6-11-1990

The State/Local Fiscal Crisis

Assembly Committee on Local Government

ASSEMBLY LOCAL GOVERNMENT COMMITTEE

Summary Report of Proceedings

THE STATE/LOCAL FISCAL CRISIS

June 11, 1990
2 P.M. - Room 4202
State Capitol
Sacramento, California

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California Legislature
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SAM FARR
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SUMMARY OF FINDINGS AND RECOMMENDATIONS FROM THE ASSEMBLY LOCAL GOVERNMENT COMMITTEE HEARING ON THE STATE/LOCAL FISCAL CRISIS
JUNE 11, 1990
ROOM 4202 - STATE CAPITOL
SACRAMENTO, CALIFORNIA

The special hearing of the Assembly Local Government Committee was called to order by Chairman Sam Farr upon adjournment of the Assembly Ways and Means Committee. That body had just adopted its subcommittee reports for the state's 1990-91 budget. There was an air of gloom surrounding those proceedings, since committee members realized that there was yet much work to be done on the budget in order to meet a projected $3.6 billion shortfall.

Chairman Farr pointed out that one reason for the meeting was to discuss the impacts of the Governor's proposed budget on counties. The Administration's suggestions for managing the budget crisis included further reductions in local appropriations. The objectives of the hearing were to help assess the counties' fiscal condition, to discuss the impact of changes in state appropriations to the counties, and to evaluate potential solutions to the fiscal crisis.

Farr indicated that he hoped the testimony would help to answer three questions:

1) What kind of services should counties provide?

2) Do counties have sufficient discretion to raise revenues to meet desired service levels?

3) Should the Legislature consider realigning counties' fiscal responsibilities?

The Chairman acknowledged several parties who helped with hearing preparations, including county representatives, CalTax, the staff of the Senate and Assembly Revenue Taxation Committees, and Judi Smith of the Ways and Means Committee.

OVERVIEW

The first segment of testimony at the hearing provided an overview of both the state and counties' fiscal condition. Mr. Pete Schaafsma of the Legislative Analyst's Office (LAO), outlined the state's financial situation. He indicated that the state would fall about $3.5 billion short of funding the 1990-91 budget, depending on priorities and assuming a $1 billion reserve. The passage of Proposition 111 on June 5 resulted in about $2.1 billion of "room" in the state's Gann limit. However, even if the state could raise revenues to fill the limit, about $900 million of that revenue must be directed to schools under the provisions of Proposition 98. That only leaves $1.1 billion to address the shortfall.

Mr. Dick Simpson, Director of the California Counties Foundation Research Division of the County Supervisors Association of California (CSAC), shared with the committee some preliminary results of a study currently in progress. The study includes information gathered during site visits to 18 counties and surveys completed by all the counties.

Simpson's testimony indicated that in the past it was primarily the small, rural counties that were subject to financial problems. However, fiscal stress has now hit the large counties as well. The crisis has been developing for some time but was masked by the AB 8 bailout, stabilization legislation, and property tax growth. The problem, according to Simpson and other witnesses, is "structural." Counties' ability to generate revenue does not match its required expenditures. (See Appendix D)

Simpson cited the financial status of the counties visited during the study. Almost all 18 were in financial distress, anticipating shortfalls in meeting their 1990-91 budgets. While there was some diversity in the reasons for this duress, common themes were costs associated with construction and operation of new jails, programs required by the state but operated and at least partially funded by counties, and inability to raise adequate revenues.

Ms. Juliet Musso of the Legislative Analyst's Office indicated that while there is no direct link between the results of the CSAC study and the Analyst's report on "Variations in County Fiscal Capacity, The 1990-91 Budget: Perspectives and Issues, pp. 323-344," the LAO study outlines a similar problem (See Appendix E).

The LAO report defines county fiscal capacity as "the ability of a county to meet whatever public service needs may arise in its community with the resources it has available to it. Low fiscal capacity leads to fiscal distress when the imbalance between resources and responsibilities leads the county to have severe difficulty addressing service needs." Musso indicated that there were several items in the Governor's budget that would further reduce counties' fiscal capacity: a reduction in AB 8 appropriations, deferment of mandate reimbursement; and a reduction in MIA (Medically Indigent Adult Program) funds. She suggested that the Legislature provide adequate funding for the county stabilization program and a "slush fund" to help counties balance their budgets on a very targeted basis.

Musso also discussed the problem of county costs associated with state-required programs. Under provisions of the State Constitution, the state must reimburse local governments only for programs enacted after 1974 and not disclaimed under specific conditions. As a result, the majority of costs associated with required programs are not reimbursed. The LAO estimates that, for the latest year in which data are available, the counties spent $3.7 billion of local revenue for state-required programs. Of these costs, only $46 million were reimbursed by the state.

Mr. Fred Klass of the Department of Finance responded to Chairman Farr's questions regarding the administration's current proposals to balance the budget. Klass indicated that the Governor is meeting with leaders of the Senate and Assembly to determine a course of action. With regard to Butte County, there will be no bailout proposal from the Department of Finance until the county's budget situation is clear.

IMPACTS OF THE GOVERNOR'S 1990-91 BUDGET PROPOSALS

As proposed in January, the Governor's budget would have made cuts in county appropriations in several areas. Mr. Cliff Allenby, Secretary of the Health and Welfare Agency, indicated that he had "no good news" for the committee. Although the Legislature has modified the Governor's budget, further reductions must be made to accommodate the state's revenue shortfall. Allenby indicated that the Legislature and the Governor will have to look at the resources available and fund the priority programs. The state may have to reduce requirements it has placed on counties. He agreed with Chairman Farr that program decisions should be made -- to the extent possible -- by the agency which has the resources.

Santa Cruz County Chief Administrative Officer, Ms. Susan Mauriello, cited examples of the effects of reduced state appropriations. Proposed cuts in the In-Home Supportive Services Program (IHSS) would cause a reduction or elimination of services for at least 750 people in her county. It would also cause a loss of wages for their caregivers who may then need other county services themselves. Another major cause for uneasiness is threatened cuts in services for children and families. Reductions in licensing requirements for day care homes is particularly frightening.

Mauriello related to the committee that she had just returned from New York where she had met with a rating agency in conjunction with pursuing debt financing for the county. She discussed an indirect effect of California's state/local fiscal crisis: rating agencies are watching the California situation very closely and the inability of its public agencies to raise sufficient revenue to match its obligations could have an adverse impact on bond ratings.

The October 17, 1989, earthquake also produced a crisis. In the aftermath, state and local agencies pulled together to manage the disaster and work toward normalcy. Mauriello suggested that this same type of cooperative effort should be employed to respond to the current fiscal dilemma.

Ms. Karen Coker, CSAC Legislative Representative, outlined the consequences of the budget crisis in the health and welfare area, particularly in the following programs: AB 8/County Health Services, Medically Indigent Services, Mental Health, Child Welfare, In-Home Supportive Services, and Medi-Cal Optional Benefits (See Appendix F).

According to Coker, a common consequence of these program reductions is that they are noneconomic. Reductions in one program would result in increased demands on another, either immediately or in the future. For example, if counties do not maintain a prescribed level of service in certain programs, they will not be eligible to receive tobacco tax funds under AB 75. Also, treatment or preventive care not administered now will result in additional health and welfare impacts now and in the future. This was graphically illustrated by a list of referrals not assigned for treatment by the public health nurse in Yolo County due to lack of staff. The cases included premature babies with respiratory problems, a low birthweight baby with signs of abuse, numerous pregnant women with problems including physical abuse, retardation, and drug abuse.

Supervisor Don Perata of Alameda County told the Committee that his county's biggest problems are crack cocaine, homelessness, and AIDS. The county faces a $50 million gap in its 1990-91 budget. Further reductions in state funds will compound the problem, both financially and pragmatically. More cuts will result in more crime and greater health problems, partially because the county will have to close a jail and its hospital. Poor persons in need of medical care will have difficulty finding it since other providers are reluctant to treat MediCal patients because of inadequate compensation and excessive paperwork.

OPTIONS FOR COUNTIES

The last panel of witnesses at the hearing had been asked to address possible solutions to the current fiscal situation. Their suggestions included both short- and long-term responses.

Supervisor Perata stated that the counties' partnership with the state is no longer working. They are expected to administer programs for the state but lack the revenues to do so. Alameda County is looking at several internal solutions in an attempt to manage its own shortfall. These include asking employees to forego raises, closing county offices one day a month, and selling off county assets such as the Coliseum and fairgrounds. Perata noted, however, that disposing of these assets would not even raise enough money to keep the hospital in operating condition.

Mr. Perata suggested several courses the Legislature might pursue, given the current financial situation:

1) Suspend the provisions of Proposition 98 for a year to free up more money for the general fund.
2) Expand the alcohol tax increase proposed in ACA 38 (Cortese).
3) Extend the sunset date on the 1/4 cent sales tax currently imposed for earthquake relief.
4) Eliminate the MediCal program since "it can't be reformed."
5) Buy out the General Assistance program currently operated by counties.

Perata told the committee that counties can't take further reductions in state appropriations: "There ain't no more to cut. Too many people here are no longer living in a Golden State." (See Appendix G)

Supervisor Jane Dolan of Butte County told the committee that her county will probably file bankruptcy later this summer. County officials see no other way of handling their financial deficit. She had four suggestions for legislative action that could help the county on a long term basis:

1) Revisit AB 8: the program does not recognize population growth which has a substantial impact on case loads and the cost of the program.
2) Put counties on the same footing as cities with regard to their ability to raise revenues.
3) Recognize that programs for the needy (e.g. AFDC, General Assistance, Public Defender, etc.) are <u>state</u> programs and have the state take responsibility for them.
4) Change the redevelopment laws to prevent the drain on county treasuries.

Mr. Clark Channing, Chief Administrative Officer of Merced County and President of the County Administrative Officers Association, suggested that the first priority should be to determine an appropriate level of service for state programs carried out by counties. This step will help to determine the revenue options which should be made available to counties. He referred to the options outlined in the committee's background report as a starting place. Channing pledged that his colleagues would be available to assist the Legislature in establishing priorities and evaluating revenue options (See Appendix H).

Ms. Rebecca Taylor, Vice-President of the California Taxpayers Association (CalTax), recounted to the committee the results of a CalTax study which showed that counties are "most under the gun of all local agencies." To compound this, counties are not equal players in annexations and redevelopment.

Taylor said that there is no fiscal accountability in California. The state establishes programs and then requires that counties administer and finance them. CalTax believes that the state must fund its mandates. Taylor suggested three options for the committee's consideration:

1) Require a two-thirds vote of the Legislature for approval of any mandate.
2) Make the state responsible for state programs.
3) Redesign the disability retirement program because it creates an unreasonable burden for public agencies.

In addition, witnesses from previous segments of the hearing suggested several options in their testimony. Ms. Musso discussed, without endorsing four short-term options as follows:

1) A waiver of county match requirements, as provided in AB 2800 (Farr) could give "hundreds of millions of dollars" of relief.

2) If the Legislature provided "targeted relief" to counties it could use as an index of fiscal stress the growth rate in local purposes revenue.

3) Fully funding the Revenue Stabilization program with a 1990-91 appropriation of $40 million to $50 million.

4) Provide a "slush fund" in 1990-91 to help counties balance their budgets.

Cliff Allenby argued that the state and the counties need to work together to solve state/local fiscal problems. Mr. Allenby said that although he would prefer to increase appropriations for counties, revenues are insufficient to cover all funding needs. Allenby suggested consideration of the following options:

1) Decategorization, even though previous proposals for block grants have failed passage.

2) Reduction in program requirements.

3) Increased flexibility to counties in administering programs.

In general, he believes that local government, rather than the state, should have authority to make program and funding decisions because local government is the best source for decision making.

CSAC's Coker suggested that if cutbacks could not be avoided, the Legislature could reduce the burden for counties in three ways:

1) Decategorize mental health funds so they could be allocated according to local needs.

2) Exempt counties from the costly Beilenson Act hearings required to be held prior to reducing services or closing facilities.

3) Modify the maintenance of effort requirements of AB 75 which are required to receive Proposition 99 funds.

Channing compared the current state/local fiscal crisis to the casualties resulting from the Loma Prieta earthquake in October of 1989. He also suggested that the state take action now similar to the level of response it exhibited following the earthquake.

Larry Naake, Executive Director of CSAC, told the committee that the state needs to have a serious discussion regarding the role of counties. The "dual role" where counties act both as the arm of the state and as municipal service providers has been eroded. He suggested establishing a goal for a ratio of discretionary vs. nondiscretionary funds for counties.

Naake urged the Legislature to pursue structural reform of the state/county relationship. Such a reform could include:

1) Revision of the current mandate system.

2) Reallocation of revenues and programs (realignment).

3) Provision of a local source of revenues.

4) Transferal of the court system to the state.

For realignment, the state could assume all costs associated with Aid to Families with Dependent Children (AFDC) and trial court funding. The counties could assume the costs for mental health, health, and social services, provided an adequate revenue source was made available (See Appendix I).

Chairman Farr thanked the participants for their contributions and their patience. He said that he would like to work toward a "local government vision" of how to provide and pay for services and asked the witnesses for their cooperation in crafting a legislative proposal to restructure our current system. He also indicated that discussions would continue regarding solutions to the current state/county budget situation.

APPENDIX A

California Legislature
Assembly Committee on Local Government

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A G E N D A

STATE/LOCAL FISCAL CRISIS

JUNE 11, 1990
ROOM 4202 - STATE CAPITOL
3 P.M. - 5 P.M.

I. OVERVIEW

Dick Simpson, Director
California Counties Foundation Research Division,
County Supervisors Association of California (CSAC)

Fred Klass, Assistant Program Budget Manager,
Department of Finance

Pete Schaafsma, Principal Program Analyst
Legislative Analyst

Juliet Musso, Program Analyst
Legislative Analyst

II. SPECIFIC IMPACTS OF THE GOVERNOR'S 1990-91 BUDGET PROPOSALS

Cliff Allenby, Secretary
Health and Welfare Agency

Karen Coker, Legislative Representative
County Supervisors Association of California

Susan Mauriello, Chief Administrative Officer
Santa Cruz County

III. EFFECT OF STATE MANDATES ON LOCAL FINANCE

David Janssen, Assistant Chief Administrative Officer
San Diego County

IV. OPTIONS FOR COUNTIES

Larry Naake, Executive Director
County Supervisors Association of California

Rebecca Taylor, Vice President
California Taxpayers Association

Clark Channing, President
County Administrative Officers' Association

Don Perata, Supervisor
Alameda County

Jane Dolan, Supervisor
Butte County

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CHAIRMAN

BACKGROUND PAPER

STATE/LOCAL FISCAL CRISIS

June 11, 1990
Room 4202, State Capitol
3:00 - 5:00 p.m.

Introduction

Through each budget bill, the state annually appropriates billions of dollars to local governments. For 1990-91, the Governor originally proposed to appropriate $2.5 billion in General fund money directly to counties, cities and special districts. Of this amount, all but $200 million would fund either specific programs of statewide interest or reimburse local governments for costs associated with legislative mandates. In addition, the governor proposed an additional $11 billion in local assistance for individuals and service providers for health and welfare grants and services.

As the Legislature considers how to accommodate its multi-billion dollar deficit, it may wish to reduce some local assistance appropriations. Counties would be particularly vulnerable to any such reductions in appropriations. They administer more programs of statewide interest than do cities and special districts. Yet, they generally have less discretion to raise revenue. Consequently, if the state wishes to reduce state appropriations to counties and maintain service levels, it must provide additional revenue raising authority to the counties.

This informational hearing has been called so that interested parties may assist the Legislature in its deliberations on how to adjust the state-county fiscal relationship. This paper contains a brief description of the existing county fiscal structures and an outline of county-based expenditure and income options.

Overview of the County Fiscal Structure

The state's 58 counties provide a variety of services. As political subdivisions of the state, counties serve as administrative arms for the state by administering programs in the areas of public health and welfare, courts, jails and criminal justice, and elections. Even though they also address parochial needs, these programs substantially serve a statewide interest.

Counties also function as independent governmental entities which provide or coordinate many services which are primarily local in nature. Service levels and programmatic decisions are made primarily at the local level. In this capacity, counties levy, assess, collect and allocate the property tax. They also provide sheriff's patrols, libraries, parks and transportation programs. In unincorporated areas they also provide essential municipal services.

The counties' 1989-90 budgeted appropriations, as detailed in the counties' adopted budgets, are listed in Table 1. The table divides county appropriations into nine traditional categories and lists both dollars appropriated and the share of appropriations made in each category.

TABLE 1

BUDGET REQUIREMENTS BY FUNCTION 1989-90
(Dollars in Millions)

Function	Amount		Percent of Total	
General		$3,204.1		14.4%
Public Protection				
Judicial	$1,853.0		8.4%	
Police Protection	1,427.4		6.4	
Detention & Correction	1,550.5		7.0	
Fire Protection	333.0		1.5	
Flood Control	4.3		0.0	
Protective Inspection	155.5		0.7	
Other	544.4		2.5	
Total, Public Protection		5,868.1		26.5
Public Ways and Facilities		1,246.5		5.6
Health and Sanitation		2,819.3		12.7
Public Assistance				
Welfare Administration	1,746.1		7.9	
Social Service & Aid	5,243.7		23.6	
Medical Services	11.6		0.1	
General Relief	251.3		1.1	
Care of Court Wards	8.8		0.0	
Veteran's Services	6.8		0.0	
Other Assistance	604.8		2.7	
Total, Public Assistance		7,873.1		35.5
Education	238.8			1.1
Recreation and Cultural Services	340.7			1.5
Debt Service	121.0			0.5
Reserves & Contingencies	472.4			2.1
TOTAL, BUDGET REQUIREMENTS		$22,184.0		100%

Totals do not include City and County of San Francisco.
Table data do not include "enterprise activities."

Source: State Controller's Office, County Budget Requirements and Means of Financing (1989-90).

As seen from this display, public assistance and public protection services account for more than half of a county's appropriations. The cost for these programs, together with costs for public health programs, are difficult to control because service levels are often prescribed in state law and because expenditures are often caseload driven.

County services are financed through a combination of local revenues, federal and state transfers and debt. Table 2 displays the amount of budgeted revenue from these sources, together with each source's share of the total. As displayed, state transfers and property tax revenues finance more than 50 percent of local services.

TABLE 2

MEANS OF FINANCING, BY SOURCE
(Dollars in Millions)

Function	Amount		Percent of Total	
Taxes				
Property	$4,236.9		19.1%	
Other	1,001.5		4.5	
Total, Taxes		$5,238.4		23.6%
Licenses and Permits		231.7		1.0
Fines, Forfeitures & Penalties		369.7		1.7
Use of Money and Property		560.5		2.5
Intergovernmental Transfers				
State	7,753.1		34.9	
Other	4,020.7		18.1	
Total, Transfers		11,773.8		53.1
Charges for Current Services		1,762.2		7.9
Other Revenues		1,070.4		4.8
Other Available Funds				
Fund Balance	1,048.2		4.7	
Cancellations of Prior-Year Reserves	129.8		.6	
Total, Other Available Funds		1,178.0		5.3
TOTAL FINANCING MEANS		$22,184.7		100%

Totals do not include the City and County of San Francisco. Data do not include "enterprise activities."

Source: State Controller's Office, County Budget Requirements and Means of Financing (1989-90)

County reliance on state transfers increased throughout the 1980s and is likely to continue. This is primarily due to the tax limitations imposed throughout the last 12 years, beginning with the passage of Proposition 13. As the Legislative Analyst reported in 1988:

> Prior to the voters' approval of Proposition 13, county governments had direct control over their largest single revenue source, the property tax. Counties could independently raise the level of taxes necessary to finance both the programs desired by their citizens and the programs required by state law. Now, the only revenue source of any significance remaining under county control is charges for current services, which accounted for 8 percent of total county revenues in 1984-85. (Legislative Analyst's Office, The 1987-88 Budget: Perspectives and Issues, p. 247.)

As described in the revenue section of this paper, the tax limitations imposed by Proposition 13 have been furthered by Proposition 62, while a series of court decisions have helped define the impact of these initiatives.

As counties increase their reliance on state transfers, their budgets run the risk of reflecting statewide, rather than local, priorities. When the state transfers revenue, it often requires that the counties provide some assurance that the transferred funds are spent with some accountability. Moreover, the state may make transfers while attempting to achieve statewide programmatic objectives by funding specific, statutorily-defined programs. Thus, while state transfers may increase local revenues, they may not increase the amount of revenues available for programs of parochial or discretionary interest.

Local Assistance Programs Recently Adopted by the Legislature

In the past several years, the Legislature has provided additional funding to help the counties manage within their limited budgets. Most notable are the Trial Court Funding and Revenue Stabilization programs.

The Trial Court Funding program was established by SB 612 (Presley)--Chapter 945, Statutes of 1988. The program provides local assistance by (1) supplementing salaries for municipal and justice court judges, and (2) providing block grants for funding trial court operating expenses and supplements for new judgeships, In 1989-90, the program provided $400 million in additional money to counties. Because most of the additional money offset costs which would have been financed through local discretionary revenues, the program serves to "free-up" discretionary money for most counties. The Governor proposes expenditures of $455 million.

The Revenue Stabilization program was enacted by adoption of AB 650 (Costa)--Chapter 1286, Statutes of 1987. This program helps protect counties from spending an increasing share of their discretionary funds to meet their match requirements on four welfare programs: Aid to Families with Dependent Children (excluding Foster Care), In-Home Supportive Services, Community Mental Health, and Food Stamps. Under the program, whenever a county spends a greater share of its general purpose ("discretionary") revenues than it did in 1981-82, the county receives a subsidy through an appropriation of stabilization program funds. The subsidy can be up to the full amount of those county costs in excess of the county's 1981-82 ratio. The program has never been fully funded, so counties receive subsidies on a pro rata basis.

Mandates

In addition to these assistance programs, counties receive subventions for funding certain reimburseable mandates. As specified in Section 6 of Article XIII B of the State Constitution, the state must reimburse local agencies for costs incurred whenever the Legislature or any state agency mandates a new program or higher level of service for local agencies. Under the Constitution, subventions are not required if the mandate results from the request of the agency affected, legislation defining a new crime, or legislation changing the definition of a crime.

Importantly, the Constitution does not require reimbursement for programs or services resulting from legislation enacted prior to adoption of Section 6 in 1974. As a result, cost increases associated with programs pre-dating the constitutional protections may only be partially funded by the state.

Procedurally, local agencies may obtain reimbursement of state mandated costs in two ways. First, the legislation creating the mandate may appropriate funds for reimbursement of increased costs. A local agency may then file a reimbursement claim with the State Controller for its share of these funds. Second, if the original legislation does not appropriate sufficient funds for the mandate, a local agency may file a "test claim" with the Commission on State Mandates. After a noticed public hearing process, the Commission makes a determination on the merits of the test claim, and if it finds that a reimburseable mandate exists, the commission requests funding for the mandate from the Legislature in the form of a local government "claims bill". Once these funds have been appropriated for the costs of a mandate, any local agency which believes it is entitled to a reimbursement may file a claim with the Controller.

In addition, an appellate court decision, Carmel Valley Fire Protection District v. State of California, provides a mechanism for enforcing the state's constitutional obligation to reimburse mandate costs. Under the terms of the decision, under most circumstances, if the Legislature fails to appropriate funds for reimburseable mandates, the courts can order the payments made from the operating budgets of state agencies. In addition, the courts may authorize local governments to satisfy unpaid claims by offsetting the claim amount against other money the local government owes the state.

Recently, the Legislative Analyst estimated that counties spent $3.7 billion in local revenue on unreimbursed and state-required programs in 1987-88 (the latest year for which data were available). Some believe that the vast majority of these unfunded requirements were imposed prior to adoption of the constitutional reimbursement procedures, and therefore, part of the state's historical programmatic partnership within counties. Table 3 details these estimates by program area.

TABLE 3

**COUNTY EXPENDITURES
OF LOCAL REVENUES FOR STATE-REQUIRED PROGRAMS 1987-88
(Dollars in Millions)**

Program Areas	Amount	Percent
Judicial	$1,495	40.8%
Corrections	1,140	31.1
County Health Services	284	7.8
Mental Health	91	2.5
AFDC	321	8.8
IHSS	18	.5
Food Stamps	111	3.0
General Assistance	200	5.5
TOTAL	$3,660	100%

Source: Legislative Analyst's Office

Importantly, the Analyst's estimates does not reflect changes in state-funded local assistance developed since 1987-88. The Trial Court Funding program has provided significant amounts of new revenue for corrections programs. Even with this new money, however, it appears that counties will continue to use billions of dollars of local discretionary revenues to help finance state-required programs.

Structural Adjustments Advocated

County expenditures and revenues are out of balance. According to the Legislative Analyst, the counties' "fiscal difficulties . . . are long-term and structural in nature." When considering how to make structural changes, the Legislature may want to consider the components of the structure:

(1) Service Levels. What kinds of services should counties provide?

(2) Revenues. Do counties and their voters have sufficient discretion to raise revenues to meet desired levels of service?

(3) Alignment of Program and Funding Responsibilities. Are a county's programmatic responsibilities funded from appropriate sources?

The state can help restructure county finances by adjusting either the expenditure or income side of the county's fiscal equation, as detailed in the following sections.

Expenditures

One way to improve the local balance sheet is to reduce county costs financed with local funds. The state can help reduce county costs in three ways:

1. Waive Local Match or Cost-Share Requirements.

   The Legislative Analyst estimates that local governments will spend $1.3 billion in 1990-91 to meet state cost-share or match requirements. A waiver of these requirements would provide local governments with savings.

   If it authorizes the waiver, the Legislature may or may not require the state to backfill for the local cost share/match. If the state backfills, its costs increase. If the state does not backfill, program expenditures (and potentially service levels) will fall.

   Those favoring local match/share requirements argue that they improve the delivery of locally-administered programs. When a county has a financial stake in the cost of a program, it may have an incentive for reducing fraud and administrative overhead.

2. Suspend Unfunded Local Mandates.

The state could suspend some of the mandates which are not an essential governmental function until sufficient revenues are available. In a more extreme action, the state could repeal these mandates outright.

3. Require the State to Pay for More Local Programs.

Assuming that local service levels are appropriate (or should be raised), cost relief may be structured to shift costs from the county to the state. The state could increase its revenue sharing with the counties (increase its share of jail construction costs), or it could take over programs (such as General Assistance). Given the state's revenue shortfall, however, this option does not seem viable for the 1990-91 budget year.

Existing Limitations

Since Proposition 13, initiatives, statutes, court decisions and legal opinions have combined to limit local government's ability to raise or impose new taxes. The following is a history of these limitations:

1. Proposition 13

   This initiative established the basic tax limitations. It introduced, but did not define, the distinction between "general" tax levies imposed with a majority vote and "special" tax levies approved with a 2/3rds majority vote. A definition was supplied in the Farrell decision.

2. City and County of San Francisco v Farrell

   When the San Francisco voters approved a gross receipts tax by 55 percent margin, the city controller refused to certify that the funds were available for appropriation. The controller, John Farrell, argued that the tax levy was a special tax, imposed without the 2/3rds vote requirement required by Proposition 13. In this case, the Appellate Court defined "special" tax as a tax levied for a specific purpose. Under this definition, the San Francisco tax was not a special tax. Proposition 62, approved by the voters in 1986, codified this definition.

3. <u>Los Angeles Transportation Commission v Richmond</u>

The court considered whether a transit district could levy a transactions and use tax ("local sales tax") without meeting the stricter special tax super-majority vote requirements. The court ruled that the higher vote requirements did not apply because: (a) the transit district had taxing authority existing prior to the enactment of Proposition 13, and (b) even if it did not have this existing authority, Proposition 13 was a property tax measure and did not apply to a district which had no property taxing authority.

The court left open whether the lack of property tax authority was in itself sufficient to exempt a district or agency from the special tax provisions. Questions remain about the vote requirements for general tax levies made by special districts.

4. <u>Proposition 62</u>

With this statutory initiative, the voters attempted to codify the distinctions between special and general taxes, as defined in <u>Farrell</u>.

The initiative also required the Legislature to authorize districts to levy special taxes. In the wake of this initiative, the Legislature has authorized the use of special taxes for school districts, library districts and county service areas.

In addition, Proposition 62 did not provide sufficient guidance on the levy of general taxes by special districts. Given the terms of the Richmond decision, important questions remain about the conditions under which the Legislature may authorize a district to levy general taxes with a majority vote.

5. Schopflin v Dole

In this case, the court addressed questions about the election requirements imposed by Proposition 62. Although the case has been decertified and therefore applies only to taxes in Sonoma County, the logic of the case important. In Schopflin, the court held that the vote requirements in Proposition 62, amounting to a referendum on a tax levy, are a violation of Article 2, Section 9 of the California Constitution. The case raises questions about whether the statutory provisions of Proposition 62, by its own terms in requiring elections on levies, is unconstitutional.

Within this context, the Legislature has attempted to authorize counties to establish new districts with general taxing authority. In particular:

- SB 142 (Deddeh)--Chapter 786, Statutes of 1987, authorized counties to create transportation districts. The legislation also authorized the district to fund transportation improvements with an additional sales tax levy of up to 1%. The tax could be imposed with a majority vote of the electorate.

- o AB 999 (Farr)--Chapter 1257, Statutes of 1987, authorized counties to impose half-cent sales tax increases in small counties, provided that the increase was placed on the ballot by the board of supervisors and approved by a majority of the electorate.

- o AB 2505 (Stirling)--Chapter 1258, Statutes of 1987, authorized San Diego to establish a jail financing agency and to levy a half-cent sales tax with an approval by a simple majority of the voters.

- o AB 1067 (Hauser)--Chapter 1335, Statutes of 1989, authorized the formation of a local jail authority, whose governing board had a majority made up of county supervisors. The legislation authorized the jail's governing board to levy a sales tax increase with a majority voter approval.

The provisions of AB 2507 and AB 1067 were successfully challenged when the courts invalidated the bills' simple majority provisions. In these cases, judges found that the legislation made an impermissible attempt to circumvent the 2/3rds vote requirements on special taxes. In addition, the Attorney General issued an opinion (number 89-604) stating that the popular vote requirement in AB 999 was tantamount to a referendum on a tax levy. As such, the referendum was in conflict with Section 9 of Article II of the State Constitution, and therefore unconstitutional.

Twelve years after Proposition 13, counties face a great deal of confusion about the procedures and conditions for levying general taxes. Until a definitive, higher court opinion is rendered, local governments will operate with suspicions about the security and constitutionality of their newly imposed general tax levies. If the Legislature grants new or higher taxing authority, it will have to craft legislation within the narrow constraints imposed throughout the last 12 years.

Options

1. Broaden the General Tax Base.

   There are several multi-million dollar exemptions in the sales and use tax law and the property tax law. Selectively closing the existing "loopholes" -- even temporarily -- will increase money allocated to local governments. The Assembly Revenue and Taxation Committee is preparing a list of revenue raising options.

2. Impose or Authorize New Taxes

   Under current law, cities have taxing authority that counties lack, including the authority to levy:

   - Business License Taxes. Cities may impose business license taxes for regulatory and revenue purposes. Taxes may be imposed on the number of employees, receipts, sales or quantity produced. Most often, the tax is on a business' gross income.

   - Utility Users Taxes. Cities impose gross receipt taxes on utilities (including water, electricity, natural gas and cable television).

   The Legislature could extend to counties the same authority that cities have. The actual levy would be made by counties, subject to local review and the provisions of Propositions 13 and 4.

3. Selectively Raise Rates on Existing Taxes.

The Legislature may consider raising taxes through the following mechanisms:

- o Raise Rates on Statewide Taxes. The state imposes several general taxes including the Sales and Use, Personal Income, and Bank and Corporation taxes. It also imposes special taxes, including the Use Fuel Tax, and the Motor Vehicle Fuel Tax. The state may consider increasing county revenue by raising the tax rates on these taxes, and dedicating the additional revenue to counties. Any increases would have to be made consistent with Propositions 13 and 4.

- o Increase the Emergency Telephone Number (9-1-1) Account Tax. This is a state-imposed tax, but revenues are distributed to counties for their emergency dispatch costs. Revenue increases could be dedicated to county emergency services. The tax can be raised administratively by the director of general services, up from the current .69 percent rate to a .75 percent rate. The rate cap could be increased by the Legislature.

- o Require that Selected Local Fees Cover the Entire Cost of Providing Service. Current law prohibits counties from charging fees in excess of the costs of providing the service, but does not require counties to levy fees equal to the costs of service. In some cases, it is not appropriate for fees to fully support a government service. Essential government services or social programs (such as parks and recreation programs) should be financed in part through general taxes. However, discretionary services, such as parking and some development regulation, should be self-supporting.

To the extent that some discretionary services are not fully self-supporting, the Legislature could require that fees be raised to cover all administrative and programmatic costs, as a prerequisite for receiving further state assistance.

- Authorize an Additional Local Documentary Transfer Tax. Under current law, a city and county may impose a tax whenever a property title transfers. A lower court decision found that this tax is exempt from the Proposition 13 limits. The current documentary transfer tax is 55 cents per $500 of assessed value.

- Authorize a Parcel Tax on Real Property. Under current law, counties may impose parcel taxes in limited circumstances with the approval of 2/3rds of the electorate. This authority could be expanded.

4. <u>Facilitate Adjustments to Fiscal Relationships Among Local Governments</u>.

Counties have complex and differing fiscal relationships with their cities and special districts. Constitutional and statutory law defines how flexible these relationships may be. With regard to cities, existing provisions of the California Constitution and statutory law require that any sales tax sharing agreement negotiated between a city and county must be approved by a majority of the voters in each jurisdiction. These provisions make tax sharing agreements subject to referendum. As a result, it may be difficult to ratify agreements which reflect agreements negotiated to account for modest or subtle changes in city-county fiscal changes or needs.

The Legislature can make negotiated tax sharing agreements easier by: (1) helping to remove constitutional limits by placing a constitutional amendment before the voters, and (2) providing through statute incentives for cities and counties to negotiate tax-sharing agreements.

For special districts, current law establishes a mechanism for counties to allocate property tax revenues among its special districts. This mechanism includes allocations from the Special District Augmentation Fund (SDAF). The county board of supervisors has discretion in allocating SDAF money, so that districts that have "surplus" revenues can help subsidize those districts with insufficient revenues.

A recent appellate court decision found that, for Sacramento County only, a district established after 1978-79 is not required to participate in the county's SDAF. This opinion could encourage wealthy districts to reform into "new" districts and withdraw from the SDAF. If this happens, counties would have more difficulty ensuring sufficient funding for its poorer special districts.

The court's decision does not prevent the Legislature from compelling new special districts to participate in the SDAF mechanism. If the Legislature amended the SDAF law to compel districts' participation, it would be preserving county fiscal discretion.

Potential New Limitation on Taxing Authority

An initiative in circulation for signatures on the November 1990 ballot, "The Taxpayers' Right-To-Vote Act of 1990," would appear to: (1) further limit a local agency's ability to impose special taxes, and (2) limit state and local tax increases imposed on tangible personal property (including sales and excise taxes). The Act has an effective date concurrent with the November election date, rather than the standard date of the day after the election. If the Right-to-Vote Act passes, authorizing and imposing new and increased taxes will become more difficult.

The Legislature could -- under limited circumstances -- preserve state and local flexibility by authorizing new or increased taxes under the existing requirements, rather than the under the stiffer requirements of the Right-to-Vote Act, if it acts in the current session.

Any increase in revenues (and corresponding increase in expenditures) would be subject to state and/or local appropriations limits.

Adjustments to the Fees on Vehicles May Be Necessary.

Under current law, the state taxes vehicles on two percent of "market value," depreciated at a statutory rate. Market value is the cost to the purchaser of a new vehicle. When a used vehicle is sold, the VLF is based on the original owner's market value, and continues to be depreciated at the statutory rate. The State Constitution dedicates VLF revenues to cities and counties. Statute allocates the revenues with a population-based formula. Revenues are distributed to cities and counties by a formula that is in part based on population.

The state could potentially raise more vehicle license revenues in at least two ways:

(1) Adjust the current depreciation schedule so that a vehicle depreciates at a slower rate (i.e., the taxable value stays higher longer).

(2) Adjust the taxable value on used cars so that it reflects the sales price at the time the vehicle is resold. Depreciation is restarted at the top of the depreciation schedule.

Recently, an appellate court ruled that the state's laws imposing the Vehicle License Fees (VLF) denied due process to vehicle owners who made out-of-state purchases, and interfered with the Federal Commerce Clause which prevents restrictions on interstate commerce. The decision requires remediation. The State Supreme Court has agreed to take this case. If the state's appeal fails, then the Attorney General must develop a plan to remedy the past overcharges. One proposal is to increase taxes to market value (as outlined in (2) above), and to refund an $800 million in excess VLF charges, and about $1 billion in use taxes. A decision is expected before 1991.

Realignment

Realignment transfers a state-administered or -funded program to the county with a revenue source which generates revenue in excess of the program's costs. As an example, the state could shift both the funding responsibilities for the Medically Indigent Services Program (MISP), and an equivalent amount of state sales tax revenue. This shift would provide counties with a sufficient and stable revenue source they could use to fund their new fiscal responsibility.

Realignment provides the state with the advantages of reduced appropriations under the State Appropriations Limit. However, these advantages have to be weighed against the state's loss of program control, design and administration.

Options

1. Shift MISP Responsibilities.

   As described above, counties could assume from the state the fiscal responsibilities for MISP.

   By dedicating additional sales tax revenues to the counties, counties will have a sufficient and growing revenue source to finance the program.

2. Return "AB 8" Health Programs to Counties.

   After enactment of Proposition 13 and in response to the proposition's reduction in county revenues, the Legislature "bought out" a share of local health programs through AB 8 (L. Greene), Chapter 282, Statutes of 1979. This program was intended to provide a stable, permanent funding source for county health services. Current year General Fund expenditures for this program are estimated at $470 million. The Governor proposes reducing state appropriations for AB 8 funding in 1990-91 by approximately $150 million.

Prior to Proposition 13, "AB 8" programs were funded with local revenues. If a sufficiently large (and growing) revenue source or sources can be extended to counties (such as combining an increase in VLF and authority for levying business license fees), the state could return the funding of local health programs to counties.

3. <u>Provide Local Revenues for Maintaining Libraries</u>.
Under current law, the state provides up to a 10 percent match against local appropriations for public libraries. However, at annual appropriations of $20.6 million, the state has been unable to meet its full match. Match funds may be used for acquisitions (books, audio-video materials) and other operating expenses (including staff).

Many library services, though important municipal services, are discretionary for counties. Indeed, some commentators argue that <u>cities</u> should provide branch services, while the county should merely provide coordinating services. If a county wishes to provide countywide branch services, perhaps it should be empowered to establish an independent library governing board. The new board could be granted general tax authority. If this authority were granted, the need for a state match could be eliminated.

4. Increase Local Funding Sources for "Stabilization" Programs. This program helps protect counties from spending an increasing share of their discretionary funds to meet their match requirements on Aid to Families with Dependent Children (excluding Foster Care), In-Home Supportive Services, Community Mental Health, and Food Stamps. Under the program, whenever a county spends a greater share of its general purpose revenues than it did in 1981-82, the county receives a subsidy through an appropriation of stabilization program funds. Although the subsidy can be up to the full amount of excess costs, the program has never been fully funded. As a result, counties receive subsidies on a pro rata basis.

If a stable, local revenue source (such as cable television users taxes) were available to counties, they would not need to rely on state "stabilization" funds for meeting the local share of costs for AFDC, IHSS, Community Mental Health, and Food Stamps programs.

Summary of Fiscal Options
for Counties
As Discussed in "State/Local Fiscal Crisis"
prepared by the Assembly Local Government Committee

June 11, 1990

Expenditure Options	Fiscal Impact	
1. Waive Local Match or Cost-Share Requirements.	Reduce local costs by up to $1.3 billion.	(a)
2. Suspend Unfunded Mandates.	Unknown.	(b)
3. Require the State to Pay for More Local Programs.	Unknown.	(b)

Revenue Options	Increase in Local Income	
1. Broaden the General Tax Base.	Unknown.	(b)
2. Impose or Authorize New Taxes.		
a) Business License Taxes	$450 million	(c)
b) Utility Users' Taxes	$700 million	(c)
3. Raise Rates on Existing Taxes.		
a) Statewide Taxes	Unknown.	(b)
b) 9-1-1 Tax	$67 million	(d)
c) Local Fees to Cover Cost of Service	Unknown.	(b)
d) Documentary Transfer Tax	Unknown.	(b)
e) Parcel Tax	Unknown.	(b)
4. Authorize Easier Tax-Share Agreements	Unknown.	(b)
5. Adjust Vehicle License Fees		
a) Adjust depreciation schedule	$200 - $400 million	
b) Adjust the taxable value of the vehicles	$300 - $400 million	

Realignment Options	Increase in Local Revenue and Consequent Reduction in State Transfers
1. MISP	$370 million
2. AB 8	$470 million
3. Library Funding	$21 million
4. Funding for Stabilization	$15 million

a Potential increase in state expenditures if the state backfills local costs to maintain specified service levels.

b Revenue gain depends on the substance of the proposal.

c Estimate assumes that the new tax is imposed on the same activities and in the same manner as the existing taxes.

d Assumes the rate cap is doubled and the full tax is levied.

COUNTY SUPERVISORS' ASSOCIATION OF CALIFORNIA

TESTIMONY OF RICHARD P. SIMPSON

DIRECTOR OF RESEARCH

BEFORE ASSEMBLY LOCAL GOVERNMENT COMMITTEE

SACRAMENTO, CALIFORNIA

JUNE 11, 1990

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COUNTY GOVERNMENT IN CALIFORNIA IS IN SEVERE FISCAL CRISIS. THAT IS NOT JUST A FACT OF LIFE AMONG A FEW SMALL RURAL COUNTIES; SOME OF THE LARGEST COUNTIES IN THE STATE ARE ALSO INVOLVED. WHILE A SMALL NORTHERN CALIFORNIA COUNTY - BUTTE - MAY ACTUALLY FILE FOR BANKRUPTCY IN FEDERAL COURT THIS AUGUST, IT IS INEVITABLE THAT A DOZEN OR MORE COUNTIES WILL CONFRONT THE SAME SITUATION WITHIN THE NEXT TWO TO THREE YEARS. IF NOTHING IS DONE TO ADDRESS THIS FISCAL CRISIS, ALL CALIFORNIA COUNTIES COULD BE IN THE BUTTE COUNTY SITUATION BY MID-DECADE.

THE CAUSE OF THE CRISIS IS SIMPLE. IT IS THE FACT THAT CALIFORNIA COUNTIES ARE RESPONSIBLE FOR DELIVERY OF A RANGE OF PUBLIC HEALTH, SOCIAL, AND PROTECTIVE SERVICES. THESE RESPONSIBILITIES ARE OPEN-ENDED. HOWEVER, FINANCIAL ABILITY TO DELIVER THESE SERVICES IS LIMITED BY CONSTITUTION, STATUTE AND STATE REGULATION.

THE CRISIS HAS BEEN WITH US FOR MANY YEARS. WHILE IT STARTED WITH PROPOSITION 13, IN 1978, IT HAS BEEN CONCEALED BY A NUMBER OF FISCAL EVENTS -- THE MASSIVE POST-PROPOSITION 13 BAILOUT OF LOCAL

GOVERNMENT, THE PARTIAL SHIFT OF SCHOOL FUNDING OFF THE PROPERTY TAX, THE SUPPLEMENTAL PROPERTY TAX ROLL, FEDERAL REVENUE SHARING, STABILIZATION FUNDING, TRIAL COURT FUNDING, AND THE STRONG CONTINUED GROWTH OF PROPERTY VALUES, PARTICULARLY IN CALIFORNIA URBAN AREAS.

UNFORTUNATELY, THIS STRING OF POSITIVE FISCAL EVENTS HAS RUN ITS COURSE, AND WITH STATE AND FEDERAL GOVERNMENTS IN FISCAL STRAIT-JACKETS, COUNTIES FIND THEMSELVES IN THE WORST FISCAL CRISIS SINCE THE DEPRESSION OF THE 1930S. IT IS NOW BECOMING REVEALED FOR WHAT IS ACTUALLY IS -- A FUNDAMENTAL PROBLEM OF GOVERNMENTAL STRUCTURE AND FINANCE. IT CAN NO LONGER BE FIXED WITH BANDAIDS. THE MAGNITUDE OF CHANGES REQUIRED COULD BE AS SIGNIFICANT HISTORICALLY AS THE EVENTS OF THE HIRAM JOHNSON ERA. THE LEADERSHIP REQUIRED MAY HAVE TO BE OF THE CALIBER THOSE PROGRESSIVES BROUGHT TO THE CALIFORNIA POLITICAL SCENE. UNLESS THE PROBLEM ATTRACTS THAT QUALITY OF EFFORT AND COMMITMENT, COUNTY FISCAL COLLAPSE IS AN INEVITABILITY OF THE 1990s.

MY TASK TODAY IS NOT TO MAKE RECOMMENDATIONS ON RESOLVING THESE FISCAL ISSUES, BUT TO GIVE YOU AN INTERIM REPORT ON A MAJOR SURVEY THAT CSAC HAS UNDERWAY, WHICH IS PROBABLY THE MOST THOROUGH REVIEW OF COUNTY FISCAL ISSUES WE HAVE ATTEMPTED.

WE ARE MAKING A COMPREHENSIVE INQUIRY OF ALL 58 COUNTIES, IN WHICH WE HAVE SOUGHT THE LATEST 5-YEAR TREND DATA ON REVENUES, EXPENDITURES, WORKLOADS, STAFFING, SALARY SCALES, EFFICIENCY MEASURES, DEMOGRAPHICS, CITY-COUNTY FISCAL INTERACTION, UNIQUE

FISCAL EVENTS, AND MAJOR FISCAL CHALLENGES TO BE CONFRONTED IN THE FUTURE.

IN ADDITION, OVER THE PAST 10 WEEKS, WE HAVE MADE FIELD TRIPS TO 18 COUNTIES, SELECTED ON THE BASIS OF MEASURES OF RELATIVE WEALTH, SIZE, LOCATION AND URBAN AND RURAL MIX. WE CONDUCTED IN-DEPTH INTERVIEWS WITH COUNTY ADMINISTRATIVE AND FISCAL STAFF AND KEY DEPARTMENT HEADS.

OUR MAJOR CONCLUSION SO FAR IS THAT THE LOCAL COSTS OF STATE PROGRAMS CONDUCTED BY COUNTIES HAVE, IN SOME COUNTIES, SO SEVERELY ERODED COUNTY GENERAL PURPOSE REVENUES AS TO JEOPARDIZE THE CONTINUED EFFECTIVE CONDUCT OF THOSE STATE PROGRAMS.

THE "STATE PROGRAMS" REFERRED TO HERE ARE NOT JUST MANDATES; THEY ARE PROGRAMS IN WHICH THE STATE HAS A STRONG INTEREST, AND THEY ARE PROGRAMS WHICH HAVE LONG BEEN A COUNTY RESPONSIBILITY - HEALTH, WELFARE, JUSTICE, AND PUBLIC PROTECTION. SOME OF THESE PROGRAMS ARE STRICTLY MANDATED AND REGULATED; OTHERS ARE ASSIGNED TO COUNTIES BY CONSTITUTION OR STATUTE, AND ARE MANAGED BY EACH COUNTY WITHIN BROAD LEGAL GUIDELINES.

"COUNTY GENERAL PURPOSE REVENUES" ARE THOSE REVENUES SUCH AS PROPERTY AND SALES TAXES, FINES, FORFEITURES, INTEREST, VEHICLE LICENSE FEES AND LESSER LOCAL REVENUES WHICH MAY BE DEVOTED TO ANY LEGITIMATE COUNTY PUBLIC PURPOSE AT THE COUNTY BOARD OF SUPERVISORS' DISCRETION.

THE FINDING THAT STATE INTEREST PROGRAM COSTS ARE SERIOUSLY ERODING COUNTY GENERAL PURPOSE REVENUES IS NOT NEW WITH US; IT WAS AN IMPLICIT CONCLUSION OF THE DEPARTMENT OF FINANCE AUDIT OF BUTTE COUNTY LAST DECEMBER. IT WAS ACTUALLY ARTICULATED BY THE LEGISLATIVE ANALYST IN REPORTS PUBLISHED LAST FEBRUARY. THE PURPOSE OF OUR WORK HAS BEEN TO TEST THOSE FINDINGS ON A BROADER FRONT -- IN ALL COUNTIES -- TO SEE HOW WIDESPREAD AND IMMEDIATE THE BUTTE COUNTY CONDITION IS, AND TO DISCOVER ANY ADDITIONAL FACTORS THAT MAY HAVE A BEARING ON MORE WIDESPREAD COUNTY FISCAL COLLAPSE.

IT MAY BE HELPFUL TO THINK OF THIS PROBLEM AS A SET OF 58 TWO-PART EQUATIONS. THE FIRST PART OF EACH EQUATION REPRESENTS STATE-INTEREST PROGRAMS WHICH GROW IN AN ABSOLUTE SENSE, BY CASELOADS AND COLAS, BY PATIENTS AND PRISONER DAYS, BY LAW AND REGULATION. THE SECOND PART OF EACH EQUATION IS UNIQUE FROM ALL THE OTHERS AND REPRESENTS A DIFFERENT COUNTY IN THE STATE. IT CONTAINS A COMPOSITE OF FACTORS WHICH, WHEN COMPUTED, COULD SOLVE EACH EQUATION FOR THE APPROXIMATE YEAR EACH COUNTY WILL ENCOUNTER A BUTTE COUNTY CONDITION.

OUR FIELD WORK SO FAR HAS CONFIRMED WHAT THE LEGISLATIVE ANALYST HAS SAID ABOUT THE COUNTY PART OF THE EQUATION, PARTICULARLY WITH RESPECT TO THE COUNTY REVENUE BASE AND ITS DECLINING ABILITY TO ABSORB GROWING COSTS OF STATE PROGRAMS. IN FACT, WE HAVE FOUND A FEW ADDED DIMENSIONS WHICH TEND TO DRIVE THE ANALYST'S CONCLUSIONS EVEN FARTHER.

1. ALLOCATION OF PROPERTY TAXES TO COUNTIES. THE ORIGINAL ALLOCATION OF PROPERTY TAXES TO LOCAL PUBLIC JURISDICTIONS IN AB8, AFTER PASSAGE OF PROPOSITION 13, HAS A CRITICAL BEARING ON COUNTY ABILITY TO FINANCE COSTS OF STATE INTEREST PROGRAMS. COUNTIES RECEIVE, ON AVERAGE, 33% OF PROPERTY TAX REVENUES, BUT SHARES RANGE FROM 18% IN ORANGE COUNTY TO 68% IN ALPINE COUNTY. THIS WAS CLEARLY A FACTOR IN BUTTE COUNTY, WHERE THE COUNTY'S PROPERTY TAX ALLOCATION UNDER AB8 IS 21%. IF THE FISCAL PROFILES OF TWO SIMILAR COUNTIES, BUTTE AND MERCED, ARE PLACED SIDE BY SIDE, ONE OF THE KEY DIFFERENCES BETWEEN THE TWO COUNTIES IS THE DIFFERENCE IN THE AB8 ALLOCATION, WHICH IS 33% IN MERCED COUNTY, RESULTING IN SEVERAL MILLION DOLLARS MORE ANNUALLY IN PROPERTY TAX REVENUES. THIS IS ONE KEY REASON MERCED IS PERHAPS TWO TO THREE YEARS AWAY FROM BUTTE'S CURRENT YEAR FISCAL CONDITION.

2. GROWTH IN ASSESSED VALUATIONS. DESPITE PROPOSITION 13, PROPERTY TAX VALUES HAVE GROWN STATEWIDE AT OR NEAR 10% PER YEAR THROUGH THE 1980S. COUNTY BY COUNTY, GROWTH RATES HAVE BEEN QUITE DIFFERENT. OUR FINDINGS SO FAR SUGGEST THAT AN ASSESSED VALUATION GROWTH IN EXCESS OF THE STATEWIDE AVERAGE IS A DRAMATIC FACTOR IN A COUNTY'S ABILITY TO SUSTAIN ONGOING GROWTH IN STATE PROGRAM COSTS. FOR EXAMPLE, THE LEGISLATIVE ANALYST HAS SAN BERNARDINO COUNTY ON A LIST OF COUNTIES CHARACTERIZED BY BELOW AVERAGE AND DECLINING LOCAL PURPOSE REVENUES. HOWEVER, ANY CONCLUSION THAT SAN BERNARDINO IS HEADED FOR SUDDEN FISCAL COLLAPSE WOULD APPEAR TO BE A GROSS EXAGGERATION. OUR TENTATIVE CONCLUSION IS THAT EVEN THOUGH SAN BERNARDINO HAS BELOW AVERAGE AND DECLINING LOCAL GENERAL PURPOSE REVENUE,

THERE IS STILL ENOUGH SOLID ASSESSED VALUATION GROWTH TO KEEP PACE WITH STATE PROGRAM COSTS. SAN BERNARDINO COUNTY MAY BE ABLE TO ABSORB STATE COSTS SO LONG AS THE BUILD-OUT FROM THE LOS ANGELES BASIN CONTINUES AND BUSINESS AND RESIDENTIAL DEMAND FOR SAN BERNARDINO PROPERTY REMAINS STRONG.

3. GROWTH IN OVERALL LOCAL GENERAL PURPOSE REVENUES. COUNTY NON-PROPERTY REVENUES AVAILABLE FOR GENERAL USE ARE RELATIVELY MINOR COMPARED TO THE PROPERTY TAX. SALES TAXES, AT ABOUT 3% OF COUNTY REVENUES, HAVE BEEN FAIRLY STAGNANT THROUGH THE 1980S, AND IN MANY COUNTY SALES TAX REVENUES HAVE ACTUALLY DECLINED, PARTLY AS A RESULT OF CITY INCORPORATIONS AND ANNEXATIONS. LOSS OF SALES TAX CAN HAVE A GREATER IMPACT ON SMALLER COUNTY REVENUES, AS IN BUTTE COUNTY, AND AS IN YOLO -- WHERE 75% OF COUNTY SALES TAXES WERE LOST AS A RESULT OF THE WEST SACRAMENTO INCORPORATION.

4. DIFFERENTIAL IMPACT OF STATE-INTEREST PROGRAMS ON COUNTIES. ON THE EXPENDITURE SIDE OF THE COUNTY EQUATION, STATE PROGRAMS HAVE A WIDELY DIFFERENTIAL IMPACT, COUNTY BY COUNTY. THE DIFFERENTIAL IMPACT IS A RESULT OF DIFFERENCES IN LOCAL DEMOGRAPHICS, ECONOMICS, COURT ACTIONS REGARDING PROGRAMS, LOCAL BOARD PHILOSOPHIES AND MANAGEMENT PRACTICES. HERE ARE FOUR EXAMPLES FROM OUR FIELD WORK:

A. A COUNTY HOSPITAL CAN MAKE A DIFFERENCE.

WHETHER OR NOT A COUNTY HAS A COUNTY HOSPITAL, AND THE KIND OF

HOSPITAL SYSTEM A COUNTY HAS CAN MAKE A DIFFERENCE ON COUNTY COSTS FOR INDIGENT MEDICAL CARE. COUNTIES LIKE YUBA AND SHASTA THAT HAVE GONE OUT OF THE INPATIENT BUSINESS HAVE DISCOVERED THEY CAN SHARPLY REDUCE AND CONTROL INDIGENT MEDICAL CARE COSTS. COUNTIES LIKE SACRAMENTO THAT HAVE CONVERTED THEIR HOSPITALS TO UNIVERSITY ADMINISTRATION, HAVE SHIFTED MOST OF THEIR MEDICAL COST LIABILITY TO THE STATE. COUNTIES LIKE MERCED, WHICH OPERATE THE MOST COMPETITIVE HOSPITAL IN THE COMMUNITY HAVE A SUFFICIENT MIX AND VOLUME OF INDIGENT AND PRIVATE PAY PATIENTS TO REMAIN FISCALLY VIABLE.

HOWEVER, IF YOU ARE A COUNTY LIKE FRESNO, OR SANTA CLARA, OR ALAMEDA, YOU HAVE A MAJOR HOSPITAL SYSTEM WHICH CARES PRIMARILY FOR INDIGENT AND MEDI-CAL PATIENTS FOR WHICH YOU WILL BE REIMBURSED ANYWHERE FROM 38 TO 43 CENTS ON THE GOING RATE IN THE MEDICAL MARKET. THESE HOSPITALS WILL REQUIRE ANNUAL LARGE GENERAL FUND SUBSIDIES. YOU WILL ALSO HAVE SUBSTANTIAL MEDI-CAL ACCOUNTS RECEIVABLE (IF YOU ARE SANTA CLARA COUNTY, YOUR OUTSTANDING BILLINGS TO MEDI-CAL WILL CURRENTLY AMOUNT TO $40 MILLION, AND YOUR TIME LAG BETWEEN OPENING A MEDI-CAL CASE AND PAYMENT WILL BE 200 DAYS). THIS IS AN EXAMPLE OF A STATE-COUNTY REGULATORY RELATIONSHIP THAT ADDS ENORMOUS HIDDEN LOCAL COST. IN THE CASE OF MEDI-CAL, IT STARTS WITH AN 11-PAGE APPLICATION FOR BENEFITS WHICH QUESTIONS THE APPLICANT, FOR EXAMPLE, ON THE FUNDS HE OR SHE MAY POSSESS IN CERTIFICATES OF DEPOSIT. DESIGNED TO LIMIT ACCESS TO MEDI-CAL, IT DOES NOT LIMIT ACCESS TO CARE AND TO COUNTY COSTS.

B. BEING "TOUGH ON CRIME" HAS A PRICE.

DURING THE 1980S, RESPONDING TO PUBLIC DEMANDS FOR GREATER SECURITY, CONCERNS ABOUT GANGS, AND TO ATTEMPT TO CONTROL THE DRUG EPIDEMIC, THE LEGISLATURE HAS, SESSION AFTER SESSION, PASSED NEW LAWS MAKING NEW CRIMES AND MAKING SENTENCES FOR CERTAIN CRIMES LONGER AND MANDATORY. THE REPRESENTATIVES OF THE DEPARTMENT OF FINANCE THAT HELPED DRAFT THE MANDATED COST REIMBURSEMENT PROVISIONS OF SB 9O IN 1972 COULD NOT HAVE SEEN THE SIGNIFICANCE OF THE LANGUAGE TO EXCLUDE STATE REIMBURSEMENT FOR NEW CRIMES AND INFRACTIONS. IT, OF COURSE, FOUND ITS WAY INTO ARTICLE XIII B OF THE STATE CONSTITUTION AND HAS AN ENORMOUS IMPACT ON COUNTY COSTS FOR THE JUSTICE SYSTEM TODAY.

COSTS FOR THE JUSTICE SYSTEM ARE THE LARGEST COUNTY GENERAL FUND EXPENDITURES. EACH OF THE 18 COUNTIES WE VISITED EITHER HAD JUST OPENED A NEW JAIL, WAS ABOUT TO OPEN A NEW ONE, OR HAD ONE IN THE PLANNING STAGES. JAIL OPERATIONAL COSTS HAVE MORE THAN DOUBLED IN SOME COUNTIES BETWEEN 1983-84 AND 1988-89. THEY WENT FROM $115 MILLION TO $290 MILLION IN LOS ANGELES; FROM $33 MILLION TO $59 MILLION IN SAN DIEGO; FROM $2.8 MILLION TO $8 MILLION IN SHASTA. THE COUNTY COST IMPACT IS SUCH THAT MORE THAN ONE COUNTY IS HAVING DIFFICULTY MEETING THE COSTS OF OPENING A NEW JAIL, AND ANOTHER MAJOR COUNTY HAS DISCUSSED CLOSING A NEW JAIL AS AN EMERGENCY FISCAL MEASURE. THE JAIL BUILDING TREND SEEMS PERPETUAL, DESPITE LOCAL USE OF EVERY INCARCERATION ALTERNATIVE CONSISTENT WITH PUBLIC SAFETY. JAILS ARE FILLED TO CAPACITY ON COMPLETION, AND JAIL PLANNING IS AN ONGOING PROCESS.

WHILE NEW JAIL DESIGNS PERMIT MORE EFFICIENT INMATE/STAFF RATIOS, JAIL STAFFING HAS GENERALLY DOUBLED, BECAUSE PRISONER POPULATIONS HAVE ALSO DOUBLED. NEW PROBLEMS LOOM WHICH BECOME MAJOR JAIL COST CENTERS. JAIL HEALTH IS AN EXAMPLE. 90% TO 95% OF THE PRISONERS IN THE LOS ANGELES AND SAN DIEGO JAILS TEST POSITIVE FOR DRUGS. PRISONERS COME TO THE JAIL SICK AND MALNOURISHED AND SOMETIMES REMAIN ON DRUG-RELIEVING MEDICATIONS FOR A MONTH. AS THEY RECOVER, ADDITIONAL ILLNESSES THAT THE PRISONER WAS NOT EVEN AWARE OF MANIFEST THEMSELVES.

AIDS AND MENTAL DISORDERS ARE ON THE INCREASE. PRE-NATAL CARE IS A GROWING JAIL HEALTH PROBLEM. 15% OF THE FEMALES IN ALAMEDA'S SANTA RITA PRISON ARE PREGNANT. THERE IS A GROWING JUDICIAL SENTIMENT TO INCARCERATE PREGNANT OFFENDERS IN THE INTERESTS OF BETTER CARE INSIDE THE INSTITUTION. THE ANNUAL COST OF OPERATING THE NEW SANTA RITA JAIL INFIRMARY IS $11 MILLION -- THE COST OF OPERATING A SMALL TO MEDIUM-SIZED HOSPITAL A DECADE OR SO AGO. IN LITTLE LAKE COUNTY, JAIL HEALTH COSTS WERE BUDGETED AT $200,000 IN THE CURRENT YEAR, WILL ACTUALLY BE $400,000, AND WILL BE BUDGETED AT $1 MILLION 1990-91.

LOCAL COSTS FOR OTHER PARTS OF THE JUSTICE SYSTEM HAVE TRAILED BEHIND JAIL OPERATIONS COSTS, AS COURTS, PROSECUTORS, PUBLIC DEFENDERS, AND PROBATION STAFF STRUGGLE WITH MONSTROUS CASELOADS IN MOST COUNTIES. MEANINGFUL SUPERVISION OF PROBATIONERS IS ALMOST NON-EXISTENT IN SOME JURISDICTIONS. EVEN WITH NEW COURTS AND JUSTICE SYSTEM STAFF, WE HAVE FALLEN BEHIND IN GETTING PRISONERS OUT OF COUNTY JAILS AND INTO STATE PRISONS. THE AVERAGE LENGTH OF PRE-

PRISON CONFINEMENT CREDIT IN COUNTY JAILS HAS INCREASED FROM 4 MONTHS IN 1978 TO 8 MONTHS IN 1988. PROSECUTORS, DEFENDERS, AND PROBATION STAFF ARE STRETCHED SO THIN AS TO BE UNABLE TO MEET MORE SPEEDY COURT CALENDARS.

PROVISION OF NEW COURT FACILITIES IS RUNNING PROPERTY MANAGERS RAGGED. IN SMALLER COUNTIES, THE COURT HOUSE IS LITERALLY BECOMING THAT, AS SUPERVISORS AND CENTRAL DEPARTMENTS FIND OTHER QUARTERS. IN SAN DIEGO, THE LANDMARK EL CORTEZ HOTEL AND THE HOTEL SAN DIEGO HAVE BECOME LEASED COURT FACILITIES.

TRIAL COURT FUNDING HAS BEEN A TIMELY EMERGENCY TOURNIQUET ON THE JUSTICE SYSTEM COST HEMORRHAGE, BUT IT IS LITTLE MORE THAN THAT, IN ADDRESSING PENT-UP JUSTICE SYSTEM STAFFING, AND FACILITIES NEEDS. IN ADDITION, JUDICIAL SIGN-OFF ON TRIAL COURT FUNDING HAS MADE IT ALL THE MORE DIFFICULT TO ACHIEVE THE MOST COST-EFFECTIVE USE OF THIS NEW FUNDING.

C. WELFARE'S CRAZY-QUILT COST IMPACT.

AN AFDC ASSISTANCE STANDARD, UNIFORM ACROSS THE STATE, IS HAVING AN INTERESTING IMPACT COUNTY-BY-COUNTY. WELFARE DEPARTMENTS IN THE CENTRAL VALLEY ARE NOW SEEING MOVEMENT OF AFDC CLIENTS FROM HIGHER COST URBAN AREAS TO THE VALLEY WITH ITS LOWER LIVING COSTS AND LOWER CRIME RATES. THIS IS APPARENTLY ONE OF THE FACTORS IN BUTTE COUNTY'S HIGHER AFDC CASELOAD.

CULTURAL INFLUENCES ARE ALSO IMPACTING WELFARE; IT IS WELL-KNOWN

THAT THE CENTRAL VALLEY HAS BECOME A DESTINATION FOR SOUTHEAST ASIAN REFUGEES. WE LEARNED IN FRESNO THAT THE ELDERS OF THE HMONG PEOPLE HAVE REPORTED THAT FRESNO WILL BECOME THE NEW WORLD CENTER FOR THAT CULTURE.

GENERAL RELIEF IS, OF COURSE, TOTALLY A COUNTY PROGRAM AND FULLY GENERAL FUND SUPPORTED. AND YET, THE DISCRETION OF COUNTIES IN SHAPING A GENERAL RELIEF PROGRAM AND CONTROLLING ITS COSTS HAS BEEN STRONGLY AFFECTED BY ADVERSE COURT DECISIONS, HOMELESSNESS, LARGE IMMIGRATIONS OF POOR PEOPLE, CASE-FINDING NETWORKS THAT APPEAR TO TARGET CERTAIN REGIONS AND COUNTIES, AND ANY NUMBER OF OTHER INFLUENCES. THUS THE FACT THAT BUTTE HAD A SEVEN-FOLD INCREASE IN GENERAL RELIEF COSTS IN 5 YEARS (FROM $240,000 TO $1.8 MILLION) WAS A FACTOR IN ITS CURRENT CONDITION. HOWEVER, BUTTE IS NOT ALONE; GENERAL RELIEF IN SAN DIEGO GREW FOUR-FOLD, FROM $4.5 TO $17.5 MILLION, AND ALAMEDA GREW FIVE-FOLD, FROM $6 MILLION TO $30 MILLION OVER THE SAME PERIOD.

5. <u>IT HELPS TO BE A "PERS" COUNTY</u>.

THIS IS SORT OF A "GOOD NEWS-BAD NEWS" FINDING WHICH UNDERSCORES THE INEVITABILITY OF THE COUNTY FISCAL SCENARIO. THE "GOOD NEWS" IS THAT ABOUT FOUR YEARS AGO THE PUBLIC EMPLOYEE RETIREMENT SYSTEM REVALUED ITS ASSETS FROM BOOK TO MARKET. THE RESULT WAS A LARGE WINDFALL TO 35 COUNTIES WHICH CONTRACT WITH PERS FOR EMPLOYEE RETIREMENT BENEFITS. IN EFFECT, THESE COUNTIES, WHICH CONTAIN 5.2 MILLION OF THE STATE'S POPULATION, HAVE OVERPAID THEIR EMPLOYEE RETIREMENT PREMIUMS AND HAVE BEEN CREDITED, OVER THE PAST TWO

YEARS AND NEXT YEAR, WITH PORTIONS OF THESE ACTUARIALLY-DETERMINED OVERPAYMENTS.

THE SEMI-GOOD NEWS IS THAT THESE PERS CREDITS, WHICH AMOUNT TO ABOUT $100 MILLION A YEAR, HAVE BECOME INCREASINGLY IMPORTANT IN KEEPING THESE COUNTIES AFLOAT. THE "BAD" NEWS IS THAT NO ONE KNOWS HOW LONG THIS CREDITING CAN LAST, SINCE IT IS A FUNCTION OF MARKET FORCES, AND ACTUARIAL FINDINGS. THERE IS A BILL, AUTHORED BY SENATOR RUSSELL, THAT WOULD STOP THE CREDITING IN 1993, ALTHOUGH IT MIGHT ACTUARIALLY BE POSSIBLE TO CREDIT BEYOND THAT DATE. TO UNDERSTAND THE SIGNIFICANCE OF THE PERS CREDIT, IF THE DOLLAR BENEFIT WERE TO BE EXTRAPOLATED, PER CAPITA, STATE WIDE, AND BE CREDITED TO ALL COUNTIES, IT WOULD AMOUNT TO ALMOST $600 MILLION ANNUALLY. FEDERAL REVENUE SHARING, AT ITS ZENITH, DID NOT EXCEED $245,000. SOME PERS COUNTIES WE TALKED WITH WERE ABLE TO DIRECT THE CREDIT TO ONE-TIME EXPENDITURES AND FIXED ASSETS. UNFORTUNATELY, MANY HAVE BEEN FORCED TO BALANCE BUDGETS WITH THESE FUNDS. WHEN THE CREDITS END, WE MAY SEE SOME MORE BUTTE COUNTIES.

6. CITIES HAVE HAD AN IMPACT ON BOTH COUNTY GENERAL FUND REVENUES AND COSTS

A RECENT REPORT OF THE ASSEMBLY OFFICE OF RESEARCH HAS ESTIMATED THAT CITY REDEVELOPMENT DISTRICTS ARE TAKING UP TO $800 MILLION ANNUALLY OUT OF THE GENERAL FUND REVENUES OF OTHER LOCAL PROPERTY TAX AGENCIES. THERE SEEMS LITTLE DOUBT THAT CITIES HAVE SIZED UPON REDEVELOPMENT AS A "CASH COW" SINCE PASSAGE OF PROPOSITION 13, AND THAT SOME COUNTIES -- BUT NOT ALL-- HAVE BEEN

SLOW TO RECOGNIZE THE SIGNIFICANCE OF THIS DEVELOPMENT AND REACT TO IT. REDEVELOPMENT, INCORPORATIONS AND ANNEXATIONS HAVE ALL PLAYED A ROLE IN SHIFTING THE FIXED AMOUNTS OF PROPERTY AND SALES TAXES AVAILABLE TO LOCAL GOVERNMENTS, AND COUNTIES HAVE GENERALLY BEEN THE LOSERS IN THESE PROCEEDINGS.

THERE IS ANOTHER WAY IN WHICH CITIES IMPACT ADVERSELY ON COUNTY GENERAL FUNDS, AND THAT IS ON THE SPENDING SIDE, AND PRIMARILY IN THE JUSTICE SYSTEM. MOST OF THE OFFENDERS BROUGHT TO COUNTY JAIL BOOKING COUNTERS ARE BROUGHT THERE BY CITY POLICE. AFTER BOOKING, THE OFFENDER BECOMES A COUNTY CHARGE; THE OFFENDERS' HOUSING, FEEDING, CLOTHING, HEALTH CARE, TRANSPORTATION, PROSECUTION, DEFENSE (IF INDIGENT) AND TRIAL ARE A COUNTY COST. THE ONLY REMAINING COST TO THE CITY MAY BE SERVICE AS A WITNESS BY THE ARRESTING OFFICER. ANY FINES AND FORFEITURES RESULTING FROM THE CARE WILL PRINCIPALLY GO TO THE CITY.

BANKRUPTCY: WHAT DOES IT MEAN?

BANKRUPTCY IS A DIFFICULT CONCEPT TO UNDERSTAND IN THE PUBLIC SECTOR. HOW CAN CIVIL GOVERNMENT GO OUT OF BUSINESS? IT CANNOT, AND WHAT WILL PROBABLY HAPPEN IN BUTTE COUNTY, ACCORDING TO THEIR AUDITOR-CONTROLLER, JIM JOHANSEN, IS THAT THEY WILL FILE UNDER CHAPTER 9 OF THE FEDERAL BANKRUPTCY STATUTES AND AS OF 12:01 AM THE VERY NEXT DAY, THEY ARE BACK IN BUSINESS WITH PROTECTION AGAINST IMMEDIATE PAYMENT OF ABOUT $1 MILLION IN BILLS. SO, THERE WILL BE NO LOCKS ON THE COURTHOUSE DOOR, THE POWER WILL STAY ON IN THE JAIL, AND EVERYBODY WILL PROBABLY REPORT FOR WORK.

BANKRUPTCY IN GOVERNMENT, IN A STRICTLY LEGAL SENSE, IS SOMETHING WE WILL NOT FULLY UNDERSTAND UNTIL WE HAVE ACTUALLY EXPERIENCED IT. UNTIL THAT HAPPENS, I HAVE A COUPLE OF OTHER DEFINITIONS I WOULD LIKE TO SUGGEST.

IN A PRACTICAL WORKING SENSE, BANKRUPTCY OF A COUNTY GOVERNMENT IS WHAT HAPPENS WHEN THE COST OF STATE PROGRAMS FINALLY OUTSTRIPS THE CAPACITY OF LOCAL GENERAL PURPOSE REVENUES TO PAY FOR THEM. REMEMBERING OUR TWO-PART EQUATION, THAT HAPPENS WHEN STATE PROGRAM COSTS HAVE TO BE MET FROM A LOCAL REVENUE BASE THAT REFLECTS A LOW AB 8 SHARE OF PROPERTY TAX, A SLOW GROWING PROPERTY TAX BASE, LOW NON-PROPERTY TAX REVENUES, A HIGH AFDC SHARE, HIGH GENERAL RELIEF COSTS, UNDERPAID EMPLOYEES, INADEQUATE FACILITIES, AND, PERHAPS, A NEW JAIL. EXCEPT FOR THE NEW JAIL, THAT IS BUTTE COUNTY.

THERE IS ANOTHER, MORE THEORETICAL DEFINITION OF BANKRUPTCY MORE APPROPRIATE TO THE PRESENT SITUATION. THAT IS WHEN CONDITIONS IN COUNTIES GET BEYOND MANAGEMENT'S ABILITY TO ESTABLISH RATIONAL SPENDING PRIORITIES. AS ONE MANAGER IN A MAJOR COUNTY COMMENTED: "WE ARE EITHER GOOD MANAGERS OR CRIMINALS, I DON'T KNOW WHICH." SIMILARLY, IT SHOULD BE NO SURPRISE THAT A PROGRAM FOR RATIONING HEALTH CARE ("BIOETHICS") CAME OUT OF A COUNTY SETTING --ALAMEDA.

THE PROBLEM IS SQUARELY BEFORE THE STATE OF CALIFORNIA. IT SHOULD NOT OFFER THE PROMISE OF PUBLIC SERVICES AND PUBLIC PROTECTION THAT IT IS NOT WILLING TO PAY FOR, AND THEREFORE, NOT REALLY WILLING TO PROVIDE. IT IS AT LEAST HYPOCRITICAL, IF NOT CRIMINAL. THAT IS WHAT

BANKRUPTCY IN THE PUBLIC SECTOR REALLY IS. IF THAT IS THE CASE, WE DO NOT NEED TO WAIT FOR DEVELOPMENTS IN OROVILLE IN AUGUST. WE ARE ALREADY THERE.

RECAP OF 1990-91 BUDGET SCENARIOS

18-COUNTY SAMPLE

Visited between March 15 and May 30, 1990

COUNTIES VISITED:

Alameda	San Bernardino	Shasta
Butte	San Diego	Solano
Fresno	San Joaquin	Tulare
Lake	San Mateo	Ventura
Mendocino	Santa Clara	Yolo
Merced	Santa Cruz	Yuba

SUMMARY OF MAJOR BUDGET PROBLEMS ENCOUNTERED IN MOST COUNTIES:

1. The opening of a new jail, with attendant operational costs, primarily for staff. Every county visited by survey team had either opened a new jail, was planning to open a new jail, or had one on the drawing board.

2. Major costs for the justice system as a whole; need for new court rooms, new staffing, new prosecuting and defense attorneys, probation staff. Trial court funding has helped counties chase a moving fiscal target.

3. Increased welfare costs, primarily AFDC grant shares and general relief.

4. Inability to keep up with need for competitive salary plans.

5. Major avoidance of infrastructure needs and preventive maintenance.

6. Serious concerns regarding state budget cuts (as announced in January, particularly in AB 8, in-home supportive services, and mental health).

7. In counties with traditional county hospitals (Fresno, Alameda, Santa Clara), without university administration, major county costs as a result of general fund subsidies to hospitals and a high level of accounts receivable due from Medi-Cal.

8. losses in property and sales taxes due to city incorporations, annexations, and redevelopment.

The following statements were true in the designated counties between March 15 and May 30, and may have changed for better or worse since then:

ALAMEDA:

Budget: The gap was stated as $43 million, based on January 1 state budget. As we discussed the impact of cuts with individual department heads, the depth of the cuts seemed almost impossible to achieve. As alternatives, the County has considered some one-time moves, such as selling its share of the Oakland/Alameda County Coliseum, the County fairgrounds, or closing the

North County jail.

Problems: Justice system costs, sheriff in particular. Last year's sheriff budget was $87 million. Cuts have been requested to reduce budget to $84 million. The sheriff contends that with the opening of new Santa Rita jail, $99.7 million is the minimum needed for the department. New Santa Rita rated at 2870 capacity; now have 3100 in jail. Also, Alameda has a substantial increase in general relief costs in recent years.

BUTTE:

Budget: Visit confirmed what has already been reported by Department of Finance and Legislative Analyst in their visits to county, i.e, low AB 8 share of property tax (21%), slow-growing property tax base, low non-property tax revenues, loss of tax base to incorporation, annexation, redevelopment, high AFDC costs, high general relief costs, underpaid employees, and inadequate facilities.

FRESNO:

Budget: They plan a "rollover" budget for 1990-91, $7 million needed to balance 1990-91, and based on January state budget.

History: Fresno cut 600 positions in 1985-86 and actually laid off 300 people. Parks and Recreation cut from $2 million to $600,000 at the same time. Fresno has also sustained revenue losses due to city annexations and redevelopment.

Fresno has been hit hard in all major programs -- health, welfare, justice. Valley Medical Center requires a large general fund annual subsidy of $12 million and has a backlog of Medi-Cal billings. Average age of Valley Medical Center medical equipment is 12 years; average for private sector is 6 years. The fire marshal has noted deficiencies at Valley Medical Center that would require $29 million to repair. The UCSF residency (teaching) program is in some jeopardy at the hospital.

LAKE:

Budget: No indication of budget gap at time of visit, but situation looks grim. Geothermal property tax values, 41% of the assessment roll in mid-1980s, has dropped to 25% of the roll in 5 years.

Problems: Lake is opening a new 242-bed jail. Jail health costs are skyrocketing. Were budgeted this year at $200,000, will be $400,000 by year-end, and are budgeting $1 million for jail health in 1990-91.

MENDOCINO:

Budget: Simply to repeat the 1989-90 budget would require $6 million in net county costs beyond currently available revenues. County has mortgaged the courthouse for $7 million to replenish Workers' Compensation reserve deficit of $3 million, and for other needs.

History: Board of Supervisors has maintained levels of County services by stretching maintenance, equipment replacement, and insurance premiums. The County has faced virtually ongoing jail construction; will soon open a new 128-bed jail.

MERCED:

Budget: There remains a $4 million gap; can make some tough cuts that will get them just below a $3 million gap, but after that, the cuts get into the marrow of county expenditures. The county provides and operates all of the local parks and libraries in Merced County. Parks budget is now $1.1 million and libraries budget is $1.3 million. A major fiscal threat for the future is the opening of a new jail.

History: Merced has been noted for tough fiscal management, without which the county would be in perilous fiscal condition. For example, fee revenues have gone from $1.6 million in 1981 to $7.7 million today.

SAN JOAQUIN:

Budget: Can balance this year, but concerned about future years, especially in regard to the opening of a new jail next year.

SAN BERNARDINO:

Budget: Anticipate no major problems this year; county has experienced excellent growth in assessed valuation.

SAN DIEGO:

Budget: Gap of $43 million. They are preparing a status quo budget (same as last year), plus $30 million for anticipated salary MOU. Budget did not address about $10 million in known costs that will be financed (such as AFDC caseloads and COLAs).

History: Jail system is second most overcrowded in U.S.

County has been forced of follow a policy of major avoidance of infrastructure upkeep and costs of preventive maintenance repairs on a "crisis management" basis.

Facilities are inadequate throughout county; the old Hotel El Cortez and San Diego Hotel are serving as leased courtroom facilities.

Future Threats:

- Asbestos removal
- Major maintenance
- Indigent health care
- Dependency hearings (5 - 6 attorneys at county cost)

- Opening of a new Mesa jail

SAN MATEO:

Budget: No indication of budget gap at time of visit; may be able to make it this year (based on Governor's January budget), however, serious concerns regarding further cuts this (1990-91) year, and regarding future years.

Future Threats:

- Long-time deferral of major infrastructure needs -- new jail, new hospital, courtrooms, office space.
- San Mateo has a serious salary shortfall, compared to other bay area counties; they have failed to keep pace on salaries and cost of living on the Peninsula is very expensive.

SANTA CLARA:

Budget: Worst situation since 1982 (when substantial layoffs occurred). No specific budget gap indicated; could be as much as $25 million.

Future Threats:

- Financing of Valley Medical Center operations. Annual general fund subsidy of Valley Medical Center and $40 million in Medi-Cal accounts receivable pipeline.
- Communicable disease on the rise; measles and TB, particularly among refugee population.

SANTA CRUZ:

Budget: Essentially status quo (1989-90 rollover); no fixed assets, no new positions except courts and positions financed by other than county general fund. Anticipate will provide a 6.5% salary increase.

Future Threats:

- The earthquake; will it help or hurt financially? Net effect on county general fund appears negative; state and federal emergency funds will not fully finance repairs. For example, county must destroy at least 100 residences at county cost.
- Building activity is down 30%.
- Homes for sale are up 50%.
- Home sales down 30%.
- Impact on assessed valuation?

SHASTA:

Budget: Essentially a rollover budget, with no new staff (except where no net county cost is involved), no fixed assets. Services and supplies are status quo.

Future Threats:

- Higher welfare costs

- Criminal justice system costs

- Negative impacts of annexations and redevelopments

- Very low workers' compensation reserve (need $1.5 million for safety margin)

Note: Shasta would be in worse fiscal shape had their hospital not been closed in 1987, followed by elimination of health services agency and closure of libraries.

SOLANO:

Budget: Can be balanced with some discipline and luck. Board of Supervisors confronted a negative general fund balance of $750,000 two years ago, and cut, laid off, or retired 50 positions. County has a 5-year pan to hold general fund expenditures to 4% per year, using a PERS credit as balancing mechanism.

Future Threats:

- Solano has very low salary scales; sheriff deputies are 35% low compared to other counties.

- District attorney deputies are members of Teamsters' Union.

- Just opened new jail; not yet fully operational and can't staff and operate new infirmary.

TULARE:

Budget: Tulare has had "rollover" budgets the past two years and expect another for 1990-91. Tulare sustained major employee cuts in the 1980s; fewer employees in 1987 that 1982.

Future Threats:

- Major deferral of infrastructure expenditures. Just opened new jail and need courthouse expansion.

- Salaries are low; turnover is high.

VENTURA:

Budget: Can balance for 1999-91, but concerned about following year.

Future Threats:

- Major new jail
- Five year financial forecast projects an $18 million deficit on general fund revenues of $518 million by 1994-95.

YOLO:

Budget: No expression of budget gap at time of visit, but there are several major fiscal issues:

- The opening of two new jails that do not increase capacity
- Jail operations will require $400,000 to $800,000 in new money
- General assistance lawsuits are in the mill
- State AB 8 cuts
- Hospital subsidy about $500,000

Problems: Yolo lost 75% of its sales tax base due to incorporation of West Sacramento. Yolo has experienced several of the factors that have impacted Butte County.

YUBA:

Budget: 1990-91 budget is status quo; no new positions or fiscal assets.

Problems: New jail, new court space, relocation of offices.

REPRINT

The 1990-91 Budget:
Perspectives and Issues

Variations in County Fiscal Capacity

LAO

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Legislative Analyst

Variations In County Fiscal Capacity

How and Why Does Fiscal Capacity Vary Among the State's Counties? What Options Does the Legislature Have for Improving It?

Summary

The fiscal capacity of California's 58 counties varies considerably. While all of the counties are subject to many of the same sources of fiscal pressure, our analysis indicates that the fiscal capacity of a number of counties is low and declining. As a result, their ability to deal with ongoing fiscal pressures is worsening.

Contrary to widespread belief, low fiscal capacity is not confined to the small rural counties; a number of larger counties also are characterized by low or declining fiscal capacity. While the specific contributing factors vary from county to county, low capacity counties generally experience some combination of limited revenue, low growth in revenue, and/or high or increasing costs for state-required programs. In addition, the state may aggravate the differences in fiscal capacity to the extent that the assistance it provides does not reflect the current county populations in need of services.

In 1987-88, state grants for fiscal relief had a positive impact on county fiscal capacities, particularly with regard to the smaller counties. However, given that the state has not provided a similar amount of targeted fiscal relief in subsequent years, it is likely that some counties have continued to experience a decline in fiscal capacity.

If the Legislature wishes to avert future declines in county fiscal capacity, it can provide short-term fiscal relief to counties by increasing the funding provided under the County Revenue Stabilization program. In the longer term, the Legislature may wish to examine more permanent solutions to the county fiscal dilemma, such as the reallocation of state program funding or property tax revenues, the creation of additional county revenue sources, or the realignment of county program responsibilities.

In September 1989, Butte County officials announced that the county could not balance its 1989-90 budget, and therefore planned to seek bankruptcy protection in federal court. While subsequent state relief and budgetary reductions by the county allowed it to finance projected 1989-90 expenditures, these actions did not provide a long-term solution to the county's fiscal dilemma. Butte County officials currently are projecting an $8 million deficit for 1990-91. (Please see our recent Policy Brief *County Fiscal Distress: A Look at Butte County* for more information.)

While it is tempting to isolate Butte County as a lone example of a California county in fiscal straits, our analysis indicates that many other counties are experiencing serious fiscal difficulties. Furthermore, our review indicates that this is not merely a *rural* county problem.

The state has a clear interest in maintaining the fiscal viability of county governments. They are the entities which serve all Californians through programs of statewide interest (such as health, corrections, and welfare programs). In addition, they provide to residents of unincorporated areas such local services as sheriff and library services. In this piece, we examine county fiscal capacity--the ability of counties to respond to these needs.

First, we describe the county-state relationship and discuss our framework for identifying variations in county fiscal capacity. Second, we provide our findings regarding the fiscal capacity of counties, and discuss some of the counties which rate below average in this regard. Third, we identify the primary factors that contribute to low fiscal capacity. Finally, we offer several alternatives that the Legislature may wish to use to improve the fiscal capacity of California's counties.

BACKGROUND: A FRAMEWORK FOR COMPARING COUNTY FISCAL CAPACITY

For the purposes of this analysis, we define county fiscal capacity broadly as the ability of a county to meet whatever public service needs may arise in its community with the resources it has available to it. Low fiscal capacity leads to fiscal *distress* when the imbalance between resources and responsibilities leads the county to have severe difficulty addressing service needs.

The Dual Role of Counties

Counties in California play a dual role in providing services to their residents. First, counties are charged with the responsibility to administer a variety of programs required by state law.

These *state-required* programs include welfare (such as Aid to Families with Dependent Children--AFDC--and general assistance), county health services, In-Home Supportive Services (IHSS), community mental health, corrections and the trial courts. Second, the counties administer a variety of *local* programs. These include some programs of state interest, such as public health and social services, and others of primarily local import, such as the municipal-type services provided to residents of unincorporated areas (for example, fire and sheriff services).

The state provides substantial funding for many, but not all, of its required programs. In many cases, specific county contributions are also required. Such programs include AFDC, county health services, community mental health, IHSS and the trial courts. The counties bear the primary fiscal responsibility for other state-required programs, because the state in these cases does not provide funding specifically for these purposes. Such programs include general relief, probation, indigent legal defense, and corrections.

County Revenue Sources

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 (such as vehicle license fees), and the sales tax. Due to the constraints imposed by Proposition 13, *counties have very limited power to increase GPR.* For example, counties cannot increase their property tax rate, and must get voter approval to increase other taxes.

As service demands or costs grow over time, state-required programs and local programs compete for the growth in the existing GPR base. Because counties have relatively limited control over the costs of state-required programs, these programs may absorb an increasing share of GPR over time. Thus, the GPR available for local purposes may decline over time, requiring counties to restrict spending on local programs.

Fiscal Capacity Indicators

Based upon our review of county financial data, we have identified three useful indicators of the fiscal capacity of counties:

- ***Local Purpose Revenues (LPR).*** The first indicator is the total GPR available for *local purposes*, after expenditures on state-required programs are accounted for. We refer to this residual as local purpose revenue, or LPR.

This measure shows the residual fiscal capacity of counties to meet local needs after meeting state requirements.

- ***Change in LPR.*** Another important indicator is the *change* in LPR over time. A decline in LPR shows that a county's revenues are not growing at the same pace as the costs of state-required programs, and suggests that the county may be faced with difficult trade-offs between state programs and local service levels.
- ***Proportion of GPR Dedicated to State-Required Programs.*** A third indicator is the percentage of total GPR spent on state-required programs. The advantage of this measure is that it enables one to compare the relative load that various counties carry in the financing of state-required programs.

For purposes of this analysis, all of these measures are computed on a per capita basis, unless otherwise indicated.

Our review of county fiscal capacity is based on county revenue and expenditures from 1984-85 to 1987-88 (the latter is the most recent year for which complete data are available). We obtained data on county financial transactions from the State Controller's Office, the Department of Mental Health, the Department of Health Services, and the Department of Social Services. Our analysis excludes San Francisco because, as a city/county, it is not directly comparable to other counties. For example, San Francisco's charter city powers allow it greater ability to raise local revenues.

FINDINGS REGARDING COUNTY FISCAL CAPACITY

Statewide, the capacity of county governments to meet local needs with local revenues did not keep pace with the growth in population and the cost of living over the period 1984-85 through 1987-88. On a statewide basis, county LPR increased 12 percent during this period. After adjusting for population growth and inflation, however, LPR *declined* 6.5 percent over the period.

Counties also bore an increasing share of costs for state-required programs. In 1984-85, counties used approximately 50 percent of their general purpose revenues to support state-required programs. By 1987-88, this share had increased to 55 percent. This trend is attributable to the fact that, statewide, the cost increases in state-required programs outpaced local revenue growth. Between 1984-85 and 1987-88, the costs of state-required programs increased 40 percent, while general purpose revenue increased by only 26 percent.

Variations in County Fiscal Capacity

The statewide trends mask considerable variation in fiscal capacity among counties. The counties vary in terms of their total LPR, as well as in the growth or decline of this funding base over time.

As Figure 1 shows, in 1987-88, the average county had LPR of $108 per capita. However, county LPR ranged from Solano County, with only $57, to Sierra County, with $599. Alpine County is an outlier in this comparison, with LPR of $1,837. Alpine County exhibits much higher per capita LPR because it receives a relatively large *share* of the local property tax (68 percent), has an extremely small population, and spends relatively lower amounts for state-required programs.

The counties also show considerable variation as to changes in their LPR over time. For example, Solano County experienced a 33 percent *decline* in LPR between 1984-85 and 1987-88, while Alameda County experienced a 50 percent *increase* during the same period. In all, 23 counties experienced a decline in LPR during this period, while 14 of these counties experienced a *double-digit* decline in this revenue. In contrast, 34 counties experienced an increase in LPR, with 20 of these counties experiencing a double-digit increase in this revenue.

Figure 2 identifies the counties which experienced a double-digit decline in LPR between 1984-85 and 1987-88. These counties are of interest because they appear to have shifted a relatively large share of general purpose revenue from local purposes to support state-required programs. It is interesting to note that many of these counties are clustered in the northern central valley.

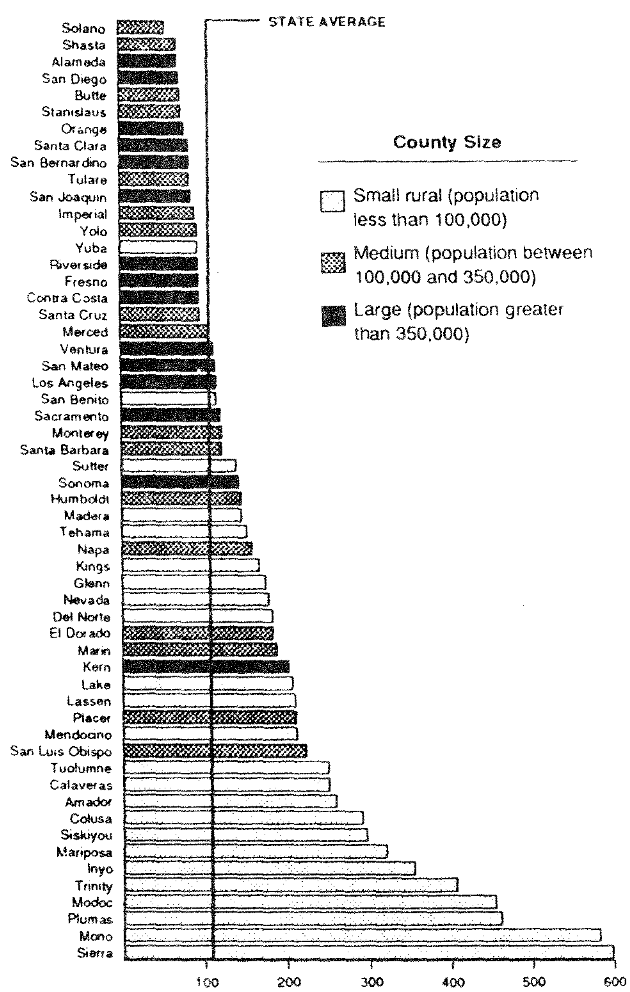
County Fiscal Capacity and Fiscal Distress

It is difficult to determine whether a county is experiencing fiscal distress based purely on these measures of fiscal capacity. Clearly, a county with low fiscal capacity is *more likely* to experience fiscal distress; however, the level of distress depends on the unique circumstances of each county. For example, a county which has a high level of LPR may be better equipped to sustain a decline in LPR without serious detriment to its residents. On the other hand, if the residents demand a high level of local services, the county may face practical difficulty in limiting services, and residents may feel deprived if traditionally local resources are shifted to support state-required programs. Conversely, a county with high *growth* in LPR may still have difficulty "making ends meet" if the *absolute level* of such resources was low to begin with.

Figure 1

Per Capita Local Purpose Revenue

1987-88 (dollars)



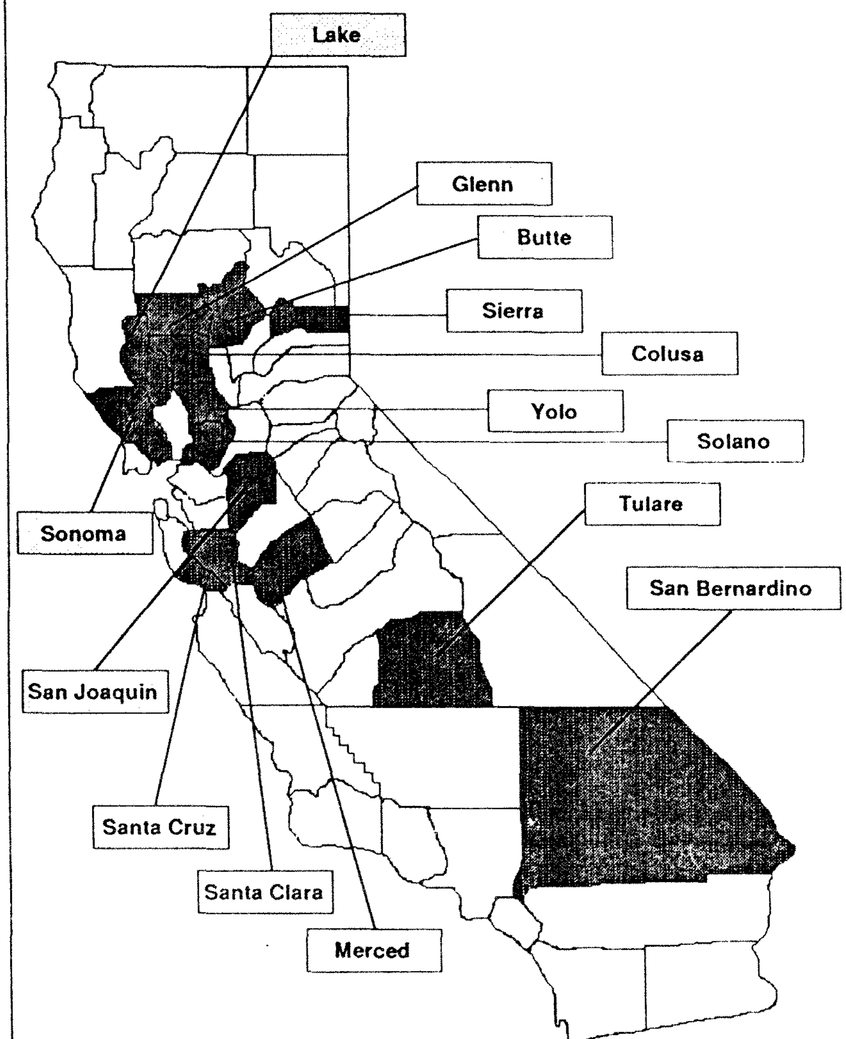
Note: Alpine County is excluded because LPR is off this chart at $1,837 per capita. San Francisco County is excluded due to lack of comparability.

Source: Legislative Analyst Office estimate.

Figure 2

Counties Experiencing Double-Digit Decline in Local Purpose Revenues

1984-85 to 1987-88



Source: Legislative Analyst's estimate.

Counties are particularly likely to face fiscal distress when they experience both a low level of LPR, and a decline in that level. For example, Butte County experienced a double-digit decline in LPR between 1984-85 and 1987-88. At the same time, Butte County had the fifth-lowest per capita LPR in the state in 1987-88. Butte County also spends less than the state average (measured on a per-capita basis) for a variety of local programs, including general administration, public health, social services, and recreation/cultural programs. Thus, the county has less flexibility to implement local service reductions in response to the increasing expenditures required in state-required programs. As Figure 3 shows, 10 counties are characterized by both a below-average amount of LPR, and a decline in LPR between 1984-85 and 1987-88.

Figure 3

Counties Characterized by Both Below-Average and Declining LPR

1987-88

- *Butte*
- *Fresno*
- *San Bernardino*
- *San Joaquin*
- *Santa Clara*
- *Santa Cruz*
- *Shasta*
- *Solano*
- *Tulare*
- *Yolo*

Source: Legislative Analyst estimates

Low Fiscal Capacity--Not Just a Rural County Problem

In the past, rural counties have appeared to be particularly plagued by the gap between resource availability and service requirements, and state programs have been established to address the unique problems of such counties. For example, the Homicide Trials Program primarily benefits small rural counties. The *1990-91 Governor's Budget* also reflects the perception that low fiscal capacity is a particularly rural problem, and calls for a "Rural County Review" to examine the situation. Our analysis indicates, however, that the problem of low fiscal capacity is not merely a rural county problem.

Figure 4 provides information about changes in LPR for small rural, medium-sized, and large counties. Small rural counties are defined as those with populations under 100,000, medium-sized counties as having populations between 100,000 and 350,000, and large counties as those with populations in excess of 350,000. In each category of county size the figures indicate that there are counties with improving as well as declining fiscal capacity. For example, among small rural counties (upper panel), change in LPR varies from a 31 percent decline (Lake County) to a 38 percent increase (Inyo County). Among medium-sized counties (middle panel), it varies from a 33 percent decline (Solano County) to a 36 percent increase (Monterey County). Among large counties (lower panel), San Joaquin experienced a 16 percent decline in LPR, while Alameda County experienced a 50 percent increase.

Further, some of the larger counties which show declines in LPR also have a relatively low *base* amount of LPR (please refer to Figure 1). These counties include Santa Clara, San Bernardino, and Fresno. Thus, these data indicate that the problems of low and declining fiscal capacity are not confined to the rural counties.

The Role of State Fiscal Relief in Preventing Fiscal Decline

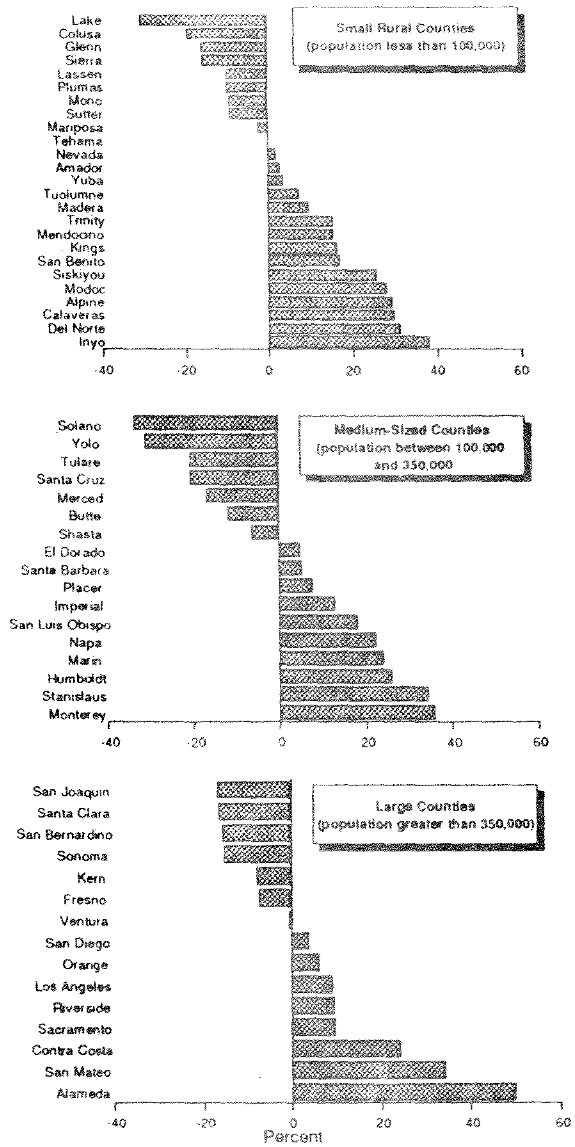
In 1987-88, the state established one-time block grants for county fiscal relief under Chapter 1286, Statutes of 1987 (AB 650, Costa). This program provided $110 million to California's counties. Of the total, $89 million was allocated to counties based on their relative shares of certain county health services grants, discretionary COLAs, and population. An additional $21 million was allocated based on a "revenue stabilization" formula established by Chapter 1286. Specifically, these grants were intended to stabilize the percentage of county GPR expended for the county share of costs in AFDC (exclusive of Foster Care), the IHSS program, the Community Mental Health program, and the Food Stamps program. In addition to the grants provided under Chapter 1286, several rural counties received state grants in 1987-88 for the reimbursement of certain homicide trial costs ($2 million) and for marijuana eradication ($2.8 million).

Our analysis indicates that the fiscal relief provided in 1987-88 reduced the magnitude of the fiscal decline experienced by counties between 1984-85 and 1987-88. In the absence of this relief, counties would have experienced a *10 percent* decline in inflation-adjusted LPR, rather than the 6.5 percent decline they did experience. Thus, state fiscal relief appeared to have a *marginal* positive effect on overall county fiscal capacity in 1987-88.

Figure 4

County Percentage Changes in Local Purpose Revenue

1984-85 to 1987-88



Source: Legislative Analyst estimates.

The state fiscal relief provided in 1987-88 played a more important role in improving the fiscal capacity of the *smaller* counties. These counties were the primary recipients of the $21 million in revenue stabilization grants, as well as the grants for homicide trials reimbursement and marijuana eradication. In 1987-88, small rural counties received $16 per capita in this state fiscal relief, compared to $5 per capita received by medium-sized counties, and $3 per capita received by large counties. In the absence of this relief, small rural counties would have experienced a *5 percent decline* in LPR, rather than the *3 percent increase* that actually occurred.

It is important to note that, following 1987-88, counties did not receive large block grants for fiscal relief. In 1988-89 and subsequent years, however, counties did begin to receive new state assistance under the Trial Court Funding Program. Although information is not yet available to measure the impact of this program on individual counties, it is unlikely to provide the same level of relief to counties with low fiscal capacity. This is because the Trial Court Funding program provides its assistance in proportion to the number of judges in each county, and this bears little relationship to relative fiscal capacity.

FACTORS CONTRIBUTING TO LOW FISCAL CAPACITY

The specific factors contributing to low fiscal capacity vary considerably from county to county. For example, Butte County has experienced a decline in LPR primarily because of slow growth in local revenue sources. In contrast, San Bernardino County's declining LPR appears to stem primarily from dramatic growth in expenditures for state-required programs. Between 1984-85 and 1987-88, San Bernardino's expenditures for state-required programs grew at almost double the statewide pace--77 percent compared to 40 percent. Generally speaking, however, low fiscal capacity stems from some combination of limited revenue growth and increasing expenditures for state-required programs. As discussed below, counties have only limited control over these factors.

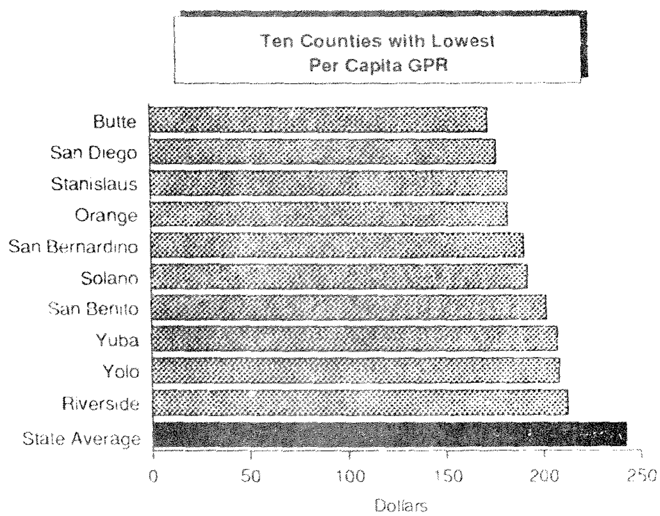
Limited or Low-Growth in Revenue

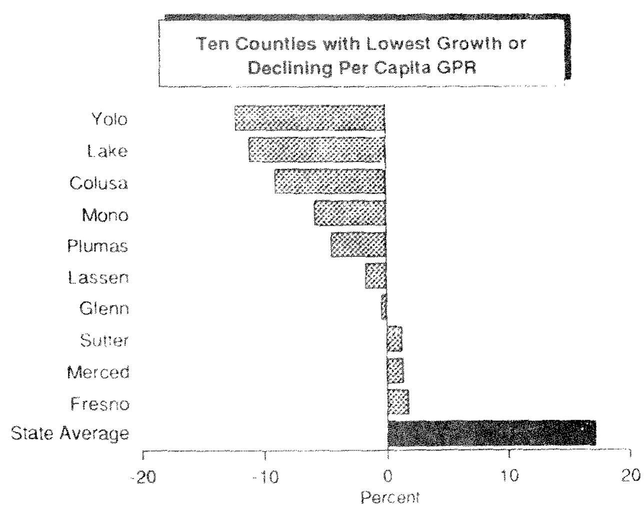
Our analysis suggests that a number of counties were characterized by low GPR, or by low growth in GPR, during the study period. Figure 5 shows the 10 counties with the lowest total GPR per capita in 1987-88 (upper panel), and the 10 with the lowest growth (or actual declines) in GPR between 1984-85 and 1987-88 (lower panel). The counties with low-growth or declining GPR include primarily smaller counties. There are, however, several large counties with low absolute levels of GPR (San Diego, Or-

Figure 5

Counties With Low or Low-Growth GPR

1984-85 to 1987-88





Source: Legislative Analyst Office estimate.

ange, San Bernardino, and Riverside Counties). Only one county--Yolo--was in the bottom 10 both in terms of absolute level and changes to GPR during the study period. As discussed below, a variety of factors are responsible for a county experiencing a low level of GPR, or low growth in that base.

Economic Characteristics. The county's characteristics, such as its economic base and the pace and pattern of development within its boundaries, are critical factors in determining GPR. For example, counties with primarily agricultural economies tend to have lower property values and retail sales and, therefore, more limited revenue. Even if a county has a growing economy, it will receive only limited fiscal benefit from this growth if commercial or industrial growth occurs within *city* boundaries.

Actions of Other Entities Within the County. The actions of overlying governmental entities can have an important effect on county resources. For example, Yolo County's decline in GPR during the study period is largely attributable to the incorporation of the City of West Sacramento in January 1987. While a county may experience some reduction in service responsibilities as a result of incorporation, these reductions are not always commensurate with its loss of revenues. In addition, city redevelopment policies can have an effect on county revenue. This is because current law allows redevelopment agencies to retain most of the increased property tax revenues (tax increment) occurring within a redevelopment project area.

State Policies. State policies also can affect county resource availability. One of the most important of these is the allocation of county property tax revenues established by state law. Under the AB 8 property tax allocation formula (enacted following the voters' approval of Proposition 13), the share of the property tax allocated to each local agency is based on its share of the total amount of property taxes collected in the county during the three fiscal years prior to 1978-79. Many counties imposed low property tax rates during this period and, therefore, currently receive a relatively low share of countywide property tax revenues. While counties receive on average 33 percent of total property tax revenues, county shares range from 18 percent in Orange County to 68 percent in Alpine County.

As discussed above, counties have extremely limited access to independent revenue sources. One potential revenue source for smaller counties is the sales tax. Chapter 1257, Statutes of 1988 and Chapter 277, Statutes of 1989 (both AB 999, Farr), allow counties with populations under 350,000 to increase sales taxes by one-half cent, subject to voter approval. Counties have had difficulty, however, obtaining voter approval for general sales tax increases. In all, 16 county measures have sought sales tax increases under these provisions. Only two of these measures have succeeded (in San Benito and Monterey Counties).

High or Rapidly Increasing Costs for State-Required Programs

Our analysis indicates that a number of counties expend a disproportionate amount per capita for state-required programs. Figure 6 shows the 10 counties with the highest per capita expenditures for state-required programs (upper panel), and the 10 with the highest *growth* in per-capita expenditures for state-required programs (lower panel). While many of the counties with high or increasing costs for state-required programs are small rural counties, several larger counties are also included (Alameda, Sacramento and San Bernardino Counties). Three counties show both extremely high *and* rapidly increasing costs for state-required programs (Trinity, Sierra and Mariposa Counties). Of these, only two are characterized by declining *LPR* (Mariposa and Sierra Counties). Trinity County did not experience a decline in LPR primarily because its increase in GPR outpaced cost increases during this period.

A variety of factors contribute to a county experiencing high or rapidly increasing expenditures for state-required programs.

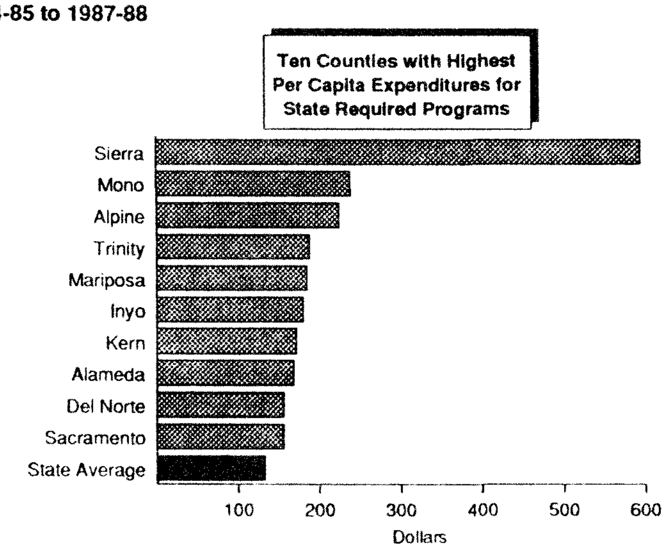
Population Characteristics. Counties face high costs for state-required programs in large part because of local population characteristics. For example, in 1987-88, AFDC caseloads ranged from six cases per thousand residents in Marin County, to 50 cases per 1,000 in Del Norte and Yuba Counties. Counties also have differing populations in need of specialized services, such as elderly individuals or recent immigrants.

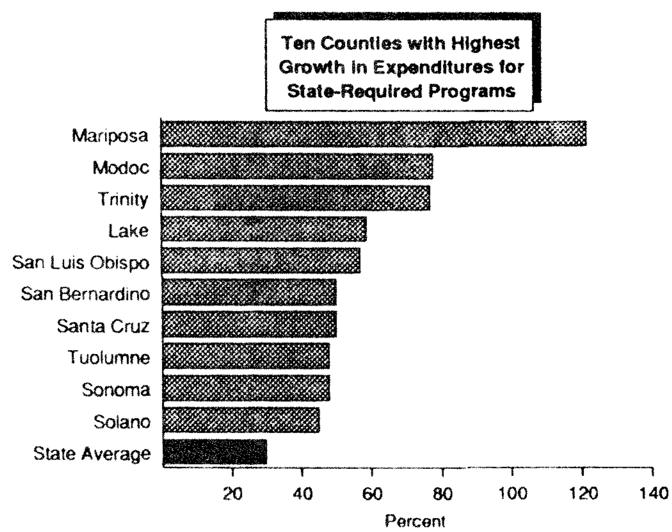
Local Program Choices. Counties can exert some influence over program costs through decisions regarding program administration, access to services and service levels. The ability of counties to determine eligibility and service levels varies, however, from program to program and from county to county. For example, counties have extremely limited control over expenditures in AFDC because the eligibility criteria and grant levels are established by the state and federal government. Counties generally have more control over general assistance expenditures because the state does not impose specific standards in this program. County decisions regarding law enforcement also have a substantial impact on their costs for administration of the courts and correctional facilities.

Figure 6

Counties with High or Increasing Costs for State-Required Programs

1984-85 to 1987-88





Source: Legislative Analyst Office estimate.

Court Actions. In many counties, the courts have established guidelines for state-required programs which restrict the county's ability to control program costs. For example, a number of counties face court-imposed minimum eligibility standards and grant levels for general assistance. The courts also have imposed population caps on correctional facilities in 19 counties, requiring those counties to incur increased costs for staffing and operations of new or expanded correctional facilities.

Actions of Other Governments. The actions of other governmental entities also affect county expenditures for required programs. For example, the state is constitutionally required to reimburse counties for the costs of new programs or higher levels of service imposed after 1975. This requirement specifically does not apply, however, in the case of county program costs resulting from changes in crimes and infractions. Thus, county court and correctional costs are sensitive to state criminal justice policies. In addition, the law enforcement actions of cities, whose police departments operate independently of counties, can increase county costs by placing demands on the courts and jail facilities.

Variations in State Funding Affect Fiscal Capacity

As we discussed above, targeted state fiscal relief played a role in mitigating fiscal decline in 1987-88. Ironically, differences in state grants also may *contribute* to county fiscal disparities. Figure 7 illustrates the per capita state assistance provided to counties in 1987-88. This measure includes general purpose state subventions as well as state grants for programs such as mental health, county health services, and social service administration. It *excludes* payments for programs providing direct grant payments to individuals (such as the Supplemental Security Income/State Supplementary Program and AFDC). It also excludes state payments for social service program costs that are primarily caseload driven. We exclude these caseload-driven payments because they are directly related to the service population and, therefore, would distort county-by-county comparisons.

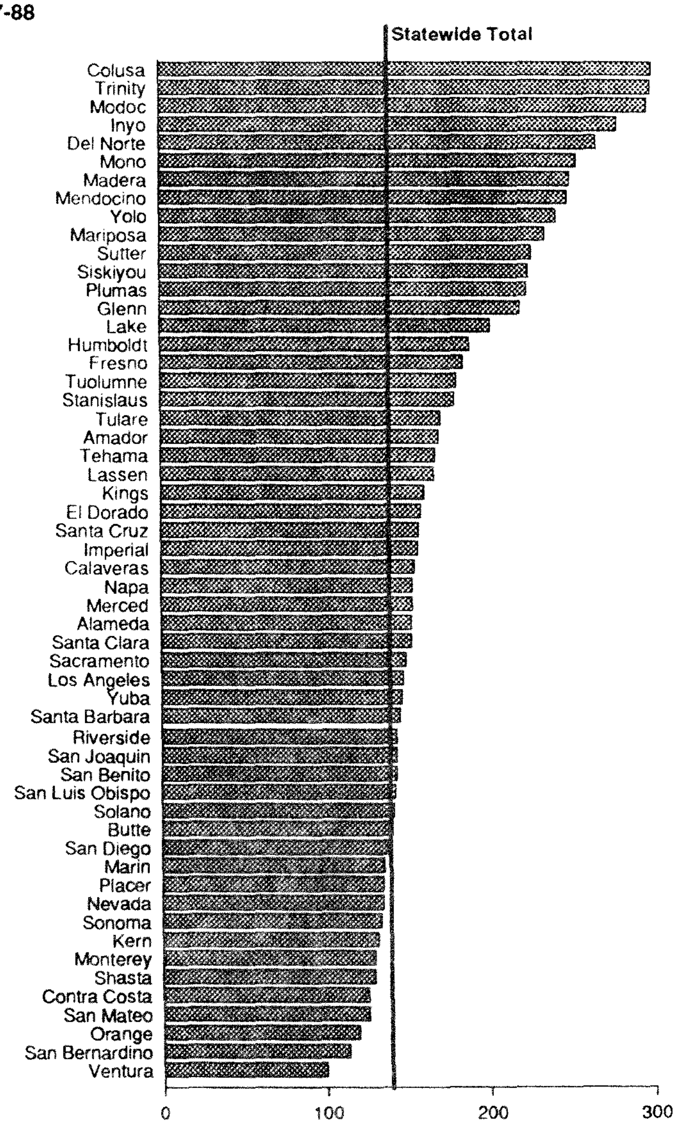
As Figure 7 demonstrates, state assistance payments vary considerably, from $100 per capita in Ventura County, to $300 per capita in Colusa County. To the extent that these variations do not accurately reflect variations in county service requirements or fiscal need, they may contribute to county fiscal strain.

Our analysis indicates that this may in fact be the case, for two reasons. First, funding for many programs is allocated in proportion to each county's relative level of expenditure during a "base year." For example, the subvention for county public health services is based partially on the level of "net county costs"

Figure 7

Per Capita State Assistance

1987-88



Note: Alpine and Sierra Counties excluded because they are off the chart at $1,094 and $831, respectively. San Francisco County excluded due to lack of comparability.

Source: Legislative Analyst Office estimates.

for health programs during the 1977-78 fiscal year. Counties which chose to provide higher levels of service that year, at county expense, are now rewarded by higher allocations of state funds than counties that were providing lower levels of services at that time. As these allocations are fixed, they do not respond to changes in service demands over time. Second, some programs, such as the state's alcohol and drug programs, provide a minimum amount of assistance regardless of population. This results in a higher per capita allocation of program funds for the less-populous rural counties.

These differences in state funding levels can have the effect of requiring counties to bear differing burdens for state programs. For example, state payments for community mental health under the Short/Doyle Act vary considerably from county to county. Until recently, these grant levels had not been adjusted to better reflect current county populations in need of these services. Counties which receive relatively low grant levels may find it necessary to increase expenditures to respond to their increasing service needs. As a result, they may bear a higher share of program costs than counties receiving higher levels of state assistance. This differential in county costs for state-required programs is responsible for some of the difference in LPR between counties shown in our data.

CONCLUSIONS

In sum, while county fiscal capacity varies considerably throughout the state, our analysis indicates that a number of counties are characterized by low fiscal capacity. Low fiscal capacity is not confined to small rural counties, as a number of the larger counties also are characterized by low or declining LPR. While the specific contributing factors vary from county to county, low-capacity counties generally experience some combination of limited revenue, low growth in revenue, and/or high or increasing costs for state-required programs. In addition, the state may contribute to fiscal disparities to the extent that the state aid it provides does not reflect current county fiscal conditions.

Low fiscal capacity can have many negative ramifications. As we describe in *The 1989-90 Budget: Perspectives and Issues* (please see p. 348), low fiscal capacity may require counties to restrict local services, or result in counties having difficulty meeting statewide objectives in programs of state interest. It also results in pressure to increase local revenue, and this may have an undue influence on local land use decisions. Moreover, counties' revenue constraints may hamper their ability to respond to future infrastructure needs and to facilitate local economic development. Fiscally distressed counties also may have difficulty providing adequate funding levels for state programs with matching requirements, which can result in them not meeting state objectives. For example, some counties may not have the fiscal resources to aggressively pursue child support collections, which may result in higher net state costs for AFDC. At the extreme, a county may consider bankruptcy action in federal court. Given the lack of precedence and the complex issues involved, the state would face considerable uncertainty as to the outcome of such an action.

How Can the Legislature Improve County Fiscal Conditions?

The fiscal difficulties faced by counties are long-term and structural in nature. They result from the programmatic relationship between the state and counties, as well as the revenue constraints imposed by Proposition 13. Given the complexity of factors involved, and the diversity of California's counties, it will not be an easy task to find *long-term* solutions to county fiscal distress. In the short term, however, the Legislature should take into account the fiscal difficulties faced by counties when considering the Governor's budget proposals, many of which may have a negative impact on counties (see Figure 8 for the major proposals).

In addition, the Legislature will need to examine its options for providing short-term fiscal relief, as well as investigate longer-term solutions to the county fiscal dilemma. Figure 9 summarizes some of the alternatives for providing fiscal relief to counties. Three of these options are shorter-term in nature, and could be implemented in the budget year. These include the provision of targeted relief, reduction in county match requirements for state-required programs (or increased funding levels), and the reallocation of program funding (or allocation of future funding) based on measures of current program service requirements.

Our analysis indicates that increased funding and expanded program coverage for the existing County Revenue Stabilization program is an effective means of providing targeted fiscal relief to counties. This is because the statutorily determined grants provided by this program are designed to reflect the impact of state-program requirements on the revenue available for local purposes. The Governor's Budget proposes to provide $15 million for this program. Our analysis indicates, however, that to fully "stabilize" revenues in the manner contemplated by the statutory formulas would require considerably more than this amount (please see our discussion of this program in the *Analysis of the 1990-91 Budget Bill*, Item 9210).

Figure 8

Impact of Governor's Budget Proposals on County Fiscal Capacity

Positive Impact	Amount	Analysis Reference
+ Augmentation for open-space subventions to counties under the Williamson Act	$5 million	Item 9100
+ Increased funding for the Community Mental Health Program	$10 million	Item 4440
+ Increased funding for the California Healthcare for the Indigent Program (CHIP)	$35 million	Item 4260
+ Shift the responsibility for mental health and residential services for children, as required by Ch 1747/84 (AB 3632, Brown) and Ch 1274/85 (AB 882, Brown), from the Department of Mental Health and Department of Social Services to the Department of Education	Unknown positive impact	Item 6110
Negative Impact		
− Reduction in payments to counties under the AB 8 County Health Services Program	$150 million	Item 4260
− One-year suspension of the statutory cost-of-living adjustments for AB 8 health services grants	$23.5 million	--
− Reduction in payments to counties under the Medically Indigent Services Program	$25 million	Item 4260
− Program growth "adjustment" under the Child Welfare Services program	$24 million	Item 5180
− Deferral of payment for the prior-year costs for certain mandates until the Budget Acts of 1991, 1992, and 1993	$40 million	Item 8885

Figure 9

Legislative Options for Improving County Fiscal Conditions

SHORT-TERM OPTIONS

- ✔ Provide additional targeted relief (for example, increase funding provided under the revenue stabilization program).
- ✔ Reduce county match requirements or increase overall funding levels in state programs.
- ✔ Reallocate state program funding, or allocate future increases in funding, based on measures of current program requirements. (*Note:* Current law requires increases in funding for community mental health to be allocated based on an "equity" formula.)

LONG-TERM OPTIONS

- ✔ Modify county property tax allocations.
- ✔ Provide additional independent revenue sources (for example, extend AB 999 to large counties).
- ✔ Realign state/local program responsibilities.

While these options may close the gap between revenue and responsibilities in the short term, they are unlikely to solve the long-term structural budget problem experienced by counties. In the longer term, the Legislature should examine more permanent solutions to the county fiscal dilemma. As Figure 9 indicates, potential longer-term options include modification of the current county property tax allocations, provision of additional independent revenue sources, or the realignment of relative state and local program responsibilities. These options should be considered, however, in the context of the overall county-state relationship and the programmatic goals of the state social service system. As such, these options merit additional study prior to state action.

County Supervisors Association of California

ASSEMBLY LOCAL GOVERNMENT COMMITTEE
STATE/LOCAL FISCAL CRISIS
June 11, 1990

Testimony by Karen M. Coker
County Supervisors Association of California

Mr. Chairman and Members -

Thank you for this opportunity to appear before you and outline the consequences this current budget crisis presents in the county health and welfare area. Given the magnitude of a $3.6 billion shortfall in revenues, it appears inevitable that critical programs will be reduced and that the most frail and needy population in California will suffer greatly.

The Governor's budget, as proposed in January, outlined a number of program reductions that would significantly reduce the ability of counties to provide essential health and welfare services at the local level. I would like to briefly outline the most significant proposals contained in the budget as introduced; to highlight other key areas of vulnerability that we foresee; provide the committee with the impact of funding reductions in this area; and, finally, to provide some suggestions that will assist in local implementation of your budget decisions.

1. **AB 8/County Health Services Program**

The 1990-91 State budget proposes to reduce the County Health Services/AB 8 Program by $150 million General Fund and eliminate the statutory annual cost-of-living adjustment of $23 million General Fund. The stated reason for the $150 million reduction in AB 8 funding is the "availability of Medi-Cal OBRA services for persons who were previously

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provided services under the County Health Services Program." This basic assumption that revenues from Medi-Cal/OBRA services is a windfall to the counties is not valid. There are several points to consider in analyzing the Administration's proposal:

- o AB 8 Program/Background and County Match Experience:

In 1978, after Proposition 13 was adopted, the Legislature appropriated $4.4 billion in one-time fiscal relief to schools, counties, cities and special districts. In the following year, AB 8 (Chapter 282, Statutes of 1979), continued, with some modification, the assistance to schools and the "buy-outs" of specified health and welfare programs. The provisions of AB 8 were established to be a **permanent system of fiscal relief for local governments**.

The County Health Services Program was established in AB 8 as a part of this larger fiscal relief measure to provide block grants to counties for funding for a broad spectrum of public health services. This program provides a block grant "partnership" between the State and the counties in the financing of health services delivered at the local level. Counties have substantial flexibility in determining the priority and use of State and local funds. Each county's allocation is based on a formula consisting of (1) a per capita grant, and (2) state sharing funds that must of matched by county funds.

The best perspective to weigh the Administration's proposal can be obtained from each county's health services plan and budget -- **the county match for State AB 8 funds should be the deciding factor as to whether there is any kind of a "windfall" from select revenue category changes.** Counties across the State have "over-matched" the AB 8 program. These over-match funds are provided out of county general purpose revenues -- and are made in the face of compelling local needs to spend county funds on other high priority programs, such as law enforcement, park services, road improvements, etc. Counties have not provided so generously to the AB 8 Program because we are flush with resources. Instead, we find that counties have provided over-match funds in attempts to keep up with dramatic cost increases in providing basic public health services.

To represent that OBRA revenue as a windfall is only accurate if counties have actually decreased the local over-match funds used to provide services. As illustrated in Table A, counties have NOT seen a local offset in the cost of providing health services. In fact, counties have nearly doubled our over-match expenditures in the last fiscal year!! In the 26 counties which administer their own indigent healthcare programs (commonly referred to as the "MISP counties), the over-match figures have grown from $203.5 million in FY 1988-89 to $391.4 million in FY 1989-90. This information portrays quite accurately that we have not received any kind of offset for local expenditures as a result of OBRA. Any reduction in AB 8 funding will only result in decreasing or eliminating public health services -- OBRA revenues simply will not compensate for this cut in funding.

- Reductions in State AB 8 Funds will jeopardize Proposition 99 funds:

Under the provisions of AB 75 (Chapter 1331, Statutes of 1989), counties are strictly required to "maintain a level of financial support of county funds for health services at least equal to its county match and any overmatch of county funds in the 1988-89 fiscal year." Counties supported this provision of AB 75 in recognition of the provisions of Proposition 99 which require tobacco tax funds to be used to supplement and not to supplant existing services.

Since counties are required to provide a dollar-for-dollar match on a portion of AB 8 funds received, a reduction in state funds would inevitably result in a statutory reduction in county funds. **Unless, the maintenance of effort provisions of AB 75 are significantly modified by the Legislature, counties will not be able to sustain the financial or service level maintenance of effort requirements of AB 75.** We simply cannot fill the gap with county funds if the AB 8 dollars are reduced. Thus, the Prop. 99 appropriations to counties for health services slated for FY 1990-91 will be jeopardized. The Administration and the Legislature must be aware that the issue to Proposition 99's non-supplantation issue will be tested in court.

o Many AB 8 services are not related in any way to Medi-Cal/OBRA:

State and local AB 8 funds are used to support the entire scope of health services. Many of these services are not eligible and are not related in any way to the Medi-Cal program funded in part by the Federal OBRA Act of 1986. Counties have the latitude to use these funds for a broad array of services, including in-patient and out-patient indigent care, environmental health services, jail health, animal control, immunizations, juvenile court health services, public health for sexually transmitted diseases, dental care, public health nursing, and California Children's Services.

CSAC collected expenditure data from the counties in order to demonstrate the range of services that are funded by AB 8. 44 of the 58 counties completed the survey, as illustrated in Table C.

o Reductions in State Health Subventions violate the agreements achieved in SB 175:

The federal OBRA Act of 1986 made available limited Medi-Cal coverage of emergency services and pregnancy-related services, including labor and delivery costs, to undocumented persons and persons with visas, provided they meet income and resource requirements. The state legislation implementing these OBRA changes, SB 175 (Chapter 1441, Statutes of 1988) added prenatal and postnatal care as an additional Medi-Cal benefit for this population. The SB 175 agreement that was reached after lengthy negotiations between the Administration, the Legislature and the counties, specifically did not include an offsetting reduction in any state-funded local assistance, AB 8 included.

The Administration is treating the OBRA program as if these are all newly provided Medi-Cal services to this population and that counties were paying for these services. Some counties, primarily Los Angeles, were reimbursed by Medi-Cal for these services by using the CA 6 eligibility process. The State of California has been incurring costs for this service population for years under the Medi-Cal program through the CA 6 process -- a process by which an alien certified that they are not under order of deportation and Medi-Cal services are rendered pending review of INS. **The Administration's position that these pregnancy-related services were completely provided by counties under the AB 8 program is a complete fallacy.** The Medi-Cal estimate for FY 1989-90 contained a conservative $40 million savings due to the elimination of the CA 6 process.

Counties are concerned that a decision to reduce AB 8 funding represents the State Administration turning its back on its partnership with the counties in the area of public health services. It was through this partnership that counties supported the Administration in efforts to achieve passage of SB 175.

Achieving full restoration of funds for the AB 8 Program is the highest budget priority for

CSAC and the counties for fiscal year 1990-91. Any methodology used to apply these cuts to counties -- whether the reduction affects all 58 counties or a selected number -- will be vigorously opposed by CSAC. Individual counties and county health associations will also maintain opposition to this reduction.

The impact of reductions in AB 8 will differ by county, due to the discretionary nature of this block grant-type health program. However, all counties which suffer reductions in AB 8 funding, will inevitably reduce basic public health services for immunizations, venereal disease treatment, well child clinics, family planning, tuberculin skin testing, HIV screening, public health nursing for child abuse and neglect, services to high risk infants, discontinuation of services to senior citizens and frail elderly, as well as the Women Infants and Children (WIC Food Supplement and Education Program. Enforcement of Non-Smoking Ordinances would be eliminated completely in some counties. Children with catastrophic medical needs, such as cancer and congenital heart disease, would experience delays in medical treatment, and in some cases go without care altogether. And environmental health programs would suffer, with reductions in inspections for food handling establishments and investigations of sites contaminated with toxic waste and sewage spills.

Reductions will not just mean that **less** services will be available. Many counties will be forced to close public health clinics, thus **eliminating** the only point of access to health care for many county residents. Table D demonstrates the list of public health referrals in Yolo County that are not assigned to a public health nurse due to lack of staff.

2. Medically Indigent Services Program

The Governor's 1990-91 budget proposes to reduce the Medically Indigent Services Program (MISP) by $25 million from its current funding level by deferring payment until the next fiscal year. We are skeptical about this proposed deferral -- particularly due to the lack of action to honor to the statutory commitment to hold counties harmless from reductions made in the MISP program last year. In 1989-90, the MISP program was reduced by $100 million. This cut was predicated upon assumptions that federal funds (IRCA) for newly legalized persons would "backfill" the MISP cut. In taking this cut, the Legislature acknowledged that certain counties would never claim sufficient funds to fill the gap in MISP funding. Thus, a "hold-harmless" provision was adopted by the Legislature and signed by the Governor, to make up the difference between MISP and IRCA funds. Many counties have assumed that the State would hold true to this commitment, and have included these funds in their local budget. Unfortunately, the State has not provided any assurances of honoring the hold-harmless provisions in any state budget hearing. In the absence of corrective action, counties will already experience a shortfall in MISP funding.

The "deferral" in MISP expenditures cannot be interpreted as anything other than a budget cut -- there is absolutely no guarantee that next year's budget will include this $25 million beyond what would otherwise be appropriated. The fact remains that even without this additional cut, MISP has been and continues to be severely underfunded. At the inception of the MISP program in 1982, counties were given 70 percent of the State's expected expenditures to provide services to this group. Since that time, the program has been subjected to repeated cuts in the face of mounting costs due to inflation and case load increases (see Table E).

The MISP program was been rumored to be vulnerable to additional funding reductions as a means to balance the 1990-91 State budget. Further reductions in MISP could result in county hospital closures -- and patient deaths -- due to the very fragile condition of the county health safety net. In some counties, patients already wait over nine weeks for outpatient care. Delayed medical treatment often results in more expensive care as health conditions get worse.

3. <u>Mental Health Funding</u>

The Governor's January budget proposal does not contain specific program reductions for Short-Doyle Mental Health programs. However, the budget proposes to transfer fiscal responsibility for mental health services provided to special education pupils to the State Department of Education under the umbrella of Proposition 98. This proposal was initiated under the assumption that "Test 1" of Proposition 98 would allow for the $40 million in State General Funds to be "freed up" for other budget purposes. Circumstances have changed since the introduction of the budget and it now appears that the growth in Average Daily Attendance (ADA) of school children will necessitate the use of "Test 2". The outcome of Proposition 98's "Test 2" provisions is that the non-Prop. 98 side of the state ledger will become smaller and additional reductions may result in health and welfare programs.

It now appears that the Governor's original proposal to transfer the program for Seriously Emotionally Disturbed (SED) children to the State Department of Education may not result in making the $40 million available for other health and welfare programs. However, CSAC continues to support the proposed transfer because special education programs under the auspices of the State Department of Education have enjoyed more stable funding, with annual increases, which could protect and enhance future mental health services to the SED program. The educational community is uniformly opposed to this transfer.

The fiscal subcommittees in both houses have acted to reject the proposed transfer to Proposition 98 and restored funding to county mental health and welfare departments. **Our greatest fear is that the proposal to transfer the funding to Proposition 98 will be rejected -- and that the funding for county mental health and welfare departments will not be replaced.** Without statutory repeal of the legislation which mandated services to SED children (Chapter 1747 - Statutes of 1984/AB 3632 and Chapter 1274 - Statutes of 1985/AB 882), mental health services for children and adults will be jeopardized.

The funding for community mental health services, as well as SED services, is very uncertain given the magnitude of the $3.6 billion gap in state funding for FY 1990-91. Local mental health programs have been placed at fiscal and legal risk along with seriously emotionally disturbed children, as part of this enormous budget crisis.

County mental health programs serve the sickest and poorest Californians. Statewide, 90% of mental health funds are used for persons with very low income. The balance of mental health funds are used for people who pay some share of cost and for vitally needed community mental health services: earthquake recovery services, other disaster response, outreach to minority communities and similar programs.

65% of our funds go to persons who are severe and persistently mentally ill. The balance goes to children with serious mental health needs but without an adult diagnosis, people with urgent short-term problems such as suicide prevention or disaster response, and adults who are evaluated in a crisis clinic or emergency room and referred to non-public services.

Mental health services in California's counties have suffered a $132-$250 million reduction in per capita funding since the early 1980's.

The Legislature and Governor have invested substantial funds in increasing staffing and facility adequacy at California's state hospitals in the last five years. State hospital beds have been increased an average of 100 beds per year each of the last four years to serve the needs of clients sent by the criminal justice system. The State has replaced substantial amounts of federal funds withdrawn from the inpatient system when federal participation in Institutes for Mental Disease was eliminated. Several new categorical programs were created, including services to severely emotionally disturbed children in public schools, services to the homeless mentally ill and supplemental rate payments for board and care homes. Each of these categorical programs brought expanded service mandates or new caseloads into the county-operated programs. During this same period, the community mental health system received a 1% cost of living four years ago and a 2-2 1/2% increase for new caseload and services from tobacco tax funds this year. Community access to state hospital beds has not been increased, and locally operated programs for the vast majority of mentally ill Californians have been reduced or eliminated.

The impact of this steady erosion of local programs is serious and intensely personal for many Californians. San Diego has recently investigated two suicides by persons who were seriously and persistently mentally ill. They have concluded that the reduction in outreach services, case management and support for people released from in-patient units, inadequate day treatment and other rehabilitation services, and lack of services for people with both a substance abuse and mental illness problem **contributed directly to the suicides.**

Some counties have additional problems because they have experienced explosive population growth.

Riverside County's population has increased 65% in 10 years, while the state's population grew 25%. As a result, their per capita mental health funding has declined 25% since the late 1970's. They now serve 10% of the severely and persistently ill population. This scenario has been repeated in foothill counties throughout northern California.

Funds appropriated in the State Budget have failed to keep pace with inflation.

Los Angeles closed 2 clinics and reduced services in 7 other facilities last year alone. Even "over-equity" counties are affected by this funding crisis. San Francisco County, for example, also closed two clinics last year. Outpatient and day treatment services were reduced in over half the counties in the state this year. Typically, counties have already reduced or eliminated outreach, prevention, early intervention and community education. Rural counties cannot recruit medical supervision needed to maintain licensing, because their salaries are embarrassingly low.

These budget cuts have created a flow of mentally ill people into the criminal justice system.

As clinics and inpatient units have closed or their waiting lists have grown, the county jail has become the largest psychiatric facility in California. The state's budget practices have created a disastrous spectacle of communities whose only open door is the jail.

County mental health departments are not able to meet the needs of AIDS demented patients in adult acute inpatient service areas.

In the first half of 1989, San Francisco saw the caseload of AIDS demented patients increase to 20% of their total inpatient population. These clients, often non-rehabilitatable, require extensive physical care. Most are not combative, but require a locked inpatient setting for their personal safety and are gravely disabled in their ability to care for themselves. The needs of this population will grow in many communities, and the mental health system must have the resources to provide appropriate, specialized settings for their care.

County Supervisors unanimously passed a resolution at our 1988 Annual Meeting which declares that there is a severe crisis in the California public mental health system and, that in the absence of appropriate state action to mitigate the crisis, counties will explore legislative and legal means to disengage counties from the mandates of the Short-Doyle Act.

4. **Child Welfare Services**

The Governor's budget proposes a reduction of $38 million in Federal and State General Fund expenditures for the Child Welfare Services Program. This proposal represents the first time since the early 1980's that the administration has proposed to fund CWS at less than its full estimated costs. This funding shortfall translates into a underfunding of approximately 500 full-time social workers which are identified as needed by the SDSS budget. Specifically, this means either of the following -- some children go unserved or all children receive less service because caseloads per worker are approximately 10-15% higher. Overall, this shortfall will likely translate into increased cases per social workers, which in turn means child visitation standards, court-ordered service requirements and overall supervision of child and family situations will be compromised.

This budget proposal is made, in part, based upon assumptions that counties may absorb the reduction through increased efficiency in local administration of the Child Welfare Services Program. To the extent that counties **cannot** achieve $38 million in efficiencies, however, the reduction would result in social workers being able to perform fewer tasks required under current state law. If this is the case, it would be better public policy to statutorily eliminate some of the currently required tasks, than to force counties into the position of having to choose which statutory requirements to ignore.

The past commitment of the Administration has been to fund the caseloads in Child Welfare Services. The failure to do so in FY 1990-991 will means many children and families will not be served in keeping with the intentions of state law and regulations. (See Table F.)

5. <u>In-Home Supportive Services</u>

The budget proposes to cut the In-Home Supportive Services Program by $71 million by eliminating access to services for over 40,000 elderly and disabled Californians. The percentage of IHSS clients who would lose access to services as a result of the proposed reduction varies by county. In the counties of Plumas, Kings and Merced, two-thirds of clients would lose access to care. In other counties, approximately 30% of the clients would lose their IHSS. (See Table G.)

Without services, the functional level of many of these IHSS clients will quickly deteriorate to a disability level which would again make them eligible for IHSS. In addition, the health status of some of these clients may actually deteriorate to such a level that medical care, hospitalization or long-term care may be required. Because IHSS eligible clients are eligible for Medi-Cal, the state may end of paying more in the long-run to serve clients proposed to be removed from the IHSS program. In addition, the impact of eliminating IHSS services as a source of income to poor families with a disabled family member will likely force these families more deeply into poverty.

6. <u>**Medi-Cal Optional Benefits**</u>

The budget proposes elimination of optional benefits provided under the Medi-Cal program, including medical transportation, psychology, chiropractic, podiatry, acupuncture, heroin detoxification for a savings of $74.5 million ($36.4 million General Fund). Elimination of these benefits under the Medi-Cal program may result in increased demands upon county indigent health care programs as medical necessity demands the provision of services that would be eliminated under Medi-Cal.

As you can see, reductions in any of these programs will be extremely dramatic if implemented at the local level. However, we appreciate the dilemma that the State has this year in constructing a balanced budget. Therefore, we would propose two very important actions for your consideration that would be essential for the counties in mitigating funding cuts:

1. Suspend or Repeal hearings as required by the Beilenson Act:

The Beilenson Act (Health and Safety Code Section 1442 and 1442.5) requires county boards of supervisors to hold noticed public hearings and make specified findings prior to closing a county facility, eliminating or reducing the level of services, and selling/transferring management. Notice must be posted not less than 30 days prior to the public hearings and reductions cannot occur until the filing of documents with the State Department of Health

Services which describe the actual services to be reduced or eliminated. These documents must be very specific, with detail about every employee position that would be reduced to eliminated.

The Beilenson hearing process is cumbersome and expensive. It often leads of litigation because one of the standards that applies to counties by the law is the requirement that "the availability of services and the quality of treatment received by people who cannot afford to pay for their health care shall be the same as that available to nonindigent people receiving health care services in private facilities in that county." Because Beilenson hearing delay local implementation of funding reductions, these cuts are more painful since they are concentrated over a shorter period of time.

Counties should be exempted from Beilenson hearing when county-level reductions are a result of state-level cuts. Action was last taken to suspend Beilenson hearings during FY 1982-83 as a means of mitigating the local implementation of state-level reductions that accompanied the FY 1982-83 State budget.

2. Maintenance of Effort Provisions of AB 75 should be modified or repealed.

As a condition of receiving Cigarette and Tobacco Tax, counties agreed to a strict maintenance of effort for health funding and service levels. These provisions, contained in AB 75 (Chapter 1331, Statutes of 1988) should be repealed or suspended in recognition of the certainty that counties will be unable to comply with both maintenance of effort tests. In addition, counties should be granted additional flexibility in utilizing Proposition 99 funds in accordance with high priority local programs.

CSAC has actively participated in every budget process and has tried to assist the State in resolving serious financial problems. We will continue to work with the Administration and the Legislature to develop mechanisms which can more adequately address the entirety of the budget crisis in this State. Explorations of various solutions and proposals will obviously be a major ongoing priority for CSAC in the coming weeks.

# # #

TABLE A - COUNTY AB 8 OVER-MATCH INCREASES

COUNTY	Increase in Over-Match from FY '88/89 to "89/90
ALAMEDA	$18,884,027
ALPINE	Unknown
AMADOR	Unknown
BUTTE	166,316
CALAVERAS	Unknown
COLUSA	100,000
CONTRA COSTA	1,042,886
DEL NORTE	Unknown
EL DORADO	600,000
FRESNO	5,330,787
GLENN	550,000
HUMBOLDT	Unknown
IMPERIAL	Unknown/increase
INYO	Unknown
KERN	2,651,438
KINGS	160,181
LAKE	(53,388)
LASSEN	Unknown
LOS ANGELES	87,539,646
MADERA	Unknown
MARIN	Unknown
MARIPOSA	100,000
MENDOCINO	Unknown
MERCED	466,420
MODOC	Unknown
MONO	Unknown
MONTEREY	5,101,981
NAPA	Unknown
NEVADA	Unknown
ORANGE	3,054,452
PLACER	(226,949)
PLUMAS	Unknown
RIVERSIDE	(856,865)
SACRAMENTO	967,966
SAN BENITO	Unknown
SAN BERNARDINO	1,414,456
SAN DIEGO	16,187,937
SAN FRANCISCO	26,842,373
SAN JOAQUIN	3,577,101
SAN LUIS OBISPO	1,149,916
SAN MATEO	4,203,805
SANTA BARBARA	327,915
SANTA CLARA	(192,394)
SANTA CRUZ	333,065
SHASTA	Unknown/increase
SIERRA	Unknown
SISKIYOU	Unknown
SOLANO	505,965
STANISLAUS	2,806,573
SUTTER	Unknown
TEHAMA	Unknown
TRINITY	Unknown
TUOLOMNE	37,494
VENTURA	6,052,658
YOLO	108,030
TOTAL	189,310,157

TABLE B - COUNTY OVERMATCH EXPENDITURES

26 Medically Indigent Services Program Counties Only

COUNTY	"88/89 OVER-MATCH	'89/90 OVER-MATCH	DIFFERENCE
ALAMEDA	18,795,665	37,676,692	18,884,027
CONTRA COSTA	8,354,119	9,397,005	1,042,886
FRESNO	476,243	5,807,030	5,330,787
KERN	8,186,907	10,838,345	2,651,438
LAKE	712,512	659,124	(53,388)
LOS ANGELES	23,432,925	110,972,571	87,539,646
MENDOCINO	876,363	2,068,210	1,191,847
MERCED	3,859,890	4,326,310	466,420
MONTEREY	3,566,036	8,668,017	5,101,981
ORANGE	4,573,945	7,628,397	3,054,452
PLACER	621,154	394,205	(266,949)
RIVERSIDE	4,542,563	3,685,698	(856,865)
SACRAMENTO	4.068,383	4,179,484	967,966
SAN BERNARDINO	11,232,984	12,647,440	1,414,456
SAN DIEGO	17,013,691	33,301,628	16,187,937
SAN FRANCISCO	45,517,621	72,359,994	26,842,373
SAN JOAQUIN	1,698,009	5,275,110	3,577,101
SAN LUIS OBISPO	3,514,585	4,664,502	1,149,916
SAN MATEO	8,910,005	13,113,810	4,203,805
SANTA BARBARA	2,418,096	2,746,011	327,915
SANTA CLARA	20,232,145	20,039,751	(192,394)
SANTA CRUZ	1,355,095	1,688,160	333,065
STANISLAUS	147,660	2,954,233	2,806,573
TULARE	3,036,978	3,846,586	809,608
VENTURA	5,299,124	11,351,782	6,052,658
YOLO	1,123,572	1,231,602	108,030
TOTALS	$203,563,271	$391,421,697	$188,715,291

NOTE: This data does not indicate corrections made by counties to reflect "estimated actual" expenditures. Information from the counties reflecting final numbers in brackets will demonstrate higher overmatch expenditures in 1989-90, thus indicating an increase in overmatch for all MISP counties.

TABLE C - COUNTY UTILIZATION OF AB 8 FUNDS

COUNTIES	HOSP-ITALS %	JAIL %	ENVIRO HLTH %	PUBLIC HLTH %	PRMRY CARE %	OTHER %
ALAMEDA	53.4	0	1.8	44.8	0	0
ALPINE	0	0	0	100	0	0
AMADOR	5	10	14.7	70.3	0	0
BUTTE	7.9	16	6.6	69.5	0	0
CALAVERAS						
COLUSA	14.8	4.7	15.6	42.1	22.8	22.8
CONTRA COSTA	62.4	7	2.4	18.4	3.15	3.15
DEL NORTE	0	28	12	57	0	0
EL DORADO	0	12.6	13.6	62.4	0	11.4
FRESNO	52.9	12.7	6.6	0	3.04	.9
GLENN	95	0	0	5	0	0
HUMBOLDT	0	8.87	10.7	51	13.8	0
IMPERIAL	11.5	35	44.3	10	0	0
INYO	0	18.1	53	25.6	3.1	0
KERN	56.8	2.3	6.1	32.1	0	2.6
KINGS	0	0	29	71	0	0
LAKE	0	64.3	16.5	83.4	0	0
LASSEN	0	0	34.7	46.4	0	18.9
LOS ANGELES	85	0	[illegible]	15	0	
MADERA	0	0	29	71	0	0
MARIN						
MARIPOSA	0	0	0	100	0	0
MENDOCINO						
MERCED						
MODOC						
MONO	50.2	0	0	49.8	0	0
MONTEREY	87.7	26.5	34.6	51.2	0	0
NAPA						
NEVADA	0	0	25	75	0	0
ORANGE	36.4	14.5	0	45.7	0	2.91
PLACER	0	22.2	9.3	68.5	0	0
PLUMAS	0	16.5	65	18.5	0	0
RIVERSIDE	34	0	1	62	0	0
SACRAMENTO	16.6	26.7	2.75	29.16	1.09	5.43
SAN BENITO						
SAN BERNARDINO	54.2	0	9.1	36.7	0	0
SAN DIEGO	11.8	3.61	8.16	50.67	11	14.7
SAN FRANCISCO						
SAN JOAQUIN						
SAN LUIS OBISPO	16.2	15.3	0	62.7	0	5.8
SAN MATEO	35	16	4	24	19	2
SANTA BARBARA	0	0	0	38.2	61.8	0
SANTA CLARA	57.9		9.8	30.9	0	
SANTA CRUZ	9.5	12	7.53	41.2	22.9	6.77
SHASTA	0	0	4.7	78.5	16.8	0
SIERRA						
SISKIYOU						
SOLANO	0	0	0	100	0	0
SONOMA		0	2.4	95.2	0	2.4
STANISLAUS	0					
SUTTER		0	0	0	0	100
TEHAMA						
TRINITY						
TULARE	0	0	4	79	17	0
TUOLOMNE	23.1	8.9	45.2	22.8	0	22.6
VENTURA	56.2	0	4.8	39	0	0
YOLO	32.7	0	0	67.3	0	0
YUBA	0	3	16	77	4	0

TABLE D - YOLO COUNTY
PUBLIC HEALTH NURSES INFORMATION

List of referrals received by public health nursing in the West Sacramento office that were **not assigned** for follow-up due to lack of staff.

DATE OF REFERRAL	REASON FOR REFERRAL
1. 1-2-90	Russian refugees
2. 1-5-90	Premature baby with postnatal asphyxia and metabolic acidosis
3. 1-14-90	Newborn infant with low birthweight, burses concerned re: home safety
4. 1-15-90	Southeast Asian refugees
5. 1-23-90	Premature baby with RDS (respiratory distress syndrome)
6. 1-24-90	Southeast Asian refugees
7. 1-29-90	Low birthweight baby born to drug abusing 16 year old
8. 1-30-90	No prenatal care. Mother and baby had positive tox. screen for methaphetamines/amphethamines
9. 2-1-90	Pregnant, abusing alcohol
10. 2-1-90	Southeast Asian, suicidal (seen by Mental Health), needs info re: physical health
11. 2-3-90	Southeast Asian delivered, no prenatal care, baby premature
12. 2-5-90	Premature baby with RDS
13. 2-7-90	Russian refugee child, retardation suspected
14. 2-8-90	Russian refugee child with developmental delays
15. 2-9-90	Premature baby born to mother with 6th grade education
16. 2-13-90	Southeast Asisan born to mentally deficient mother
17. 2-14-90	Possible pregnancy in a 12 year old
18. 2-14-90	Child with no speech, developmental delays
19. 2-14-90	Child with abnormal emotional pattern, gross motor delays, speech delays, Alcoholic father.
20. 2-15-90	Russian refugees
21. 2-16-90	Pregnant. Mentally retarded. 2 childrem removed from home previously.
22. 2-20-90	Pregnant Southeast Asian. Unplanned pregnancy. Abused by spouse.
23. 2-22-90	Pregnant Southeast refugees.
24. 2-23-90	Child with speech delay, possible mental retardation.
25. 2-28-90	Pregnant heroin and cocaine abuser.

26. 2-28-90	Single mom with no prenatal care., first baby. Spanish speaking only.
27. 2-23-90	Premature baby born to Southeast Asian mom.
28, 3-9-90	Premature baby with RDS
29. 3-15-90	3 1/2 year old with unclear speech
30. 3-15-90	Southeast Asian refugees -- new arrivals
31. 3-16-90	Russian refugees -- new arrivals
32. 3-19-90	Russian refugees -- new arrivals
33. 3-22-90	Southeast Asian refugee mother with depression, demential, organic brain syndrome. Concern re: children's safety.
34. 3-22-90	Russian refugees -- new arrivals
35. 3-23-90	Russian refugees -- new arrivals
36. 3-23-90	Southeast Asian with premature baby. Abused by spouse.
37. 3-26-90	Russian refugees -- new arrivals
38. 3-26-90	Russian refugees -- new arrivals
39. 3-23-90	6 month old who was born with positive tox. screen. Mother needs help with parenting.
40. 3-27-90	Obese 2 year old.

(Source: Yolo County Public Health Department)

TABLE E - Medically Indigent Services Program Level of State Appropriations

1982-83 (six months)	$236.2 million
1983-84	$439.6 million
1984-85	$494.1 million
1985-86	$522.4 million
1986-87	$498.4 million
1987-88	$496.2 million
1988-89	$494.8 million
1989-90	$394.8 million
1990-91	$394.8 million

CURRENT FUNDING COMPARED TO VARIOUS FUNDING SCHEMES

		General Fund (in million)
1989 Budget Act		$ 395
Method 1:	Compare the level of MISP to CMSP Full funding	681
Method 2:	Re-estimate 70% of the health services costs and 100% of the administrative costs for MIAs in the Medi-Cal Program in 1982-83; increased by (a) population growth and (b) inflation. Full Funding	749
Method 3:	Re-estimate 100% of health services and administrative costs for MIAs in the Medi-Cal Program in 1982-83; increased by (a) population growth and (b) inflation. Full funding	1,000
Method 4:	Re-estimate 70% of the health services costs and 100% of the admministrative costs for MIA's in the Medi-Cal Program in 1982-83; increase by Medi-Cal cost increases. Full funding	633
Method 5:	Re-estimate 100% of health services and administrative costs for MIAs in the Medi-Cal program; increase by Medi-Cal cost increases. Full funding	875

(Source: Analysis of the 1990-91 Budget Bill, Office of the Legislative Analyst)

TABLE F - CHILD WELFARE SERVICES
IMPACTS OF CUTS ON CERTAIN COUNTIES

ALAMEDA COUNTY - The county's Permanent Placement (PP) caseload increased 27% in 1989. The county projects this trend will continue and ten additional social workers will be needed in 1990. Without additional funding, existing social workers will have less time to seek permanent homes for children and children in foster care are likely to experience longer lengths of stay.

KERN COUNTY - In 1989, the county's Family Maintenance (FM) caseload increased 25%. Because this program attempts to keep children and families together through intensive supervision and support, the lack of state funds for this program will means the county experiences higher caseloads per worker and less time per family will be possible. As a result, more children are likely to enter foster care to assure their protection.

KINGS COUNTY - In the last six months of 1989, the Family Reunification and Permanent Placement caseloads increased 10% and 31% respectively over the same six-month period in 1988. Unfunded caseload growth will mean increased caseloads per worker resulting in children and families being underserved. Higher foster care caseloads are anticipated.

LOS ANGELES COUNTY - Due to its proportion of the statewide caseload, the county would experience an underfunding of roughly $5 to $8 million, translating into a potential understaffing of over 100 social workers. As a result, children and families would receive less service.

ORANGE COUNTY - Based upon local caseload growth trends, the county will need an additional 8 Family Maintenance social workers, 5 Family Reunification social workers and 5 Permanent Placement social workers to serve an additional 8,300 children. Without additional funding, existing staff will be required to serve more children and families, leading to less service overall.

RIVERSIDE COUNTY - The county projects an $800,000 share of the "funding gap," which means 10 fewer social workers than needed, higher caseloads for all staff, and less timely provision of services, including child visitation and court reports.

SAN DIEGO COUNTY -The county projects an underfunding of 46 social workers, leading to fewer social worker contacts with children, parents and foster parents, delays in preparing court reports and less supervision of parents and child visits.

SAN JOAQUIN COUNTY - The County estimated that 3,600 cases will be affected through the less of 8 full time social work positions. County social workers currently carry caseloads in excess of state budget targets. Projected under-funding will escalate existing caseload burdens and mean less ability to meet program standards.

SANTA CLARA COUNTY - The county estimated the budget will result in 16 fewer social workers than needed, leading to uncovered caseloads and an inability to meet state program standards. The likely impacts are reduced child visitation, delayed court-ordered hearings, fewer family reunifications and fewer cases in family maintenance.

TABLE G - IHSS
CLIENTS LOSING ACCESS TO SERVICE BY COUNTY

COUNTY	CLIENTS LOSING SERVICE	PERCENT OF IHSS CASELOAD
Alameda	900	*
Amador	68	54%
Del Norte	115	61%
El Dorado	200	45%
Lake	310	44%
Colusa	*	90%
Contra Costa	1,658	*
Kern	*	50%
Kings	412	72%
Los Angeles	8,490	*
Merced	725	66%
Orange	1,430	27%
Plumas	120	73%
Riverside	2,837	49%
San Benito	68	52%
San Bernardino	2,714	36%
San Diego	3,400	*
San Joaquin	1,080	47%
San Mateo	378	*
Santa Barbara	592	44%
Santa Clara	1,428	41%
Santa Cruz	750	65%
Shasta	*	54%
Siskiyou	*	50%
Solano	375	28%
Sonoma	520	28%
Tehama	300	*
Ventura	548	*
Yuba	319	*

NOTE: (*) denoted not reported.

Assembly Local Government Committee
June 11, 1990

TESTIMONY OF DON PERATA

I. What is the impact of the Governor's Budget on Alameda County?

A. The Governor's 90-91 Budget will result in net losses to Alameda County through funding cuts and not granting COLA's of up to $13.9 million.

B. Up to 253 County staff positions would be eliminated. Community Based Provider Contracts would also be cut.

II. How will this add to the County's fiscal crisis?

A. Alameda County anticipates a funding gap of up to $49.8 million if the Governor's 90-91 Budget is approved. Of this amount, $13.9 is due to the 90-91 Governor's Budget. The remainder, $35.9 million is due to projected spending for chronically underfunded State required programs.

B. Up to 641 County staff positions who provide State required services would be eliminated. This includes up to 253 eliminated due to the Governor's budget and 388 positions eliminated due to chronic underfunding. Again, major cuts in Community Based Provider Contracts would also be needed.

III. What programs are affected by the Governor's Budget?

A. In Health Care net direct program cuts of up to $10.6 million are estimated. In addition $3.2 million in needed cost-of-living adjustments are not funded.

B. In Public Protection needed cost-of-living adjustments which total $.3 million are not funded.

C. In General Government there is a slight increase in funding of $.2 million due to mandate relief.

Health, Public Protection, and General Government impacts total $13.9 million.

D. In addition, in Social Services the GAIN program will lose $1.1 million in revenues and expenditures. An $11.5 million AFDC cost-of-living adjustment would not be funded.

IV. What actions or combination of actions can the State take to help the County ease its financial crisis?

A. Allow a half cent sales tax increase with proceeds to be used for Health, Social Services, and Public Protection at the discretion of Local Boards. Financial Impact: $37.1 million for Alameda County

B. Grant the ability to issue General Obligation bonds for capital improvements with a 50% plus one vote. Financial Impact: Greater possibility of increased revenue stream for capital projects.

C. Apply the State/County sharing ratio for AFDC to the General Assistance program and relieve counties of Health and Welfare Section 17000 obligations. Financial Impact: $28.4 million for Alameda County.

D. Restructure the Medi-Cal program to include all residents, increase reimbursement rates to 90% of actual costs and relieve counties of Health and Welfare Section 17000 obligations. Financial Impact: Relieve counties of liability for unfunded medical costs.

E. Reexamine the current property tax allocation formula. The portion of property tax received by schools could be eliminated and the lost revenues replaced by the State. The School's foregone portion could be allocated to counties. Financial Impact: Increased revenue stream for counties.

F. Change the split of fines, fees, and forfeitures between counties and cities to reflect the fact that most of the cost of the justice system falls on counties. Financial Impact: Increased revenue stream for counties.

G. Modify redevelopment laws to give counties more protection from erosion of their revenue base. Financial Impact: $11 million per year in property tax revenues lost to redevelopment projects.

H. Provide realistic and timely reimbursement for the cost of state mandated programs. Financial Impact: Increased revenue stream for counties.

Any combination of these actions yielding $50-75 million or more in annual discretionary revenue or equipment savings to Alameda County would help ease our financial crisis and allow us to plan ahead in an efficient manner.

2748c
KG:jc

ALAMEDA COUNTY FISCAL CRISIS

I. Proposition 13 - 1978

A. Reduced County property tax revenue by more than 50%.

B. Eliminated the County's ability to raise property taxes to pay for needed services.

II. Increased Reliance on State and Federal Revenue

FY 1989-90: State and federal revenue accounted for 60% of the County's total revenue in the General Fund (not including fund balance available). Local property taxes represented 23% of the total General Fund revenue.

III. Gradual Withdrawal of Federal Government from Human Services

Elimination of federal revenue sharing in 1986 resulted in a $6.5 million reduction. (Revenue sharing was as high as $10 million during early program years.)

IV. Failure of State to uphold its financing obligations with respect to State-County partnership programs, primarily health care and public protection.

In 1983, the State shifted the $32 million medically indigent adult program to the County with only $22 million or 70% of the funding the State needed when it ran the program.

In health care, throughout the last several years the State has neglected to grant basic cost of living adjustments for alcohol programs since 1983, drug programs since 1981 and mental health programs since 1987.

Although trial court funding has provided some relief to the judicial system, the State has made no effort to assist with financing court ancillary services such as District Attorney, Public Defender and Probation which cost $67.9 million and mandated jail costs which now total $52.4 million.

The State has also made no effort to fund mandated General Assistance cash aid costs which total $30 million.

V. Discretionary Revenue Shift

A. Property Tax:

Alameda County has lost a significant share of its property tax revenues to local redevelopment projects. These revenues could have been used to replace lost State and federal revenues and fund needed programs.

FY 83-84	$3,767,759
FY 84-85	4,528,323
FY 85-86	6,384,576
FY 86-87	8,018,567
FY 87-88	9,462,163
FY 88-89	10,798,440
Total	$42,959,828

B. Sales Tax:

Over the last five years, the County's percentage of taxable retail sales has decreased 7% from $412.8 million in 1985 to $383.6 million today. In contrast, the Alameda County cities' share of taxable retail sales has increased 15% for the same period from $5,812.7 million in 1985 to $6,796.4 million in 1990. As annexations occur, the County's share of sales tax revenues has decreased while the cities' share has increased.

VI. Huge Caseload Growth in all criminal justice, welfare and health programs over last 10+ years. This is in contrast to a 13% population increase from 1.1 million in 1980 to 1.3 million today.

PUBLIC PROTECTION

Superior Court

- 127% increase in number of Superior Court criminal filings from 3,303 in 1980 to 7,505 today.
- 39% increase in number of superior court judicial positions from 28 positions in 1978 to 39 judicial positions today.
- 60% expansion in court locations from 5 in 1978 to 8 today. Expansion in the number of specialty courts due to implementation of the War on Drugs and Trial Delay Reduction Act of 1986.
- 469% increase in number of felony drug dispositions from 464 in 1980 to 2,640 today.
- 39% increase in civil document filings from 1977 to present.

Municipal Courts

- 397,973 or 34.1% increase in annual number of total filings from 1,165,582 in 1978 to 1,563,555 today.

- 32.1% increase in number of judicial positions from 28 in 1978 to 37 today.

Probation

- 68% increase in demand for felony investigations over last decade.

- 42% increase in number of adults under probation supervision to over 16,000. 59% of these are felons.

- 32% increase in number of law enforcement referrals for juveniles over last decade.

- 25% increase in number of juveniles under probation to 3,789 today.

Sheriff

- 2,492 or 172% increase in total annual inmate population from 1,450 in 1978 to 3,942 today.

- 187,486 or 364% increase in requests for crime prevention services, largely due to drug epidemic, from 51,466 in 1979 to 238,952 today.

- 64% increase in number of crime lab drug and narcotics cases over last ten years.

PUBLIC ASSISTANCE

- 35.9% increase in all cash aid public assistance cases.

- 211.3% increase in General Assistance cash aid cases.

- 76.8% increase in child abuse/neglect cases, in-home supportive services, and adult protective services.

- Up to 4,000 homeless. Over $2 million in funding (General Fund) for non-mandated homeless programs.

HEALTH CARE

- 26.8% increase in total patient days at Highland General Hospital from 1980/81 to 1988/89.

- 28.8% increase in the acute average daily census at Highland General Hospital from 1980/81 to 1988/89.

- 24.2% increase in Emergency Room visits at Highland General Hospital from 1980/81 to 1988/89.

- 160.9% increase in urgent care visits at Fairmont Hospital from 9,200 in 1982 and 24,000 in 1990.

- 411% increase in sexually transmitted disease cases over last 5 years.

- 13.8% increase in community health clinic visits from 77,523 in 1977 to 88,241 today. Up to 4 week wait for specialty clinic appointments.

- Significant increase in Mental Health and Alcohol and Drug cases amid a continued withdrawal by the State.

VII. The Full Use of Alameda County's general purpose revenue to make up for no State cost-of-living adjustments and no State revenue increases based on huge caseload growth. In essence the County is subsidizing the State of California.

A. Alameda County is spending $733 per capita largely to fund State required programs. This is the fourth largest sum in the state compared to other counties. The County ranks number one in spending for Health Care and fifth in spending for Public Protection, Public Assistance and County Hospital programs (Attachment A).

B. FY 89-90: General purpose revenue in Alameda County equal $336 million. Of the amount, 86% was used to match and overmatch State mandated programs. Of the remaining 14% ($49 million): 6% ($19.8 million) is for capital improvements, primarily for facilities to service health care, social services and criminal justice programs. In addition, another 6% ($22 million) is for the Contingency Fund, which was distributed to all County departments during the fiscal year for salary and benefit increases.

C. Non-Mandated Overmatches

Alameda County has used its local discretionary revenues to provide additional funding in excess of mandated matching fund requirements for health and social services programs. These overmatches include:

Mental Health	$6,303,427
Alcohol & Drug	3,181,120
AB 8	44,203,295
Total Health Care	$53,687,842
Department on Aging	$ 324,939
Child Welfare Services	312,256
Medi-Cal	155,925
Adult Protection Services	496,000
Total Social Services	$1,289,120
Total Health and Social Services	$54,976,962

D. The County has also used <u>one-time reserves</u> during the past two years to help meet service level demands in health care and social services: 89-90 - $6.2 million, 88-89 - $7.2 million.

VIII. <u>The County has also implemented program cuts</u> from status-quo operations during the last two years in order to achieve a balanced budget: 89-90 - 3% net County cost or $9.5 million reduction, 88-89 - 2.5% net County cost or $8.2 million reduction. Potential program reductions necessary to balance next year's budget are outlined in the CSAC survey, Attachment B to this report.

IX. <u>Assessments</u>: To help relieve pressure on scarce general purpose the County has established the following benefit assessments:

Countywide Paramedic Services
Trauma Services
Vector Control
Bridge Maintenance
Library Services

X. <u>Other Efforts</u>

- The County has initiated a very active legislative program to obtain more State funding. Through our efforts we have routinely obtained near maximum State funding for jail construction. We helped initiate the legislation to use Mental Health savings to fund County Mental Health hospital construction. We helped initiate the War on Drugs legislation and secured targeted funding for that effort.

- The County has used debt financing for equipment and facilities where it's cost effective, purchased rather than leased buildings where it will generate savings, and contracted for services when it's feasible and when it will generate savings.

- The County has also established an active program to increase the value of the County's land assets to generate more stable revenues.

- Aggressively pursued grant revenues and other additional sources of revenue to provide otherwise unfunded or inadequately funded programs.

XI. <u>Conclusion</u>

- Alameda County is facing a period of very difficult choices. The concept of reducing services seems unthinkable in the face of the many needs and the increased demand for services. Unfortunately, there are virtually no other alternatives available without exposing the County to unacceptable risk. A fundamental reform in the Statewide financing structure for counties is clearly needed.

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ALAMEDA COUNTY
COMPARISON OF 12 LARGEST COUNTIES
1988-89 BUDGET

	Per Capita Statewide	12 Largest Counties	Alameda County	Rank
TOTAL BUDGET REQUIREMENTS	$712	$734	$733	4
Financing				
Current Property Taxes	$137	$140	$144	5
Inter Governmental Revenue	386	387	375	6
Available Fund Balance	31	31	20*	8
Program Expenditures				
General Government	101	99	55	12
Public Protection	192	197	191**	5
Public Assistance	260	260	265	5
Health & Sanitation	88	94	142	1
- Hospital Enterprise Funds	108	120	110	5
Public Way & Facilities	36	31	24	8
Education	8	7	12	4
Recreation & Cultural	10	11	0.26	9
Contingencies & Reserves				
Contingencies	8	7	8	7
Provision for Reserves	6	6	0.21***	9

* Excluding Santa Rita and Mental Health Capital Projects
** Excluding Santa Rita Capital Projects
*** Road Fund only (restricted funds)

Source: State Controller's Annual Report of Budget Requirements + Means of Financing 1988-89

1204c

COUNTY: Alameda CONTACT: Ken Gross PHONE: 272-6984

I. 1990-91 Estimated General Fund Budget Requirement: $973.4M

II. 1990-91 Projected Shortfall: (money needed to maintain current service levels)

A. Assuming no state cuts: $25.9-35.9M (Assuming $10-20M AFB)

B. Assuming Governor's Budget: $39.8-49.8M (Assuming $10-20M AFB)

III. Potential Service/Program Reductions to Balance Budget:

A. Assuming no state cuts:

Program/Service	Identified $ Cut	One-Time Revenue	Additional Cut	Total
General Government*	$ 0.5M	$0.0M		
Public Protection	3.0	0.0		
Public Assistance	3.1	0.4		
Health Care	3.9	9.1		
Total	$10.5M	$9.5M	$15.9M	$35.9M

* Includes General Government, Capital, Public Ways, Cultural/Recreation.

B. Assuming Governor's Budget:

Program/Service	Identified $ Cut	One-Time Revenue	Additional Cut	Total
General Government	$ 0.5M	$0.0M		
Public Protection	3.0	0.0		
Public Assistance	3.1	0.4		
Health Care	3.9	9.1		
Total	$10.5M	$9.5M	$29.8M	$49.8M

IV. Potential Personnel Reductions to Balance Budget:

A. Assuming no state cuts:

	No. of Personnel Years Identified	No. of Layoffs Identified	Additional No. of Personnel	Total #Personnel
General Government	11	8		
Public Protection	48	38		
Public Assistance	28	11		
Health Care	11	1		
Total	98	58	290	388

B. Assuming Governor's Budget:

	No. of Personnel Years Identified	No. of Layoffs Identified	Additional No. of Personnel	Total #Personnel
General Government	11	8		
Public Protection	48	38		
Public Assistance	28	11		
Health Care	11	1		
Total	98	58	543	641

V. County's 1989-90 Gann Limit: (If readily available)

1989-90 Spending Limit: $362M

1989-90 Appropriations Subject to the Limit: $294M

(If not readily available, tell county staff CSAC will be sending them a questionnaire.)

VI. General Comments: (If any, put on back)

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Governor's FY 1990-91 Budget

DIRECT IMPACTS

	Approp	Rev	Net
• **HEALTH CARE**			
- Deferral of June 1991 Medically Indigent Services Program payments to counties.	$0	$10,000	$10,000
- Reduction in AB 8 Grant based upon offset from anticipated federal funds.	0	$1,914,005 - $8,800,000	$1,914,005 - $8,800,000
- Reduction in Medi-Cal funding for ambulance costs (Impacts EMS District only)	0	3,500,000	3,500,000
- Delay of the final Medi-Cal check for both 1989-90 and 1990-91 until start of new fiscal year.	0	500,000	500,000
- Elimination of optional benefits under Medi-Cal: medical transportation, psychology, chiropractic, podiatry, acupuncture, and heroin detoxification.	Unknown	Unknown	Unknown
- Reduction of Medi-Cal rates by restructuring the Relative Value Scale for Medi-Cal.	0	1,000,000	1,000,000
- Transfer of residential and mental health services for children based upon AB 3632 of 1986 from Dept. of Mental Health to State Education.	(485,000)	437,000	(48,500)
- Increase for the Immunization Program	0	0	0
- Increase in local assistance for Mental Health programs.	0	(380,000)	(380,000)
- Increase in funding for Institute for Mental Disease.	0	0	0
- Increase in funding for mental health services to wards and dependents per Senate Bill 370.	159,000	(143,000)	16,000
- Net decrease in California Healthcare for the Indigent Program (CHIPS) funding.	0	650,000	650,000
- Increase in funding for pilot systems of care for mental health per Assembly Bills 3777 and 377.	0	0	0
TOTAL:	$(326,000)	$3,974,000 - $10,874,000*	$3,661,505 - $10,547,500*

* Excluding EMS District impact.

	Approp	Rev	Net
• **SOCIAL SERVICES**			
- Reduction in caseload growth in Family Maintenance, Family Reunification, Permanent Placement programs.	$300,000	$(300,000)	$0
- Reduction in GAIN Program.	Unknown	1,100,000	0
TOTAL:	$300,000	$800,000	$0
• **PUBLIC PROTECTION**			
- Maintenance of 1989-90 funding level for County Justice System Subvention Programs (AB 90).	$0	$0	$0
- Maintenance of 1989-90 funding level for Assistance to Counties for the Defense of Indigents.	0	0	0
- Maintenance of full funding for the Brown-Presley Trial Court Funding Act.	0	0	0
- Partial reimbursement for juvenile institution's food program to be determined.	Unknown	Unknown	Unknown
TOTAL:	$0	$0	$0
• **GENERAL GOVERNMENT**			
Repeal or make optional the following 10 mandates:			
- Chapter 1203 of 1985 Motorist Assistance	$0	$(550)	$(550)
- Chapter 1226 of 1984 Investment Reports	0	0	0
- Chapter 815 of 1979 Short-Doyle Case Mgt.	0	0	0
- Chapter 1399 of 1976 Custody of Minors	0	(53,000)	(53,000)
- Title 22, CCR Pretreatment Facilitie	0	0	0
- Chapter 1088 of 1982 Juvenile Felony Arrest	0	0	0
- Chapter 1281 of 1980 Involuntary Lien Notic	0	(50,000)	(50,000)

	Approp	Rev	Net
- Chapter 1262 of 1978 Victims Statements	0	(82,000)	(82,000)
- Chapter 641 of 1986 Open Meetings Act	0	0	0
- Chapter 875 of 1981 Interview of Potentially Dependent Minors	0	0	0
TOTAL:	$0	$(185,550)	$(185,550)
TOTAL DIRECT PROGRAM IMPACT:	$(26,000)	$4,602,455 - $11,488,450	$3,475,955 - $10,361,950

• COST OF LIVING ADJUSTMENTS

	Approp	Rev	Net
- Health Care:			
AB 8 - 0% COLA	$0	$1,000,000	$1,000,000
Medi-Cal - 0% COLA	0	900,000	900,000
Alcohol & Drug - 0% COLA	0	100,000	100,000
Mental Health - 0% COLA	0	1,200,000	1,200,000
TOTAL:	$0	$3,200,000	$3,200,000
- Social Services:			
AFDC & SSI/SSP Aid - 0% COLA	0	0	0
- Public Protection:			
AB 90 - 0% COLA	0	200,000	200,000
Indigent Defense - 0% COLA	0	100,000	100,000
Trial Court Funding Act - 5% COLA	1,000,000	1,000,000	0
TOTAL:	$1,000,000	$1,300,000	$300,000
TOTAL ALL COLAS:	$1,000,000	$4,500,000	$3,500,000
GRAND TOTAL DIRECT PROGRAM IMPACTS + ALL COLAS:	$974,000	$9,102,455 - $15,988,450	$6,975,955 - $13,861,950

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Rev. 6/5/90

TESTIMONY

BY

CLARK CHANNING

PRESIDENT OF THE COUNTY'S ADMINISTRATOR'S OFFICERS ASSOCIATION

BEFORE

THE ASSEMBLY'S LOCAL GOVERNMENT COMMITTEE

I RECOGNIZE THAT I AM HERE AT A VERY CRITICAL TIME, OUR 1990-91 STATE BUDGET CURRENTLY FACES A DEFICIT OF APPROXIMATELY 3.6 BILLION DOLLARS. AT THE SAME TIME, A MULTITUDE OF COUNTIES FACE CRISIS SITUATIONS IN VARYING AMOUNTS. AS YOU ALREADY KNOW, SOME ARE AT SUCH A SEVERE CRISIS STAGE THAT ABSENT ASSISTANCE THEY WILL HAVE TO TAKE ACTION WHICH WILL LITERALLY CLOSE DOWN COUNTY OPERATIONS AND REQUIRE STATE TAKE-OVER UP TO AND INCLUDING THE UTILIZATION OF FEDERAL BANKRUPTCY COURTS.

WE ARE AT A JUNCTURE WHERE IT IS ABSOLUTELY ESSENTIAL THAT YOU BE CLEARLY INFORMED OF THE DUAL CRISIS SITUATION OCCURRING. I WOULD OFFER IT IS A CRISIS IN THE MAGNITUDE OF THAT WHICH WAS FACED IMMEDIATELY FOLLOWING THE OCTOBER 17 EARTHQUAKE. FOLLOWING THAT DISASTER YOU TOOK IMMEDIATE ACTION TO FIND SOLUTIONS AND MEET THE CRISIS. I AND MY COLLEAGUES WOULD OFFER THAT YOU MUST TAKE SIMILAR ACTION NOW.

I SHOULD EMPHASIZE THAT THE 3.6 BILLION COULD RESULT IN CHANGES AND/OR CUTBACKS IN PROGRAMS OPERATED BY COUNTY GOVERNMENT. THE SERVICE LEVELS AFFECTED WOULD BE IN PROGRAMS

THAT WE MANAGE UNDER STATE DIRECTION. THESE PROGRAMS HAVE SIGNIFICANT CASELOAD INCREASES AND FIXED ELIGIBILITY STANDARDS AND SIMPLY DO NOT HAVE A "TURN OFF" SWITCH.

IN TERMS OF EVALUATING THE OPTIONS AVAILABLE, IT IS ESSENTIAL THAT I BE VERY CLEAR IN INDICATING TO YOU THAT THERE ARE PROGRAMS THAT ARE LOCALLY MANAGED PROGRAMS AND THOSE THAT ARE STATE MANAGED PROGRAMS.

THE STATE MANAGED PROGRAMS ARE THOSE THAT WE OPERATE FOR YOU AND THEY RANGE FROM AFDC, TO THE IMPLEMENTATION OF NEW LAWS, TO THE JAILING OF PRISONERS FOR THE BREAKING OF STATE LAWS, ETC...

LOCALLY MANAGED PROGRAMS ARE THOSE AT THE LOCAL LEVEL RANGING FROM LIBRARY SERVICES, TO SHERIFFS PATROL, TO FIRE PROTECTION, ETC.... WE HAVE BECOME QUITE EXPERT IN OUR CRISIS MANAGEMENT MODE AFTER PROPOSITION 13 TO VERY EFFECTIVELY MANAGE THOSE LOCAL PROGRAMS AS THE RESOURCES SHRINK TO INTOLERABLE LEVELS. THE DEMAND FOR LIMITED RESOURCES HAS GEOMETRICALLY INCREASED FOR STATE MANAGED PROGRAMS.

THE OPTIONS AVAILABLE TO YOU ARE DELINEATED IN A VERY COMPREHENSIVE LIST IN YOUR ANALYSIS. IT IS IMPORTANT TO RECOGNIZE THAT THESE OPTIONS ARE IN THREE PARTICULAR DIRECTIONS. ONE IS THAT OF PROGRAM REALIGNMENT WHERE THERE IS A REPEAL OF THE FUNDING FOR A PROGRAM AND EQUAL DISCRETIONARY FUNDS ARE PROVIDED

TO COUNTIES. THIS OPTION OF COURSE IS UTILIZED TO PROVIDE THE NEEDED GANN LIMIT FOR THE STATE. THE OTHER IS A POTENTIAL OF ABSORPTION OF CERTAIN COSTS BY THE STATE. AND FINALLY, A LAST OPTION IS REVENUE SOURCES PROVIDED TO COUNTIES TO MEET THE LOCAL MANAGED PROGRAMS I HAVE DESCRIBED AND TO OFFSET SOME OF THE COSTS PROVIDED OR REQUIRED FOR STATE MANAGED PROGRAMS.

THE PROBLEM IS NOT A SIMPLE ONE, YET IN SOME WAYS IT IS. FIRST THERE HAS TO BE A CAREFUL EVALUATION OF THE SERVICES THAT HAVE TO BE PROVIDED. WE HAVE TO PRIORITIZE TOGETHER STATE PROGRAMS THAT WE OPERATE UNDER THE DIRECTION OF THE STATE OF CALIFORNIA AND LOCAL PROGRAMS AT A DEFINED ACCEPTABLE LEVEL OF SERVICE. ONCE THAT DECISION IS MADE, I BELIEVE IT WILL BE CLEAR THAT SUFFICIENT REVENUE OPTIONS MUST BE MADE AVAILABLE TO COUNTIES; SOME VERY IMMEDIATELY TO PREVENT LITERAL ANARCHY IN SOME COUNTIES.

ABSENT THE EVALUATION/PRIORIZATION AND THE UTILIZATION OF THESE OPTIONS IN YOUR ANALYSIS VERY SIGNIFICANT EXPENDITURES MADE AT BOTH THE LOCAL AND STATE LEVEL WILL NOT BE BASED UPON SOUND PUBLIC POLICY YOU AND BOARDS OF SUPERVISORS HAVE ADOPTED BUT RATHER PRAGMATIC DECISIONS. IT IS ALSO CLEAR THAT SOME LEVEL OF REVENUE MUST BE PROVIDED IN ORDER TO ALLOW THE SERVICES TO CONTINUE.

I PLEDGE ON BEHALF OF MYSELF AND MY COLLEAGUES WHO MANAGE A

LONG LIST OF STATE AND LOCAL PROGRAMS TO WORK VERY CLOSELY WITH YOU AND YOUR STAFFS DURING THIS DIFFICULT SITUATION TO ESTABLISH THE PRIORITIES UNDER EXISTENT PROGRAMS AND TO EVALUATE WHAT REVENUE OPTION'S BEST, ONCE THE PRIORITIZATION IS DETERMINED. I WOULD BE GLAD TO ANSWER ANY QUESTIONS YOU MIGHT HAVE IN THIS REGARD.

County Supervisors Association of California

May 24, 1990

TO: Governor George Deukmejian
Members, California State Legislature

FROM: Larry E. Naake, Executive Director

SUBJECT: SUGGESTED PRINCIPLES FOR STATE BUDGET DISCUSSIONS

INTRODUCTION

The upcoming 1990-91 state budget, as both the Governor and Legislative Leadership have pointed out, will most likely present one of the biggest challenges that has faced the State of California in many decades.

Because county-operated programs are extremely vulnerable, California counties must be an integral part of the upcoming budget discussions and in the development of solutions to this challenge.

The program funds in the state budget that flow to or through California counties comprises a significant part of the state's $42 billion budget.

County and state programs are tightly woven together as part of the state budget. Therefore, counties should be deeply involved in crafting the solution to what has been estimated as a $3.6 billion gap between the revenues available and the expenditures necessary to fund all statutory, constitutional, and court-required programs and services.

The future of county-operated programs rest upon viable solutions. Indeed, unless a solution is carefully crafted, we predict that some counties will be unable to continue functioning. The present program delivery system thereby would collapse.

CSAC and counties want to be constructive and helpful in crafting a 1990-91 state budget that is balanced, rational, and fair.

SUGGESTED PRINCIPLES

Therefore, we are suggesting a number of principles that should be followed in crafting an equitable solution. These suggested principles include:

1. Everything must be on the table. We agree with the Governor and the Legislative Leadership that everyone's ideas, everyone's programs, everyone's potential revenue should be on the table for discussion. It is imperative, at the beginning of the discussion, that all ideas and suggestions be considered.

CSAC
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Washington Office 440 First Street, N.W. Suite 503 / Washington, DC 20001 / 202-783-7575 FAX 737-6788

2. There should be equal pain. If part of the solution is going to involve program and service cuts, everyone should share equally in this painful process. All segments of and programs in the state budget and all levels of government (state, counties, cities, schools, special districts) should participate in the "pain" of any potential expenditure or program cuts. Existing revenue sharing ratios that fail to adequately reflect county operational costs need to be examined and changed.

3. Structural Change is Needed. As stressed in the Administration's white paper entitled "Budgetary Gridlock in California," we do need to address the question of structural change in both budgetary process and program relationships. The white paper indicates that the state has no control over more than 90% of the state budget because of COLAs, court orders, initiatives, and federal mandates.

   The state and the counties are now in the same situation. CSAC documented over five years ago that we have no control over more than 94% of our county budgets. We have been in this situation for more than a decade. We have called for both structural and programmatic change since 1982. This would include the programmatic relationships between the state and the counties.

4. Just shifting costs to counties can't work. Counties have structural problems as well. We have been stating for years that we cannot continue to pick up the costs of state-county programs with local revenue sources. As the attached report indicates, there just isn't any more local money available. We have been reducing local programs for many years now to pay for state-county programs in the health, welfare, and justice areas. The money just isn't there any longer. With only four or five percent of our county budgets available for local discretionary programs, it is no longer possible to take funds from these programs without totally closing them down. As the attached report points out, counties, just like the state, are facing a massive shortfall in maintaining the same level of services in the next fiscal year as we are providing in this fiscal year. CSAC has done a preliminary survey and has results from 21 counties. The shortfall from these 21 counties totals $ 380 million.

   Thus, the state can no longer rely on the county to merely pick up the cost of any programs that the state cannot afford to fund. If state-county program cuts are going to occur, we must work together to change those statutes that require counties to provide certain programs or maintain certain levels of service. There needs to be a clear understanding that cuts in state allocations for county-operated programs will mean less programs. Counties no longer have the fiscal capacity to fill state funding shortfalls.

5. Revenue adjustments should be part of the solution. CSAC has been on record supporting revenue adjustments for a number of years now. We supported the Governor's proposal in 1988 to adjust certain revenue sources, close certain loopholes, and accelerate the collection of certain taxes. We also developed other suggestions in 1988 for certain revenue enhancements. The problem in 1990-91 is so large that revenue adjustments must be a part of the solution.

These are a number of suggestions that California counties have with respect to the upcoming discussions over the 1990-91 state budget. We stand ready to work with and assist both the Executive and Legislative branches in meeting this immense challenge.

cc: CSAC Board of Directors
County Administrative Officers
County Caucus

CHIEF ADMINISTRATIVE OFFICE
COUNTY OF BUTTE
25 COUNTY CENTER DRIVE
OROVILLE, CALIFORNIA 95965-3380
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WILLIAM H. RANDOLPH
CHIEF ADMINISTRATIVE OFFICER

KEY FACTORS REGARDING BUTTE COUNTY

AB 8 FROZE THEM AT 23% OF PROPERTY TAX VS. 33% WHICH IS THE STATE AVERAGE.

AFTER PROPOSITION 13 THEY HAD A LARGE RESERVE, BUT AS DEMANDS INCREASED IT WAS USED UP.

DEMANDS WERE FROM MIGRATION TO COUNTY OF PEOPLE SEEKING/NEEDING CHEAP HOUSING.

COUNTY COSTS WENT UP 250% FOR AFDC AND 2000% FOR GENERAL ASSISTANCE AND SIMILAR INCREASES FOR RELATED PROGRAMS.

REVENUE, AT THE SAME TIME, WENT UP ONLY 26%, DUE TO LOW TAX SHARE/ REDEVELOPMENT/SELECTIVE ANNEXATIONS.

THE COUNTY COULD ONLY RESPOND IN ONE WAY, WHICH WAS TO CUT EACH YEAR AND NEVER REPLACE THE SERVICES/PEOPLE/EQUIPMENT CUT.

WHEN CRITICIZED FOR NOT HELPING THEMSELVES, THIS WAS THE ONLY OPTION.

THE RESULT IS WHERE THE COUNTY IS TODAY:
-39 COPS VS. 56 TEN YEARS AGO
-FIRE TRUCKS ALL OLD ENOUGH TO VOTE
-AVERAGE CAR A 1974, INCLUDING THOSE USED TO TRANSPORT ABUSED KIDS
-PAY BELOW ALL MARKETS
-MASS DEPARTURE OF ALL PERSONNEL, PARTICULARLY KEY STAFF

THIS YEAR THE LINES CROSSED IN THAT THE ONLY WAY TO BALANCE THE BUDGET IS TO WIPE OUT THE SHERIFF, D.A., AND A MULTITUDE OF OTHER DEPARTMENTS.

THE DEFICIT IS ESTIMATED TO BE $16.8 MILLION, WHICH STOPS THE DECLINE BUT STILL HAS THE COUNTY BELOW ANY ACCEPTABLE LEVEL (i.e. STILL LOWEST PER CAPITA OF COPS OF ANY COUNTY).

TO AVOID ANARCHY AND TO ALLOW A TRANSITION TO STATE TAKEOVER OF JAIL, SHERIFF, D.A., WELFARE ADMINISTRATION, ETC., CHAPTER 9 IS PLANNED AS A LAST RESORT.

PLANNING HAS ALREADY BEGUN FOR STATE DEPARTMENTS TO TAKE OVER.

ABSENT LONG-TERM SOLUTION, A LOAN PROGRAM IS THE PROBABLE ANSWER.

Vol. 2, No. 3 May/June 1990

County SPECTRUM

California Counties Foundation Research Division

The 1990s: Decade of Decision

Fiscal Future of California Counties

By Richard Simpson

In late 1989 and early 1990, the Department of Finance, the Legislative Analyst and the Assembly Office of Research published reports on various aspects of current fiscal stresses confronting California counties. These reports are at once interesting and surprising. They reflect an acknowledgement of actual structural fiscal stresses in counties — something that the County Supervisors Association of California (CSAC) has been reporting for several years. They also reflect an understanding of the causes of county fiscal stress and express — in various degrees and from varying perspectives — and a concern for the future viability of county government and its continued ability to perform its assigned responsibilities.

This issue of County Spectrum highlights the major findings of these and other recent reports on the county fiscal condition and serves as an orientation to a major study currently under way by the Research Division of the California Counties' Foundation.

Sometime in late summer, Butte County may take the final steps to declare bankruptcy in federal court. As the first California county ever to enter bankruptcy, Butte County would tread upon untested ground. Legal precedents would then be struck which could blaze a new fiscal trail for any other California local government that would find itself in a similar financial plight.

To learn how Butte County got into this situation, we turn to a December 1989 audit report ordered by the state Department of Finance. In the summer of 1989, Butte County officials notified the department that their available and anticipated revenues would be insufficient to cover the anticipated expenditures for the ensuing fiscal year. Since the county could not reduce expenditures below levels already proposed — and because California's Constitution requires balanced budgets of all public jurisdictions, including the state — the county advised the state it was considering bankruptcy under Chapter 9 of the appropriate federal statutes.

The department's response was to provide sufficient fiscal relief for 1989-90 through delay of $2.8 million the county would pay the state for contract fire protection by the California Department of Forestry. This payment deferral was contingent upon the county's agreement to an audit of its budget and fiscal management processes. Retired department employee Richard L. Cutting was dispatched as "oversight adviser" to Butte County.

In his report, Cutting noted that at the passage of Proposition 13 in 1978, Butte County "was in excellent financial condition." The county "... had a history of conservatism both in the levying of property tax for county programs and the level of expenditures ..." In 1977-78, Butte County received 26 percent of total property taxes levied in the county. He noted that the passage of Proposition 13 and AB 8 (follow-up legislation apportioning property tax shares) locked the county into this property tax percentage and led to its 1987-88 position of a 23 percent share of total property taxes collected in the county. Cutting observed that while Butte County's population increased during the 1980s, assessed valuation grew at an average annual rate of only 8.65 percent against a statewide annual average of 11.18 percent (1980-81 to 1989-90).

One of the reasons for the county's low assessed valuation growth was "... because of the activities of two cities in Butte County — Oroville and Chico — which have been active in redevelopment projects and in annexations ... approximately 90 percent of Oroville and 70 percent of the incorporated city of Chico are under redevelopment."

The oversight adviser also found the sales tax revenue history of the county in the decade to be dismal. Annual sales taxes actually decreased by $16,000 during the period, and could have declined further had the county not negotiated a 5 percent share of Chico's sales tax after that city annexed a major local shopping center. The audit noted, however, that the county was "slow in adopting a policy of levying

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fees for permits and licenses for various activities within the county."

In summarizing the revenue trends, Cutting noted that the Board of Supervisors, in implementing "statutorily required programs," had to increase expenditures for these programs over a nine-year period by 100 percent while "... revenue raised by county tax collection efforts increased by only 58.9 percent." Several attempts to raise added local taxes were rejected by voters.

Regarding expenditures, Cutting found that outlays for roads, welfare and public defender showed the most significant increases. While road operations are primarily covered by state subventions, welfare programs are a mix of federal, state and county funds. In Butte County, Aid to Families with Dependent Children (AFDC) and General Assistance (GA) sustained the greatest increases. AFDC, which requires county matching funds, showed an increase in caseload of nearly 160 percent, compared with a statewide increase of 22 percent during the 1980s. While the county's required "AFDC match" was about 5.5 percent throughout the decade, county AFDC expenditures grew from $712,000 in 1980-81 to $3 million in 1989-90 — a growth of 322 percent.

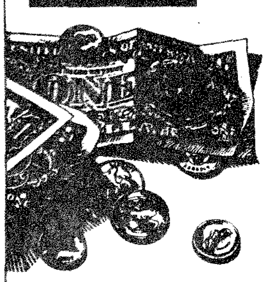
GA, totally county funded, covers welfare recipients ineligible for federal or state welfare. While the GA grant level is a county option, Butte has lost a series of court cases judicially establishing a $295 per month grant level (plus COLAs). The number of people receiving GA in Butte increased from 116 in 1980-81 to 825 in 1989-90 — a 611 percent increase — compared with a statewide increase of 224 percent. Annual Butte GA costs rose from $104,000 to $2.4 million over the period — a 2,000 percent increase.

According to Cutting, the most significant result of the welfare fiscal data was "... the percentage of the county's discretionary tax revenue needed to support the AFDC and GA programs." AFDC and GA programs grew from $816,000 in 1980-81 to $5.5 million in 1989-90. However, the share of county general purpose revenue (GPR) consumed by these programs grew from about 4 percent of GPR in 1980-81 to more than 17 percent in 1989-90.

Cutting noted that Butte County has slashed expenditures wherever it had discretion to do so. County libraries have been closed, animal control activities curtailed, sheriff's patrols cut, hiring freezes imposed and employee caseloads increased. The average annual Butte County salary increase from 1979-89 through 1989-90 was 3.8 percent, compared with a California cost of living increase of 6.3 percent and a state employee salary increase of 6.18 percent. Certain employee costs have occurred as a result: there has been a doubling of employee grievances and appeals; there has been an increase in employee turnover; and recruitment of replacements has been extremely difficult.

New insights into the state-county fiscal relationship emerged as a result of the Butte County audit. Since the early 1970s, a major focus of county concerns has been the spotty record of the state in paying the full cost of legislative mandates as required by SB 90 (1972) and Article XIIIB of the state Constitution (1979). It is significant that while the state-county fiscal relationship has played a key role in the Butte financial failure, it has not been due primarily to unreimbursed mandated costs that would properly fall under SB 90/Article XIIIB. The present Butte County problems are due in part, according to the oversight adviser, to the impact of "statutorily required programs" upon the county's GPR. After all, the county's AFDC match has remained at a stable 5.5 percent for more than two decades. There has been no new state-mandated AFDC increase, but the county must participate — as it always has — in paying a share of the AFDC bill, and the caseload has increased 160 percent. Similarly, the provision of GA has been a program solely financed by county general purpose revenues since long before SB 90 and, as such, is not a reimbursable mandate. However, the county has been subjected to court mandates on GA, which are not reimbursable under SB 90/Article XIIIB,

Table 1



County General Purpose Revenue and Expenditures for State-Required Programs (Dollars in Millions)

	1984-85	1987-88	Percent Change	Average Annual Change
General Purpose Revenue	**$5,250**	**$6,582**	**25.4%**	**7.8%**
Expenditures:				
Judicial	$1,097	$1,495	36.3	10.9
Corrections	790	1,140	44.3	13.0
County Health Services	186	284	52.3	15.1
Mental Health	59	91	53.7	15.4
AFDC	265	321	21.0	6.6
IHSS	6	18	178.0	40.6
Food Stamps	93	111	19.9	6.2
General Assistance	124	200	60.8	17.2
Expenditure Totals	**$2,621**	**$3,660**	**39.6%**	**11.8%**
Residual General Purpose Revenue	$2,629	$2,922	11.2%	3.6%

Source: *Letter from Legislative Analyst Elizabeth G. Hill to Assembly member Sunny Mojonnier, January 10, 1990, page 2.*

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and these costs have increased more than 2,000 percent. Also, the county has had to finance all — or most of the cost of indigent legal defense, a statutory and constitutional requirement long preceding mandated cost reimbursement provisions, and for the decade these costs in Butte County have increased from $290,000 to $1.5 million.

Is Butte County an Isolated Event?

The answer is no. Other counties are undergoing the same fiscal stresses. For example, the Legislative Analyst, in a discussion within "Perspectives and Issues on the 1990-91 Budget," commented:

"While it is tempting to isolate Butte County as a lone example of a California county in fiscal straits, our analysis indicates that many other counties are experiencing serious fiscal difficulties. Furthermore, our review indicates that this is not merely a rural county problem."

CSAC's review of current county fiscal stresses, based on these and other state reports and initial findings from specific counties, strongly indicates that there are fundamental, structural problems involved in the financing and provision of state-required and state-interest programs by counties. Based on the evidence, there seems very little question that there will be more "Butte counties" during the 1990s.

It is hard to precisely predict, but the next county fiscal failures could happen in 1991. As to where these events will occur, the Legislative Analyst has advanced some tentative indicators which CSAC plans to test in the field in coming weeks.

The balance of this report will be devoted to the why of these events. The big question deals with the what of current county fiscal stress; what will the Legislature do; and what will the voters do and when.

It seems to us there is a four-part why to the current county fiscal situation. Against a backdrop of a constitutionally limited revenue base and a constitutionally limited ability to raise additional local revenues, counties face these revenue-base erosion factors:

- Dramatic growth in county expenditures and use of local revenues for state-required and state-interest programs.
- Governmental interaction involving spending and policy decisions by other governments that directly increase county costs.
- City incorporations and annexations that reduce property and sales taxes and other revenues available to counties, while increasing costs of county services.
- Growth in redevelopment projects which negatively impact on revenues of counties and other local government entities.

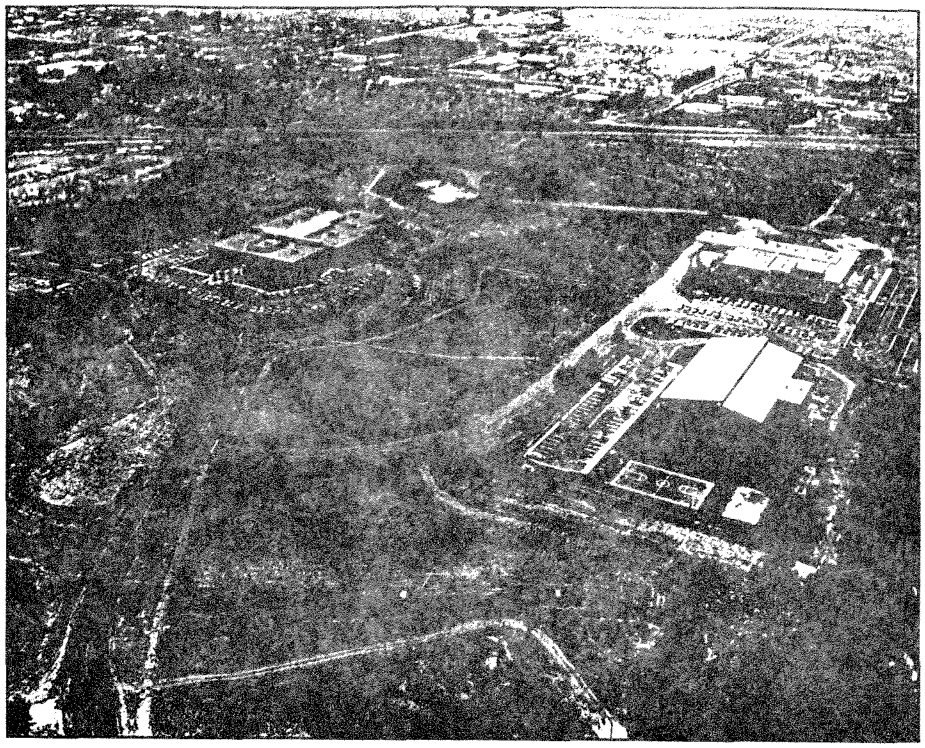

Photo by Mike Pyeatt

Aerial view of the Butte County government center in Oroville.

Growth in County Costs for State-Required Programs

Following closely on the release of the county audit, Legislative Analyst Elizabeth G. Hill published the "Perspectives and Issues on the 1990-91 Budget." The document included a discussion entitled "Variations in County Fiscal Capacity" which was based on independent concurrent research and field work by the analyst's staff. Noting the Butte County situation and suggesting it is not an isolated problem, the analyst further prefaced her remarks with the observation, "The state has a clear interest in maintaining the fiscal viability of county governments. They are the entities which serve all Californians through programs of statewide interest (such as health, corrections and welfare programs)."

The analyst then established "a framework for comparing county fiscal capacity," broadly defined as "the ability of a county to meet whatever public service needs may arise ... with the resources ... available to it." The analyst discussed a dual role of counties. The first role is one in which counties are charged with administration of programs required by the state. Examples are welfare, health and mental health, corrections and trial courts. The second county role is that of the management of essentially local programs — some of which are of state interest such as public health and social services, and some of which are of primarily local impact, such as sheriff services, fire protection and libraries.

The analyst noted that "... the state provides substantial funding for many, but not all, of its required programs," and observed that "... in many cases, specific county contributions are required." Examples are AFDC, county health services, mental health and trial courts. Counties, however, "... bear primary fiscal responsibility for other state required programs because the state does not provide funding specifically for these purposes." Examples are general assistance, probation, indigent

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legal defense and corrections.

The next element in the analyst's conceptual framework is the observation that counties must pay for their share of state-required programs and for local programs out of revenues available for GPR. This comes from property and sales taxes and state general subventions. Since counties have very limited power to increase GPR, service demands and inflation force state-required programs and local programs to compete for growth in the very limited GPR base.

The analyst identified "three useful indicators" of county fiscal capacity:

- **Local Purpose Revenues (LPR).** This simply reflects that fraction of GPR left over for local purposes after state- required expenditures are met.
- **Change in LPR.** A declining LPR means that the growth in county revenues is not keeping pace with the costs of state- required programs and suggests that difficult trade-offs between state and local programs may have to be faced.
- **Percentage of GPR dedicated to state-required programs.** This makes possible a comparison of the relative load various counties carry in financing state-required programs.

The analyst then applied these concepts to an analysis of county fiscal capacity from 1984-85 to 1987-88. The analyst first notes that statewide, the capacity of counties to meet local needs with local revenues did not keep pace with population and cost-of-living growth for the period. While LPR increased 12 percent during this period, after adjustments for population and inflation, LPR actually declined 6.5 percent over the period.

In addition, counties also bore an increasing share of costs for state-required programs. In 1984-85, counties used about 50 percent of their GPR for state-required programs. By 1987-88, the share had increased to 55 percent. Cost increases in state-required programs clearly outpaced local revenue growth; costs of state-required programs increased 40 percent, general purpose revenue increased by only 26 percent. See Table 1.

The appearance of Santa Clara and San Bernardino counties on Table 3 lead to the conclusion that county fiscal stress due to the cost of financing state-required programs is not just a rural county problem. For that matter, the fact that Alameda County has declined from a 73 percent to a 70 percent share of local revenues devoted to state programs should be small solace — the county was still 15 points above the statewide average in 1987-88. It should also be noted that Lake County, while still below the state average GPR spent on state programs, has moved 17 percentage points — from 22 percent to 39 percent of GPR.

"By this fiscal year, the total criminal justice costs (in Yolo County) will be almost \$16 million; the property tax generated in the county government will be only \$13 million. The system is out of whack ..."

–Yolo County Supervisor Betsy Marchand

Growth in County Costs Through Governmental Interaction

Counties, as partners with all other levels of government and given their assigned roles and responsibilities, are inevitably impacted by the independent actions of other governments.

The effects of some of these intergovernmental actions can be anticipated and measured; others are not so readily apparent. Thus, when the state limits reimbursements to providers of services under the Medi-Cal program as it has in the past, and private providers of these services elect to provide them no longer, counties become providers of last resort. If this means that county costs for provision of these state-required services are not met any better than they were for private providers, they do not have the option to deny the service. This simply means that the county general revenue base is further degraded.

The California Legislature, in response to public demands for increased public safety and security, has been very active in the criminal justice area since the late 1970s. Stiffer sentences, longer sentences, mandatory sentences and new crimes have contributed mightily to an explosive growth in state and county incarceration costs throughout the justice system. Ironically, recent studies by the Blue Ribbon Commission on Inmate Population found that since 1973 "... overall crime rates have remained relatively stable despite a period of significant increases in prison and jail population."

As a result of the legislative activity, jail operating costs have grown by more than 300 percent since 1977-78, while general purpose revenue has grown by only 64 percent. In 1977-78, jail operating costs were approximately \$160 million, and the Board of Corrections estimates that total jail operating costs will soon exceed \$1 billion. Jails are only one very expensive part of the justice system. While there has been a strong emphasis on incarceration, other parts of the system have gone begging. County probation staff, for example, has been forced to absorb higher caseloads, and supervision of probationers has become virtually non-existent in some counties. In one of the supreme ironies of the current justice system crisis, chief probation officers report that the fastest growing workload area for staff is the investigation and reports on adult pre-sentencing. Because short-staffing of probation officers requires more time to produce reports, prisoners sit in jails three to four weeks longer pending sentencing, contributing to jail overcrowding and jail costs. The ultimate irony is that the state legislative activity in the criminal justice area is not reimbursable as a mandated cost; SB 90/Article XIIIB specifically exempted reimbursement for new crimes and infractions.

Just as the actions of the state impact adversely on county justice system costs, so too do the actions of counties' other crime-fighting partner — the cities. Thanks to the development of a justice system cost model, it is now possible to predict the cost impact of various actions in the justice system upon other parts of it. JUSSIM was developed in Santa Clara County and has been sold to several other counties, including San Diego County and Florida's Dade County.

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For example, the city of San Diego recently added 116 officers to its Police Department at a city cost of $5.76 million. The action's impact on the county justice system — to prosecute, defend, incarcerate and adjudicate 1,700 felony arrests, 9,435 misdemeanors and 1,020 juvenile actions — is 140 added staff years and $7.4 million in added county costs.

Yolo County Supervisor Betsy Marchand commented on the criminal justice system: "... in 1990 the system cannot handle the demands being put on it from exploding caseloads ... jail overcrowding, gang activity and more and more expensive trials. Only 11 percent of the caseload comes from outside the cities ... By this fiscal year, the total county criminal justice costs will be almost $16 million; the property tax generated in the county government will be only $13 million ... The system is out of whack with the means to pay for it."

The courts have also been active. Nineteen counties with 78 percent of the jail population are under court-ordered population caps pursuant to Article 8 of the U.S. Constitution relative to cruel and unusual punishment. And, in a non-criminal justice area, we have already seen how the courts have impacted GA grant levels in Butte County.

Actions by other governments with the intent to promote safe streets, cut costs or attack a social problem — however important or desireable — can result in enormous county costs simply because counties are there with the responsibility to deal with the rest of the problem.

Commenting on the impact of state and city actions upon county general purpose revenues, Merced County Administrative Officer Clark Channing quipped, "There are three hands in the county cash drawer: the state's, the cities' and the counties'."

Impact of Incorporation and Annexations on County General Purpose Revenue

A December 1989 report by the Assembly Office of Research (AOR) — California: Getting Ahead of the Curve — reviews the impact of incorporations on counties. According to the report, the most important consequence of new incorporations on other jurisdictions — particularly counties — is redistribution of revenues. Simply put, in the zero sum game of local revenues, when a new city takes its share of property taxes, the taxes of all other jurisdictions are affected. According to AOR, "... capturing for local use revenues that were previously distributed countywide, incorporations take money from counties and shift it to cities. Unfortunately, the county retains responsibility for countywide services that also cover the newly incorporated city, including courts, corrections, elections, property tax assessment and collection, as well as health and welfare services ..."

AOR further noted: "Of all California counties, San Diego, Sacramento, San Bernardino and Riverside counties face the greatest risk from future incorporations both in the number of incorporations likely to occur, and the magnitude of resulting fiscal impacts." AOR also reported that as a consequence of multiple incorporations in San Diego County, the San Diego Association of Governments (SANDAG) conducted a study of a hypothetical incorporation of the entire urbanized unincorporated area of the county. They found that although county service costs would decline, county resources would decline even further, with a net loss to the county of $20 million annually. In an analysis of a proposed incorporation of the Citrus Heights area in eastern Sacramento County, County Executive Brian Richter noted, "Due to the presence of regional shopping centers within the proposed city and inequitable state law governing the transfer of property taxes

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Table 2

Counties That Exceed the Statewide Average of 55% of General/Purpose Revenues as an Expenditure for State-Required Programs

County	Ratio of State Required Expenditures from General Purpose Revenues 1987-88	1984-85
Solano	71%	53%
Alameda	70%	73%
Shasta	69%	61%
Santa Clara	62%	49%
San Joaquin	61%	50%
Tulare	60%	46%
Contra Costa	59%	59%
Stanislaus	59%	65%
San Diego	58%	52%
Santa Cruz	57%	41%
Butte	57%	47%
Imperial	57%	53%
Los Angeles	57%	53%
Orange	56%	51%
Fresno	56%	52%
Sacramento	56%	52%
San Mateo	56%	56%
Yolo	55%	42%
San Bernardino	55%	41%
Riverside	55%	52%
Statewide Average	**55%**	**50%**

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from a county to a newly incorporating city, Sacramento County stands to transfer some $4,746,000 more in revenue than is the cost of service responsibility to Citrus Heights."

Proposition 13 did not bring an end to city incorporation activity. Indeed, it may have provided some incentives for incorporation in offering the prospect of carving out choice pieces of a zero-sum pie. California has seen 32 new cities incorporated since 1978. Twenty-one of them have been in southern California, with Los Angeles and San Bernardino getting five each, San Diego, four, Riverside, three, and one each in Santa Barbara, San Luis Obispo, Ventura and Orange. In the north, Contra Costa has had three incorporations since 1978, and there has been one each in Kings, Alameda, San Mateo, Mono, Lake, Yolo, Butte and Placer.

The names of some of the new communities discloses many are associated with the more upscale locales of California life: Paradise, Big Bear Lake, Westlake Village, Danville, San Ramon, Mammoth Lakes, Orinda, Santa Clarita, Mission Viejo. As the AOR report noted, the 1987 incorporation of Santa Clarita brought together a community of 110,000 with an average income of $10,000 higher than the Los Angeles County average and a population that is 92 percent non-hispanic white.

The impact of incorporations and annexations on county revenues underscores that one of the factors that impacted negatively on Butte County finances is prevalent statewide. As Butte was vulnerable to revenue take-outs by Chico, Oroville and Paradise, so too are San Diego, Sacramento, San Bernardino and Riverside from their current or prospective cities. These findings and comments strongly reinforce the conclusion of the Legislative Analyst that serious fiscal difficulties are not merely a rural county problem.

> *"While it is tempting to isolate Butte County as a lone example of a California county in fiscal straits, our analysis indicates ... many other counties are experiencing serious fiscal difficulties."*
>
> *–Legislative Analyst*

The sales tax has not been a strong revenue source for counties in recent years, and its history relative to growth in state and cities' sales taxes highlights this fact. From 1983-84 to 1988-89, city sales taxes grew by 48.1 percent. State sales taxes grew by 43.8 percent, and county sales tax revenues increased by only 13.8 percent, which means that county sales tax income did not even keep pace with the growth of California retail activity.

Furthermore, sales tax history for counties that show the greatest increases in percentage share of GPR devoted to state-required programs is particularly weak.

All of the counties showing the greatest increase in GPR share spent for state programs also show declines in sales taxes — except for Santa Cruz and San Joaquin (See Table 4).

It would appear, therefore, that declining local general purpose revenues in these counties is not only due to cost increases for state-required programs, but to declines in local revenues — sales tax in particular. A sudden loss of 75 percent of county sales tax, as in Yolo County, can be devastating to county fiscal health. The impact of a constant loss of sales tax revenue over time — as in the case of Fresno County — is not much more easily accommodated when there is no source of replacement revenue.

Twenty-five percent of total county revenues are derived from the property tax. Since it represents the largest single general purpose revenue available to counties — and because after Proposition 13 it is a part of a zero-sum revenue game — any event that forces a redistribution a limited property taxes has a negative impact on county revenues. When incorporations and annexations occur, new "base years" for each property tax agency in a county are established based on property taxes received in the prior year. The new agency receives property taxes according to a base-year share, and receives incremental annual growth based on that share, as further adjusted by whatever local agreements on property tax sharing may be developed. Whatever occurs locally to implement Proposition 13's property tax sharing mandate, incorporations and annexations mean less property tax for every other governmental entity in the county that receives property tax revenue.

For example, a June 1987 Fresno County analysis, "Fiscal Implications of

Table 3

Counties with Greatest Percentage Increase in Share of GPR Devoted to State-Required Programs – 1984-85 to 1987-88

County	Percentage Increases in Share
Solano	18%
Santa Cruz	16%
Tulare	14%
San Bernardino	14%
Santa Clara	13%
Yolo	13%
San Joaquin	11%
Butte	10%
Shasta	8%

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County Land Use Policies," found that almost 18,000 acres were annexed to the city of Fresno between 1980 and 1985. These annexations occurred in accordance with current land use policies, which included among its goals the concentration of urban development within the cities. While this objective had long been supported by the county as good land use policy, county staff concluded that "the tax structure and fiscal arrangements that are affected by the land use policies have resulted in the decline of the fiscal health of the county."

The report concluded in part:

■ Changes in sales tax agreements (incidental to each new annexation) have resulted in annual losses of almost $824,000 since 1977.

■ Redevelopment projects have resulted in an average yearly property tax loss of more than $800,000 since 1980, and are expected to cost $20 million to $25 million over the anticipated life of the current projects.

■ Extensive city annexation activity has shifted to cities an average of $3 million per year in sales taxes plus $530,000 per year in property taxes since 1984.

■ The majority of services provided by the county are for residents living within the cities, yet most of the revenues are derived from sources outside the cities.

The report noted that between 1980 and 1985, the total property tax loss due to annexations by cities within the county was $3 million. While the county retained $25.2 million of property taxes collected from within cities, services provided to residents in those cities cost $57 million, leaving $31.8 million shortfall to be made up from other general purpose county revenue generated from unincorporated areas.

Impact of Redevelopment Projects on the County Revenue Base

Originally intended as a governmental mechanism to restore economically depressed urban areas, redevelopment agencies have — in the eyes of some critics — been used for other purposes. The Fresno County report bluntly stated, "Many cities are using the state redevelopment law as a creative financing mechanism to replenish funds lost from Proposition 13."

Under California redevelopment law, a debt financing tool known as tax increment financing has been used to service the debt incurred by redevelopment projects. When a redevelopment agency incurs debt, the property tax base within agency boundaries is frozen and the agency is entitled to receive 98 percent of the tax increments generated from the redevelopment area for the life of the project. Tax sharing agreements between the redevelopment agency and all property taxing entities in the redevelopment area may be negotiated for 20-40 year terms. The tax increments produced within project areas are used to repay any debt incurred in the redevelopment area.

The Fresno report noted that it was originally thought that Proposition 13 would eliminate redevelopment activities in California because a reduction in property tax revenues would limit the amount of tax increments available to reduce debt generated by redevelopment agencies. The report observed that only two Fresno cities had redevelopment agencies before passage of Proposition 13: Fresno (1956) and Parlier (1978). See Table 5.

The report found that there were 21 redevelopment areas in 11 of Fresno County's 15 cities, and that in some cases the entire city has been included in a redevelopmentarea. In Coalinga, Huron, Mendota, Orange Cove and Parlier, "... any increase in the tax increment within the city goes to that agency, including that which is unrelated to activities of the agency, such as reassessment of property which is sold within the redevelopment areas, but is not part of the program."

The report concluded that "...since

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Table 4

County	Increase in GPR Share for State Programs	Sales Tax Change 83-84 to 88-89
Solano	18%	-9.3%
Lake	17%	-1.3%
Santa Cruz	16%	29.6%
Tulare	14%	-15.3%
San Bernardino	14%	-3.8%
Santa Clara	13%	-57.7%
Yolo	13%	-74.7%
San Joaquin	11%	19.7%
Butte	10%	-26.0%
Shasta	8%	-30.3%

Table 5

City-Formed Redevelopment Agencies in Fresno Since 1978

City	Year
Clovis	1981
Mendota	1981
Orange Cove	1981
Coalinga	1982
Firebough	1982
Kingsburg	1983
Sanger	1983
Huron	1984
Selma	1984

Fiscal Futures, from page 27

1980, the county ... has lost more than $6.5 million in property tax revenue to redevelopment agencies." The pace of the loss is increasing; from $515,000 in 1980-81 to $1.4 million in 1986-87.

A somewhat softer assessment of redevelopment trends is found in the AOR's December 1989 report, "California 2000: Getting Ahead of the Growth Curve. The Future of Local Government in California."

"The prompt creation of city redevelopment agencies after a community incorporates is another expression of cities' compelling interest in and need for redevelopment," it said. "Of the 27 new cities formed between November 1978 and January 1987, 16 formed redevelopment agencies, 11 of which were formed within two years after the date of incorporation. Even two of the four anti-growth communities formed redevelopment agencies. If the activity of redevelopment agencies in the state is indicative of the future efforts of such agencies, the impact will be significant."

The AOR, which also tabulated the growth of redevelopment agencies since Proposition 13, noted that while the number of agencies grew by 81 percent, project areas grew by more than 100 percent. "... and tax increment revenue increased over 650 percent!" The growth noted by AOR represents an actual dollar growth in tax increment revenue from $100 million in 1978-79 to nearly $700 million in redevelopment agency revenue in 1986-87.

AOR's suggestion that the future impact of redevelopment agencies will be "significant" seems a bit after the fact. Its registered surprise at a 650 percent increase in redevelopment revenue is somewhat surprising in itself; counties have been noting misuse of the redevelopment agency mechanism for years, and the Fresno County report clearly delineated the problem.

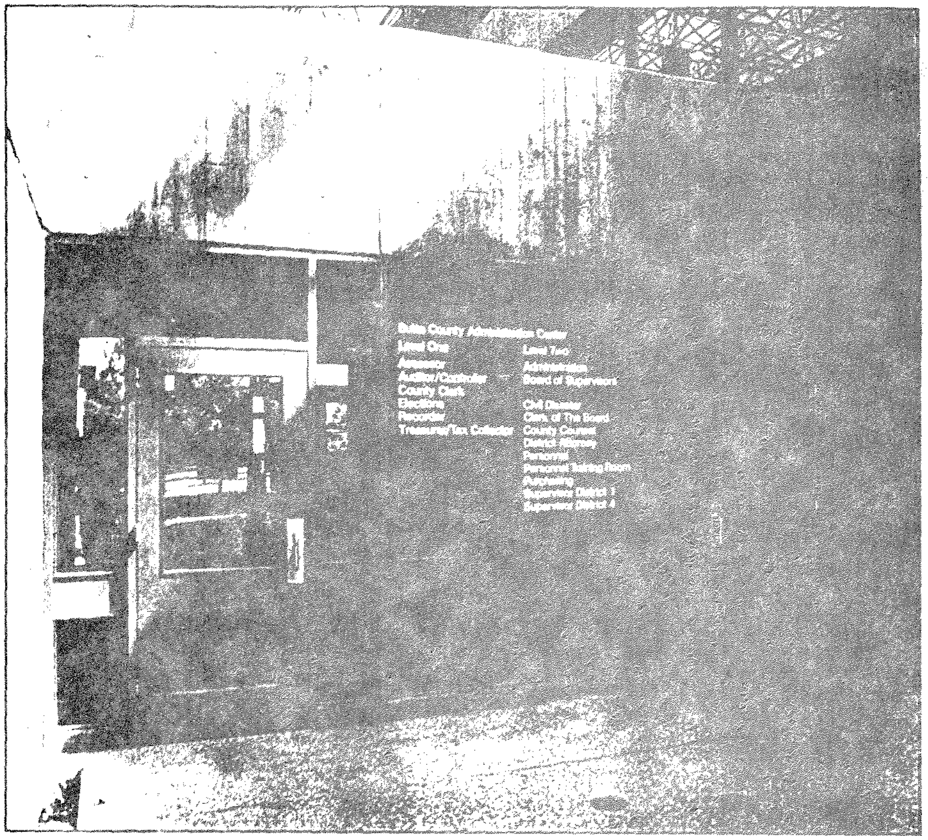

Photo by Mike Pyeatt

South entrance to the Butte County Administration Center where supervisors meet.

Conclusions

It is clear that many factors are at work in the present fiscal stress confronting California counties. It is a combination of cost increases in state-required and state-interest programs against a backdrop of a limited and eroding general purpose revenue base. It also seems clear that if nothing is done, there will be future Butte Counties. There is a certain inevitability to the scenario that the 1990s will be a decade of decision for the fiscal future of California counties.

What are the public policy changes that should occur? The Department of Finance oversight auditor, the Legislative Analyst and the Assembly Office of Research have all made recommendations. What should CSAC propose? We suggest that those proposals await the findings of current field work in an 18-county sample to be undertaken by the CSAC Research Division staff.

It is our conviction that the process will deepen our understanding of the issues and improve our confidence in the public policy recommendations that may be made. ■

Richard Simpson is the research director of the California Counties Foundation Research Division.

K-8

County of San Diego

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June 21, 1990

Sam Farr, Chairman
Assembly Committee on Local Government
State Capitol
P.O. Box 942849
Sacramento, CA 94249-0001

Dear Assemblyman Farr:

Thank you for your letter concerning the June 11th Informational Hearing. I am sorry I had to leave to catch the plane but the flights to San Diego are few and inconvenient. I think the work of your committee is very important and can lead to resolving the growing problem of our state-county partnership.

I have attached, for your information, my unedited comments I had planned to make at the Committee Hearing. Please use them as you see fit. I think my past experience as a state executive and current position as a county executive can provide your committee with a unique perspective. I am looking forward to working with you to solve our mutual concerns.

Sincerely,

Dave

DAVID E. JANSSEN
Assistant Chief Administrative Officer

DEJ/dq
Attachment

MOST DISCUSSIONS CONCERNING STATE MANDATES FOCUS ON THE MANDATED CLAIMS PROCESS (UNFUNDED MANDATES) NOW ADMINISTERED BY THE STATE COMMISSION ON MANDATES. HOWEVER, THIS PROCESS IS NOT THE SIGNIFICANT ISSUE TODAY.

PARTNERSHIP IS THE REAL ISSUE - AND THAT PERTAINS TO COUNTIES BEING AN ARM OF THE STATE CARRYING OUT ALL STATE REQUIRED PROGRAMS, AND COUNTIES NO LONGER HAVING REVENUE GENERATING CAPABILITIES. COUNTIES GENERALLY DO NOT COMPLAIN ABOUT FUNDED PROGRAMS; AND COUNTIES ARE NOT CONCERNED JUST ABOUT NEW PROGRAMS ESTABLISHED AFTER 1975, BUT ARE MORE CONCERNED ABOUT THE COSTLY BASIC PROGRAMS THAT ARE PROVIDED ON BEHALF OF THE STATE AND FALL OUTSIDE OF THE REIMBURSEMENT PROCESS.

IT WAS NOT PROPOSITION 13 THAT FIRST CHANGED THE PARTNERSHIP BETWEEN COUNTIES AND THE STATE, BUT RATHER THE PASSAGE OF SB 90 IN 1972. AND THE ISSUE FORCING THE CHANGE WAS NOT PROGRAM COST GROWTH BUT RATHER PROPERTY TAX RELIEF. THE LEGISLATURE SUBSTANTIALLY INCREASED THE HOMEOWNERS EXEMPTION TO PROVIDE THE RELIEF, PLACED

A CAP ON LOCAL AGENCIES THROUGH A MAXIMUM TAX RATE (CHANGED ONLY BY A VOTE OF THE PUBLIC), AND FOR THE FIRST TIME REQUIRED THE STATE TO PAY FOR NEW MANDATES ENACTED AFTER 1972. WE HAVE NEVER LOOKED BACK.

PROPOSITION 13 ESSENTIALLY PUT THE CONCEPT OF MAXIMUM TAX RATE IN THE CONSTITUTION AND PROPOSITION 4 ADDED THE REIMBURSEMENT REQUIREMENT AS WELL. AS IN 1972, THE ACTIONS WERE NOT RELATED TO PROGRAM NEED, EXISTING LEVELS OF SERVICE OR WELL THOUGHT OUT POLICY OPTIONS BUT, RATHER FOCUSED ON PROPERTY TAX RELIEF.

THE APPROXIMATELY 57% LOCAL PROPERTY TAX REVENUE REDUCTION WAS AVERTED, IN PART, BY THE STATE BAILOUT. THIS BAILOUT, ALONG WITH THE CONSTITUTIONALLY CAPED REVENUE BASE, DRAMATICALLY CHANGED THE DYNAMICS OF THE STATE-COUNTY PARTNERSHIP:

1. IT CAUSED A HEIGHTENED MISTRUST BETWEEN STATE AND LOCAL GOVERNMENT (THE STATE DOES IN FACT PROVIDE SUBSTANTIAL FUNDS TO COUNTIES THROUGH SUBVENTIONS, TRIAL COURT FUNDING AND THE CLAIMS PROCESS, AND AS A RESULT HAS

ESTABLISHED STRICT CONTROLS ON ITS USE. COUNTIES AT THE SAME TIME CHAFF UNDER THE LOSS OF LOCAL DISCRETION AND BLAME THE STATE FOR THEIR CURRENT FISCAL PROBLEMS.)

2. IT CREATED COMPETITION BETWEEN CITIES AND COUNTIES FOR A SHARE OF THE FIXED PROPERTY TAX BASE (INCORP./ANNEX/REDEV.)

3. IT HAS FOCUSED THE DIALOGUE ON <u>UNFUNDED</u> MANDATES (IN A SYSTEM WHERE COUNTIES ARE INSTRUMENTS OF THE STATE BY CONSTITUTION) RATHER THAN ON DEFINING THE PARTNERSHIP. (OUR BOARD OF SUPERVISORS HAS GONE TO THE POINT OF "JUST SAYING NO" TO UNFUNDED STATE MANDATES AND REFUSING TO PROVIDE SERVICES BEYOND THOSE PAID FOR BY THE STATE.)

4. IT CREATED STATUTORY INEQUITIES BETWEEN COUNTIES PROVIDING THE SAME STATE SERVICES.

THE HISTORIC PARTNERSHIP BETWEEN THESE TWO LEVELS OF GOVERNMENT, WHERE BOTH SHARE IN THE BURDEN OF PROVIDING STATE REQUIRED SERVICES HAS FAILED. THE STATE HAS NOT YET COME TO GRIPS

WITH WHAT IT BEGAN IN 1972--PROVIDING TAX RELIEF AND CONTROLLING THE COST OF STATE PROGRAMS.

IT IS DIFFICULT IF NOT IMPOSSIBLE TO FIND TOMORROW'S SOLUTIONS USING THE THINKING WE USED TO SOLVE YESTERDAY'S PROBLEMS. THE PARTNERSHIP ISSUE CAN BE RESOLVED IN TWO SIMPLE FASHIONS; HAVE THE STATE TAKE OVER ALL STATE PROGRAMS AND ADMINISTER THEM DIRECTLY OR ALLOW COUNTIES TO REFUSE TO DO STATE PROGRAMS THEY CANNOT AFFORD.

A WORKABLE STRATEGY WILL REQUIRE A COMBINATION OF CONTROLLING THE GROWTH AND COST OF ALL STATE PROGRAMS, PROVIDING COUNTIES WITH A STABLE AND PROTECTED REVENUE SOURCE AND, PERHAPS REDISTRIBUTING RESPONSIBILITIES BETWEEN GOVERNMENTAL ENTITIES.

OVER THE LONGER TERM, FURTHER WORK IS NEEDED:

1. A SERIOUS ANALYSIS OF THE APPROPRIATE SHARING OF THE LOAD BETWEEN COUNTIES AND THE STATE SHOULD BE DONE;
2. STANDARDS OF SERVICE AND SERVICE LEVELS IN EXISTING PROGRAMS SHOULD BE REVISITED;

3. CURRENT ADMINISTRATIVE RED TAPE SHOULD BE REDUCED;

4. IMPROVED WORKING RELATIONSHIPS BETWEEN COUNTIES, SCHOOLS AND CITIES SHOULD OCCUR; AND

5. THERE SHOULD BE MORE OF A SYSTEMS' APPROACH AND LESS INCREMENTALISM IN THE MODIFICATION OF AND CREATION OF STATE PROGRAMS AND MORE ATTENTION MUST BE PAID TO PREVENTION.