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## **Economy & Efficiency Commission Presentation**

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*Editorial Note: Although every effort has been made to insure the accuracy of the material in this presentation, the scope of the material covered and the discussions undertaken lends itself to the possibility of minor transcription misinterpretations.*

### **PRESENTATION BY**

**Mr. Dan Wall**

**Chief Legislative Representative Intergovernmental Relations Unit--Chief Administrative Office, Los Angeles County**

**Topic: Status of Los Angeles County Lobbying in Sacramento  
March 4, 1999**

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Chairman Abel introduced Mr. Dan Wall, the Chief Legislative Representative for Los Angeles County's Chief Administrative Office's Intergovernmental Relations Unit (IRU). Mr. Wall stated that he is approaching his one-year anniversary in this position. Prior to that, he spent 13 years as a lobbyist for the California State Association of Counties.

Mr. Wall explained that the Los Angeles County Board of Supervisors (BOS) has a very ambitious and aggressive advocacy program in Sacramento. With a budget of nearly \$13.7 billion, the ability of the County to deliver services to its citizens is very much influenced by the County's ability to advocate in Sacramento. The BOS also contracts out for additional assistance. For Example, the Board has retained former assemblyman Burt Margolin, who consults with BOS and IGU on matters of legislative strategy. Generally, the IGU has 3 broad goals in Sacramento: 1) to implement BOS policy to preserve and enhance the delivery of services to the citizens of the County, 2) to provide the State legislature and the administration with information and impact analysis, and 3) to solve problems.

Fundamental change is critical for the County even though the County budget is in reasonably good shape due to an improving economy and about \$500 million in temporary fixes. One of those fixes is the Medicaid (called MediCal in California) Section 1115 waiver from the federal government. The waiver is worth about \$220 million annually, and it only lasts another 18 months. Even though the waiver can be extended, it will expire at some point. When it ends, it will leave a \$220 million hole in the County budget that will have to be filled. In addition, the County is using the sum of the excess earnings of the County retirement system, but the County is gradually reducing its reliance on that funding source. Basically, there is a structural problem with the root of that problem being the property-tax shifts that started in 1992 and were increased in 1993.

Local property taxes taken from counties, cities and special districts were moved to the schools to help balance the state budget. It is basically a shell game because the schools did not receive any more money than they otherwise would have received. The transaction simply displaced State dollars that otherwise would have had to go to the schools. Today, \$3.6 billion per year in property taxes are being taken from counties and other local governments. Out of that, roughly \$1 billion comes from Los Angeles County.

Certainly, Proposition 172 put sales taxes back into counties and cities as partial compensation for the lost property taxes. But the use of those Proposition 172 sales taxes was restricted, and the imbalance between the sales tax revenue coming back to Los Angeles County and the lost property taxes is significant. When Proposition 172 sales taxes are subtracted from the County's gross property tax loss, the County's net loss is \$530 million per year. This ongoing net loss is the structural problem that is now being addressed by those temporary measures. That is why the County's number one priority is the return of the property tax so it can help support critical County services.

Mr. Wall mentioned some additional steps that the County has taken to make ends meet in the aftermath of the property tax shift. He indicated that County "deferred maintenance" is running in the neighborhood of \$230 million. The County has also cut the Sheriff's budget over the course of the years during the property tax shift era by some \$200 million. The County has also kept the District Attorney's budget basically flat in spite of growing and more difficult caseloads.

An encouraging detail of the State budget is that the Governor included a very positive write-up about counties that discussed a restoration of the property tax. The Governor's budget also had a positive message about the sales tax and its impact on growth and development decisions (i.e. the so-called "cashbox zoning" issue). Although the messages are positive, if one looks at the budget numbers, the result is that counties are once again being asked to help make up part of a shortfall that the administration puts at about \$1.3 billion.

Counties have born the brunt of the continuous "surplus-deficit" roller coaster ride. In the past 4 years, the BOS has been attempting (in conjunction with the cities and other interest groups such as business associations and realtors) to get the property tax revenue back. Almost 54% of all State property tax dollars today are go to the schools (State government). Neither the schools, nor the State make local development decisions. The counties should have a majority share interest in the most significant local revenue source.

It seems that the only way to reverse the current situation is to develop a plan that provides additional revenues to the State. This, in turn, will create the opportunity to bring more money to the County.

Commissioner Petak asked about the proportion of pre-Proposition 13 tax revenues allocated to schools compared with the current structure. He clarified that, in essence, the tax revenues are going to the State, and given back to the schools at a rate that is roughly equivalent (on a share basis) to what the schools were getting prior to the passage of Proposition 13. Chairman Abel added that now there is a loss of local control over the schools because the locus of authority has been shifted to the State legislature. In other words, local school boards are now unattached to their local property taxpayers.

Mr. Wall indicated that Commissioner Petak is correct. The school's share of the property tax today is roughly equal to their share before Proposition 13. This fact has been used as the rationale for the property tax shift, but it is an extremely superficial reason for the removal of what now amounts to \$3.6 billion per year from local government.

At the time of the property tax shift, the legislature and the Governor said that they were simply restoring the schools to where they were prior to proposition 13, and that they were pulling back the "bailout" given in the aftermath of proposition 13. This sounds reasonable until one begins to look beneath the surface. Because County government in large part administers State programs, it is unclear that there was a "bailout" of counties in 1978 and 1979. The County "bailout" primarily protected state programs.

Proposition 13 had both intended and unintended consequences. It took 50 percent of the property taxes from counties and other local governments overnight. At that time, that amount was between \$6 and \$7 billion. The tax cut was intentional, and was a good thing in that it had economically stimulating effects and it helped senior citizens to stay in their homes. But prior to that moment, the property tax was exclusively a local revenue that could not be tampered with by the State. Now, the State has complete authority over where those property taxes are to be allocated.

Commissioner Petak interjected and asked if an irresponsible legislature was the reason for Proposition 13 being successful. Chairman Abel stated that is why the Speaker's Commission of State/Local Government

Reform could not figure out in 1977 what to do about the allocation issue. As a result, they came up with a simple idea, which was to let the legislature handle the allocation. The detrimental effect of this influences the entire political spectrum. Mr. Wall stated that Proposition 13 disturbed the balance of power between the State and counties, and that he would hesitate to focus the blame and lay it all at the foot of the Legislature or even the Governor.

Commissioner Petak mentioned that the unintended consequence of the 1978 Proposition 13 decision could very well reoccur today. Chairman Abel explained that the whole issue is a compounding problem, in that the best public servants play by the current rules and compound the problem every day. This makes the situation very difficult to correct. Localities are mortgaging their futures by investing in retail complexes in the wake of increasing Internet (non-local) retail businesses where no sales tax is paid.

Chairman Abel mentioned the structural reform issue-moving more money to counties and cities, which can be done by negotiation (which is part of a lobbyist's mission). That is different than structurally changing it to re-orient the incentives and disincentives. He asked Mr. Wall how likely this reform effort will be from the vantagepoint of traveling between the County and Sacramento. Mr. Wall responded that the short answer is that it is not very likely, but he does not believe that the short answer does justice to the issue. Today there is more awareness and more attention being paid to the issue by the Legislature, by editorial boards, and by the public. Awareness is the necessary first ingredient for change. Part of the job of the IRU is to participate in longer-term, global efforts for change.

The recent history of school finance is a way to illustrate the potential for change. The schools are similar to counties in that they are both creations of the State, and a stand-alone local government. The schools' response to the same kind of problems that face county government was proposition 98, which basically said: "this is our share of the pie, and the rest of the pie can take care of itself." This approach ignored the total system, and it exacerbated the fiscal problems for the rest of the system.

Commissioner Barger inquired about whether the downfall of the school system began with the lawsuit Serrano vs. Priest. After that ruling, the independence of local school boards was substantially diluted due to the fact that they could not raise money to support their own schools because of their support of other school systems. Mr. Wall responded that he is not enough of an expert on school finance to answer this question with confidence. He said that if it was a cause, then there was surely an additional cause. The additional cause was when the state got into financial trouble, they spread the burden of that trouble downward to counties, cities, and schools. The schools responded by building a "constitutional fence" around their share of the pie. This was a positive thing for schools, but in the past 11 years, the other part of the pie has fallen apart.

Some counties have indicated an interest in such a proposal, and the cities have a similarly drafted constitutional amendment. Mr. Wall stated that he personally thinks that approach is fundamentally wrong, because the County has to deal with a total system. The County has a vested interest in making sure that education is healthy. There ought to be a reciprocal vested interest on the part of education to make sure that County government is healthy. The County has to find a political catalyst or trigger mechanism that will enable positive change to occur.

Chairman Abel thanked Mr. Wall for his presentation.

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