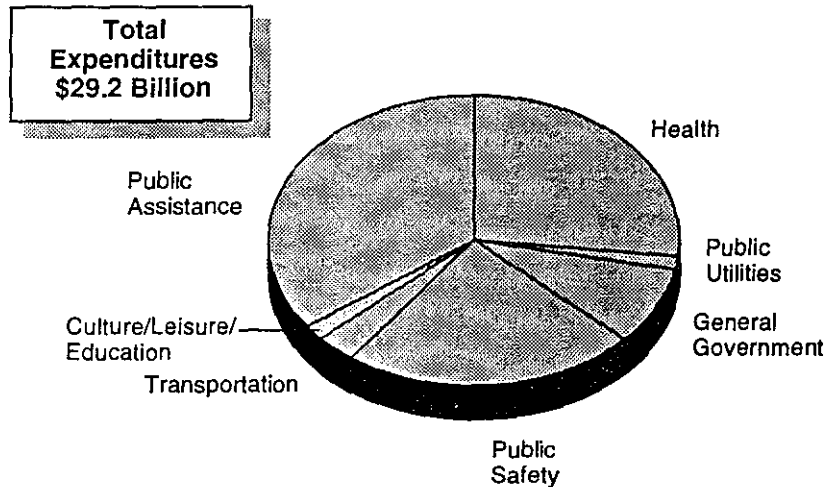
County revenues are derived primarily from state-controlled sources, including program-specific state aid, the property tax, and sales tax. In fact, state aid alone accounts for over one-third of county resources. Generally, counties have little control over how this money is spent.

*County Revenues  
1992-93*



County expenditures are largely dictated by state laws and budget actions with more than half of county revenues being spent for health and public assistance programs, and about one-quarter for public safety functions. Most of this latter spending reflects the costs of courts and jails.

*County Expenditures  
1992-93*



## The State Exercises Extensive Control In Most County-Administered Programs

As shown below, the state exercises significant program policy control in most county program areas. This is true whether the bulk of program funding comes from the state or from other (county or federal) sources. For example, although general assistance is funded entirely from county funds, the state determines the program policies that the county must administer. This relationship between state policy control and county funding requirements exists to an equal or lesser extent in most of the big county-administered programs.

*State's Involvement  
in County Programs  
1993-94*

Program	Policy Control	Operation	Funding
AFDC	Federal/State	Counties	
SSI/SSP	Federal/State	Federal	
General Assistance	State	Counties	
Mental Health	Counties	Counties	
Medi-Cal	Federal/State	State/Counties	
Indigent Health Care	State/Counties	Counties	
Public Health	State	Counties	
Courts	State	Counties	
Custody/Supervision	State/Counties	Counties/State	
Prosecution/Defense	State	Counties	
Public Safety	State	Counties/Cities	
Transportation	State/Local	State/Local	

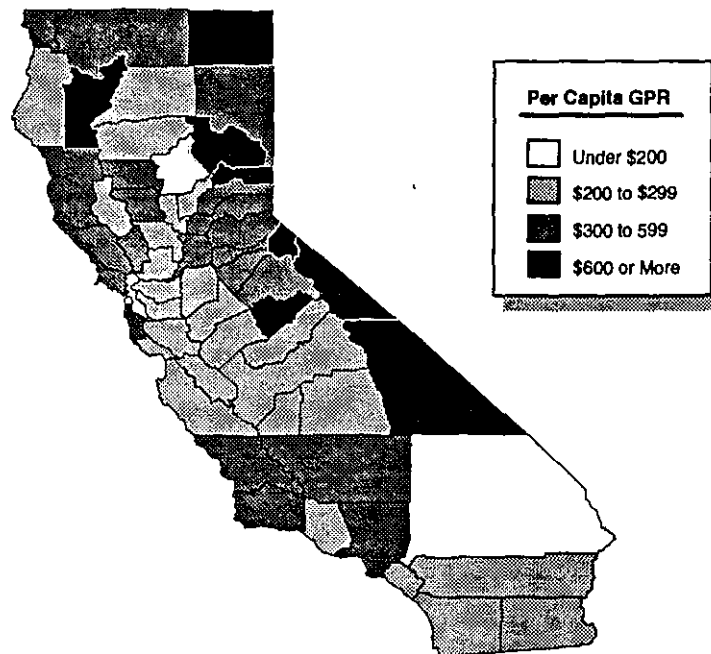
Federal
  State
  Local

## Counties Vary Greatly in the Revenues Available for General Purposes

Counties pay for their share of state-required program costs and for local programs out of the revenue they have available for general county purposes. County general purpose revenue (GPR) comes from a variety of sources, including the property tax, state general purpose subventions, and the sales tax. Due to the constraints imposed by Proposition 13, counties have very limited power to increase GPR.

The amount of GPR available to cover state-required program costs and local services in counties varies significantly. In fact, we estimate that in 1992-93 GPR ranged from less than \$200 per capita in San Bernardino County to about \$2,460 per capita in Alpine County. The statewide average GPR per capita in 1992-93 was roughly \$279, excluding San Francisco (which as a city and county is not comparable to other counties), with over 80 percent of counties having per capita GPR of \$200 - \$500. The figure below illustrates this wide disparity in county GPR.

*County Revenues Available for General Purposes*



# SPECIAL DISTRICTS

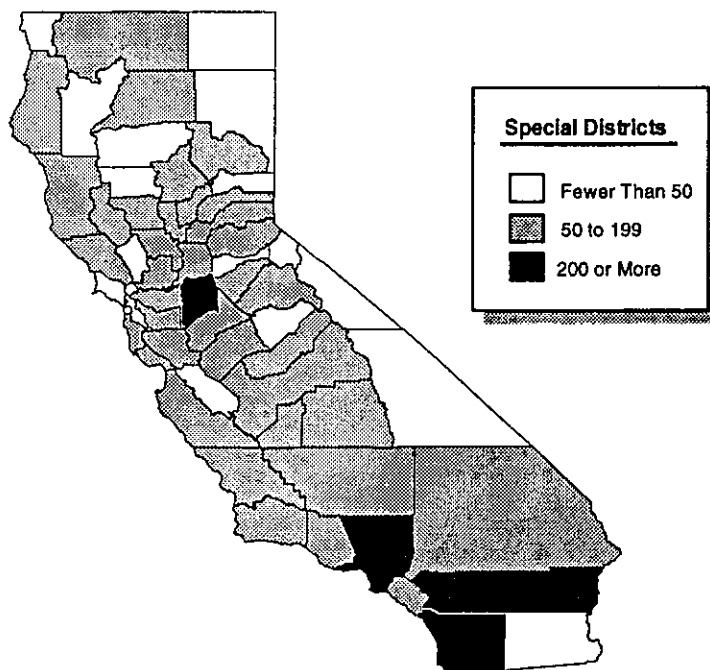
## California Residents Vary In Their Reliance Upon Special Districts

Special districts are a unit of local government—separate from cities and counties—which provide public services such as fire protection, waste disposal, water supply, electric utilities, and libraries.

California residents vary in their reliance upon special districts. Some residents receive most of their services from their city or county government, not from special districts. Other residents receive many public services from “independent” special districts (those with independently elected governing boards) and “dependent” special districts (those districts in which the city council or board of supervisors serves as the governing board).

The counties colored in white in the map below have relatively few special districts providing services to their residents. The counties shown in black have over 200 special districts.

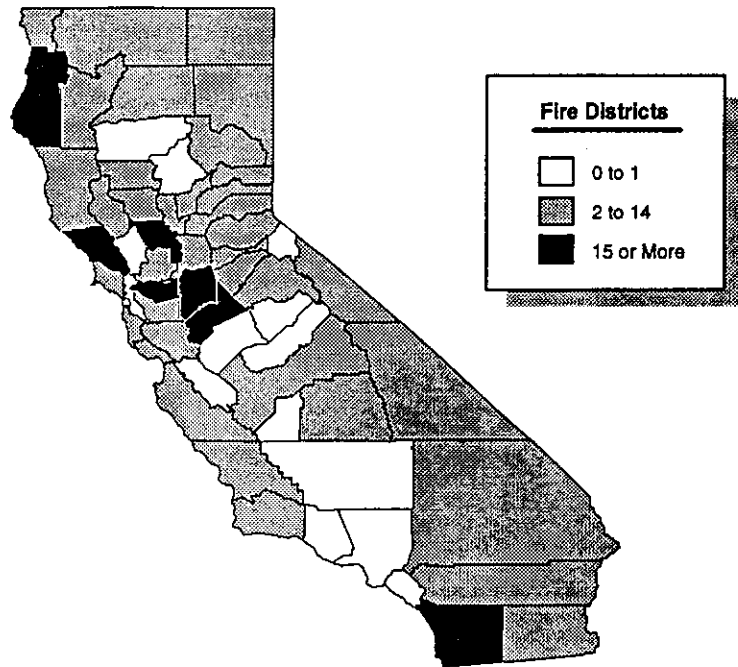
*Counties with  
the Most  
Special Districts*



## Number of Fire Districts

Another way to look at the variation in reliance upon special districts is to look at the different ways essential services are provided to county residents. Residents of the counties shown in white in the map below, for example, receive fire protection services from a city- or county-controlled fire department—or a single special district. Residents in the seven counties shown in black, on the other hand, are served by 15 or more fire districts. Each fire district covers a specific geographical area.

*Counties with  
the Most  
Fire Districts*



## Special District Revenues Total \$11 Billion

California special district revenues totaled \$11 billion in 1991-92. This amount is six times greater than the revenues of California's redevelopment agencies and about half that of California's cities.

As the figure illustrates, water supply, transit, and electric utility districts account for most special district revenues. These "enterprise" districts charge fees to users of their services and are organized like businesses. "Nonenterprise" districts—such as fire, lighting, and streets and road maintenance districts—finance most of their activities from property tax and property assessment revenues.

The figure also shows that special districts collected \$1.9 billion in property taxes in 1991-92. The amount represents about 9 percent of statewide property tax revenues. Fire protection, water, waste disposal, flood control, and recreation and parks districts received 85 percent of these special district property taxes. Library, cemetery and memorial districts, in contrast, each received less than 1 percent of special district property taxes.

	Number of Districts <sup>a</sup>	Total Revenues	Property Tax Receipts
(Dollars in Millions)			
<b>Enterprise</b>			
<i>Services Provided By Special Districts</i>	Water	897	\$2,329
	Waste Disposal	622	1,090
	Hospital	78	1,459
	Electric Utility	53	1,556
	Transit	51	1,804
	Airport	15	71
	Harbor and Port	12	86
	Subtotals	(\$8,393)	(\$765)

*Continued*



	Number of Districts <sup>a</sup>	Total Revenues	Property Tax Receipts
<b>Nonenterprise</b>			
Fire Protection	576	\$827	\$648
Lighting and Maintenance	574	40	24
Streets and Roads	392	82	10
Recreation and Parks	295	360	196
Cemetery	254	40	18
Drainage	206	32	5
Self-Insurance	147	1,130	—
Land Reclamation	129	31	2
Resource Conservation	111	5	2
Flood Control	95	489	198
Ambulance	72	38	9
Pest Control	68	55	37
Police Protection	49	41	14
Local and Regional Planning	46	47	—
Governmental Services	40	97	4
Library Services	38	40	17
Air Pollution Control	32	193	8
Memorial	26	3	2
Television Translator	13	2	—
Parking	12	16	—
Health	9	73	—
Animal Control	6	8	—
Underground Electric and Communications	3	4	—
Subtotals		(2,785)	(1,195)
<b>Totals</b>		<b>\$11,178</b>	<b>\$1,960</b>

<sup>a</sup> Total districts shown exceeds number of special districts statewide because some districts provide more than one service.

# REDEVELOPMENT AGENCIES

## Redevelopment: A Tool to Mitigate Urban Blight

Redevelopment is a process used by communities to correct deteriorated conditions in their urban areas. To start redevelopment activities, state law authorizes each city and county to activate a local redevelopment agency. Working with this redevelopment agency, a community may establish a "project area" and use two extraordinary powers (described below) to undertake activities needed to cure the project area's "blighted" conditions—and provide affordable housing.

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### *Redevelopment Agency Powers*

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#### **Tax-Increment Financing**

When a community establishes a redevelopment project area, the amount of property taxes flowing to taxing agencies serving the area are generally frozen. Cities, counties, schools, and special districts continue to receive all the property taxes they had received up to that point. Most of the *growth* in property taxes in the project area, however, is allocated to the redevelopment agency as "tax-increment" revenue.

#### **Property Management**

Redevelopment agencies have broad property management powers, including the authority to acquire property by eminent domain and to sell, lease, clear, or develop real property in a redevelopment project area.

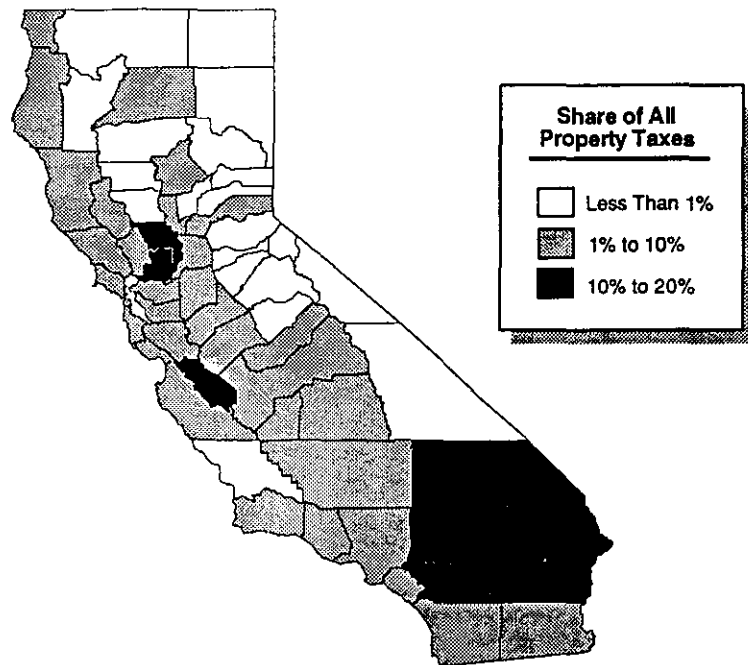
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## Communities Vary in Their Use of Redevelopment

Some redevelopment project areas encompass vast acreage. Others span a few blocks in a downtown. Several older redevelopment project areas generate substantial tax-increment property tax revenues; most new projects generate little because of the time required to generate new value.

One way to look at the variation in redevelopment statewide is to examine the share of property taxes collected in a county that is allocated to redevelopment agencies. Local redevelopment agencies in Riverside County, for example, receive a large share of property taxes because the agencies have established many large redevelopment project areas—and the property values in these areas have grown more rapidly than other areas over the years.

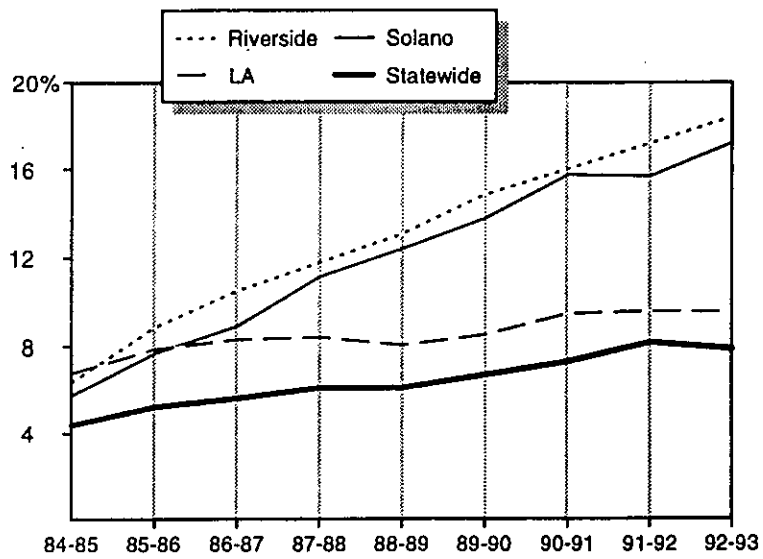
*Redevelopment Agency Share of Property Taxes Varies By County*



## Redevelopment Share of Property Taxes Statewide Has Grown

Overall, the proportion of property taxes allocated to California's redevelopment agencies has grown steadily over the years. This growth reflects increases in the number of redevelopment project areas in California—and increases in project area property values.

*Property Tax Share*

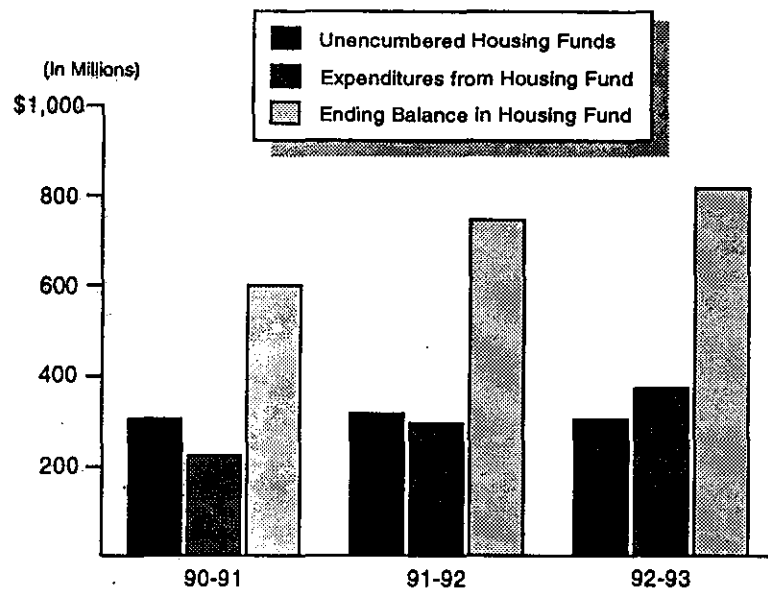


## Redevelopment Misuse and Reform

Over the years, the Legislature has voiced concerns that some local redevelopment agencies:

- Established project areas on large tracts of vacant or unblighted land.
- Provided sales tax subsidies to auto dealerships and retailers.
- Failed to spend their affordable housing funds, thus accumulating large reserves of unencumbered housing funds as shown in the chart below.

*Redevelopment  
Housing Fund*



To address these concerns, the Legislature enacted Chapter 942, the Community Redevelopment Law Reform Act of 1993 (AB 1290, Isenberg). This measure strengthens statutory requirements that redevelopment project areas be urban and blighted, limits agency authority to assist retail businesses, and increases the penalties to agencies which fail to spend their housing funds in a timely manner.