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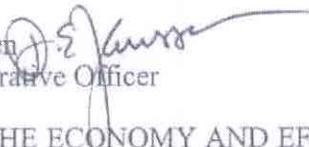
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July 9, 1998

To: Supervisor Yvonne Brathwaite Burke, Chair
Supervisor Don Knabe, Chair Pro Tem
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: David E. Janssen 
Chief Administrative Officer

**STATUS REPORT ON THE ECONOMY AND EFFICIENCY COMMISSION'S REVIEW OF
THE RELATIONSHIP BETWEEN LOS ANGELES COUNTY AND STATE GOVERNMENT**

This memorandum provides a status report on implementing the Board of Supervisors' actions of April 8, 1997 on the Citizens Economy and Efficiency (E&E) Commission's report on recommendations contained in the California Constitution Revision Commission's (CCRC) final report. The Board had requested that the E&E Commission review and evaluate the CCRC's recommendations related to local government structure and operations and recommend a strategy by which the County could become proactive in the Legislature's consideration of these issues. The E&E Commission report included several recommendations on how to initiate actions to improve the state and local government relationship.

The Board's actions included approval of the E&E Commission's recommendations to establish a Governmental Services Task Force to be chaired by the Chief Administrative Officer to conduct an internal review of County structure, operations and responsibilities. The internal review was essentially a prerequisite for implementing the other Commission's recommendations.

A draft work plan outlining the steps required of the Task Force in implementing the E&E Commission's recommendations and a process for developing a County position on state-local restructuring issues were reviewed by my office. It was apparent from the draft work plan that implementing the Commission's recommendations and addressing the major restructuring issues would require several highly experienced staff resources from other departments and my office. The required staff resources were also essential to the then upcoming annual budget process. As a consequence, action on the work plan was deferred pending completion of the County's 1998-99 Proposed Budget.

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In the meantime, there have been legislative hearings, conferences, statewide projects, pending legislation and reports from the Legislative Analyst's Office, all addressing the state-local relationship and/or local government finance and operations. The pending legislation includes bills for both maintaining and repealing the Vehicle License Fee, reversing the property tax shift and a study of the delivery and financing of services in Los Angeles County. After review of these various activities, it is believed that action on implementing the E&E recommendations should continue to be deferred.

The attached status report provides a summary of the above activities addressing the state-local relationship. It also includes a plan to ensure that the County's position is represented in studies, proposals and legislation affecting the state-local relationship -- this plan to be in lieu of implementing the E&E Commission's recommendations.

This report has been discussed with the Chair of the E&E Commission. Although a detailed review of the County's operations and structure would produce many benefits, we believe that the planned alternative to implementing the recommendations of the E&E Commission is currently the most effective use of the County's staff resources in affecting change in the relationship between the state and counties.

If you have any questions, please let me know.

DEJ:ga

Attachment

c Executive Officer, Board of Supervisors
 Chair, Citizens Economy and Efficiency Commission

July 9, 1998

**LOS ANGELES COUNTY
STATE-LOCAL RELATIONSHIP
AND
LOCAL FINANCE PROJECT
STATUS REPORT
July 1998**

I. OVERVIEW

Background Reports

The California Constitution Revision Commission (CCRC) conducted one of many studies of the relationship between the state and local governments and the role of local revenues, especially property taxes, in that relationship. The CCRC 1996 final report¹ included recommendations for the alignment of state and local services, the strengthening of home rule and the protection of locally levied taxes. The Board of Supervisors requested that the Los Angeles County Citizens Economy and Efficiency Commission review and evaluate the recommendations of the CCRC that relate to local government structure and operations and its assigned responsibility versus authority, particularly as they relate to Los Angeles County, and consider possible alternatives to the recommendations. The recommendations were to include a strategy with which Los Angeles County could respond to state-local relationship issues raised by the CCRC.

The Economy and Efficiency Commission submitted a report² to the Board which included several recommendations on how to initiate actions to improve the state and local government relationship.

Board of Supervisors' Actions

The Board of Supervisors considered the Economy and Efficiency Commission report on April 8, 1998. The Board approved the creation of a Governmental Structures Task Force for an internal review of County operations. The Commission was requested to: a) work with the Chief Administrative Officer to refine recommendations relating to the delivery and funding of services and the development of a Local Government Services Plan, and b) further study its recommendations regarding the formation and operation of a Metropolitan Community Charter Commission (MCCC). The Board approved recommendations directing the Governmental Services Task Force to develop a County position on the State tax structure and investigate the use of property tax by action of local governments. The Task Force was also directed to examine alternatives to the property tax for financing of local programs and develop programs to pursue strengthening of home rule powers.

Implementation Work Plan Review

A draft work plan for implementing the Commission's recommendations and a process for developing a County position on major state-local restructuring issues were reviewed by the Chief Administrative Officer. The work plan outlined the steps for implementing the Board's direction

with specific tasks identified for the Governmental Services Task Force. A major task for the Task Force was the development of a data base for all programs and services through an internal review of the County structure, operations and responsibilities. This review would entail a comprehensive departmental analysis of each program operated by the County. Although time and staff intensive, the review was a prerequisite to the development of a Local Government Services Plan. Other tasks involved formulating the County position on the design and implementation of a State-Local Realignment Plan.

It was apparent from the work plan that implementing the Commission's recommendations and addressing the major restructuring issues would require several highly experienced staff resources from the departments and the Chief Administrative Office. These particular staff resources were also essential to the then upcoming annual budget process. As a consequence, action on the work plan was deferred pending completion of the County's 1998-99 Proposed Budget process.

Various Projects, Proposals and Studies Addressing the State-Local Relationship

In the meantime, there were legislative hearings, conferences, statewide projects and reports from the Legislative Analyst's Office (LAO) addressing the state-local relationship and/or local government finance and operations. Bills in the Legislature propose the repeal of the Vehicle License Fee (VLF) and the Governor's 1998-99 May Revision includes a proposal to reduce the VLF. There are bills which would reverse the property tax shift, provide for the reorganization and financing of local government services in Los Angeles County, and direct a study by the Little Hoover Commission to determine the capability and efficiency of California counties.

The Los Angeles County Citizens Economy and Efficiency Commission has proposed to the Little Hoover Commission a collaborative review of the California state-local fiscal relationship. Finally, there are two reports from the LAO. One is a detailed look at a group of revenues that counties depend on extensively - their general purpose revenues. The second report examines counties' program performance in four areas: children's programs, social services and health, criminal justice, and roads and libraries.

In view of the ongoing projects and proposals regarding state-local relationship and local government finance, this status report is being submitted in support of continuing the deferral of implementing the Economy and Efficiency Commission's recommendations.

II. PURPOSE

The purpose of this report is to:

- a) provide a status report on the various statewide studies and proposals having potential for impact on the state-local relationship, and
- b) outline a plan to ensure the County's position is represented in studies, proposals and

legislation affecting the state-local relationship and/or local government finance; the plan to be in lieu of implementing the Economy and Efficiency Commission's recommendations.

Summaries of the following projects, proposals and legislation are provided as background material:

- a) Joint Senate-Assembly Field Hearing on the State-Local Fiscal Relationship
- b) A Conference on fixing California's Local Government Finance
- c) Vehicle License Fees and the Governor's proposed reduction
- d) Legislative proposals regarding the state-local relationship: Vehicle License Fees property tax shift; reorganization of local government services; a study of counties by the Little Hoover Commission
- e) A tentative proposal of the Los Angeles County Citizens Economy and Efficiency Commission to enter into an agreement with the Little Hoover Commission for a joint review of the California state-local relationship
- f) An LAO Report on Why County Revenues Vary: State and Local Conditions Affecting County Finance
- g) An LAO Report on California Counties - A Look at Program Performance

III. JOINT SENATE-ASSEMBLY FIELD HEARING ON THE STATE-LOCAL FISCAL RELATIONSHIP

On March 28, 1998, the Metropolitan Forum Project hosted a Legislative Field Hearing at which community leaders from nine different areas of metropolitan Los Angeles presented their findings on the state-local fiscal relationship to eight State Legislators. The hearing also afforded a platform for examining the fiscalization of land-use policies and the property tax shift. During the hearing many issues were raised including, but not limited to, the following: local control and home rule, erosion of public trust, structure of government, the initiative process, authority, responsibility and accountability, impact of Proposition 13, fiscalization of land use, regional government and the property tax shift.

There were no specific proposals from the community leaders or the legislators for revising the allocation of general purpose revenues to cities and counties. There was, however, emphasis on the need for reversing the property tax shift to the schools. Following are some recurring comments from the hearing:³

- It was not the intent of Proposition 13 to allow the State to apportion property taxes.
- There is a need to define responsibilities for functions, not just shift dollars around.
- It must be determined who should provide a service and how it should be funded.
- Returning dollars to local governments is not enough; we need efficiency, better planning and an end to sales tax wars.
- Need to determine how control and accountability can be returned to local government.
- Funding, accountability and responsibility are uncoupled and need to be relinked.

- Home rule is being master of your own destiny.
- The initiative process needs review with respect to use of plain language, legal feasibility, an increase in signatures required and any 2/3 vote requirement in an initiative should require that it be passed by a 2/3 majority.
- Proposition 13 broke the link between local resources and local decisions.
- There should be a ban on rebates for retail development.
- Growth in sales tax should be distributed on the basis of population.
- There is interest in reallocating resources locally.
- Everyone focuses on their own piece, not on the whole.
- It is not just money; it will take more, especially leadership.
- It is going to take a cataclysmic event, a fiscal crisis, for there to be meaningful reform of the state-local relationship.
- There is no discretion left for local governments on either the expenditure side or the revenue side.

IV. CONFERENCE: FIXING CALIFORNIA'S LOCAL GOVERNMENT FINANCES: REVISE, REFORM OR ADAPT?

On May 8, 1998, a conference on fixing California's local government finances was presented by the UCLA Extension Public Policy Program, University Extension, UC Davis and the California Debt and Investment Advisory Commission. The panels discussed many aspects of the status and problems of local government finance. One panel presented proposals to modify or substantially restructure local government finance. Most proposals were generalizations for improving the state-local relationship, e.g, the California Governance Consensus Project presented the major components of a conceptual plan for comprehensive governance and fiscal reform in California. Proposals presented by the San Diego Association of Governments (SANDAG) and the Metropolitan Forum Project included some specifics for restructuring the state-local relationship and local government finance.

Following are outlines of the proposals from the Consensus Project, SANDAG and the Metropolitan Forum Project:

California Governance Consensus Project

The following information on the California Governance Consensus Project was presented at the conference.⁴ The Project is broad-based, collaborative effort of 34 statewide organizations representing government, labor, education, public safety, health, environment, human services and taxpayer interests. The California State Association of Counties (CSAC) is a participating organization. The Project is administered under the auspices of the California Center for Public Dispute Resolution, a joint program of California State University, Sacramento and McGeorge School of Law, University of the Pacific. The project receives foundation funding together with cash and in-kind contributions of its member participants.

The Consensus Project's effort is focused on reforming California's government and is working to craft an agreement among major public and private interests on reforms that would resolve California's governance and fiscal problems and have widespread public support. Participants in the Project have adopted a conceptual plan which includes the following major components:

- a) Restore accountability and financial stability to local government.
- b) Realign state/county responsibilities to make the state responsible for financing mandated levels of financial aid and health services.
- c) Establish a strategic state budget process which provides for long-term planning and protection of a budget reserve.
- d) Consider the revenue required to meet the critical needs of K-12 schools, higher education, local government, public safety and non-Proposition 98 programs and how to achieve it.

The Project is working in concert with other parallel groups (e.g., the California Citizen's Budget Commission/Center for Governmental Studies and the Metropolitan Forum Project) and plans to conduct extensive outreach and public education efforts during 1998-99.

The Project is defined as a long term effort geared towards electoral cycles with plans to submit major proposals to the California State Legislature early in 1999 for adoption and referral to the November 2000 statewide general election ballot. The stated goal is to resolve, ultimately by legislative or initiative measures, some of the major governance and financing structural deficiencies within California's system of State and local governments.

San Diego Association of Governments (SANDAG)

SANDAG's draft proposal⁵ for State-Local Fiscal Reform in California recommends the reallocation of general purpose revenues as follows:

- | | | | |
|----|------------------------------|----|--|
| a) | Cities and Counties receive: | 1) | Additional 1-cent sales tax (State rate reduced 1-cent.) |
| | | 2) | Additional Property Taxes |
| b) | State retains: | 1) | Vehicle License fees |
| | | 2) | Gas Tax Apportionment |
| | | 3) | TDA funds (1/4 cent sales tax) |
| | | 4) | Rebate-Homeowners' exemption |
| | | 5) | CA vehicle code fines |

Local governments, acting together in each county, would be given constitutional authority to distribute the extra 1-cent sales tax, the additional property tax revenues, and Proposition 172 funds pursuant to an "Areawide Agreement." The Agreement would substitute for state authority over local revenues, and each agreement would provide a mechanism for distributing the extra 1-cent county-

wide sales tax, additional property taxes, and Proposition 172 funds. The agreement contains a provision for a *home harmless rule* in the base year and an *automatic allocation formula* for the growth in revenues. It also includes a decennial adjustment to the automatic allocation formula to account for changes in the distribution of population between the incorporated area and the unincorporated area. Details regarding form, content and implementation of the Areawide Agreement are contained in the SANDAG proposal. It should be noted that the proposal does not address the inequity to the counties resulting from the property tax shift to the schools during the period 1992-94.

Metropolitan Forum Project

The following information on the Metropolitan Forum Project is contained in the report on the Legislative Field Hearings.⁶ The Metropolitan Forum Project is an independent non-partisan effort funded by foundations and the private sector seeking to broaden participation in the discussion about government reform.

The Metropolitan Forum Project represents nine sub-regional areas ranging from South Bay, Inland Empire and Inglewood to the San Fernando Valley, Orange County and Ventura County. The Project findings and recommendations on the impact of the state-local fiscal relationship on each sub-regional area were not formally presented at the conference but are included in the Field Hearings report. The area final reports contain a total of 148 recommendations, most of which focus on the respective sub-regional area. Many recommendations, however, are general in nature and can be related to improving the state-local relationship. The following are representative of this group:

- Sub-regional service delivery consolidation among local governments should be encouraged and consolidation among cities, special districts and counties may be warranted.
- Permit local governments to work together to determine how to allocate tax revenue; make it easier for them to share tax revenue when appropriate, and provide flexibility within each county for sales tax distribution, taking into account population as well as point of sale.
- Local governments should work together and develop a vision and an implementation plan for the community.
- Information sharing between all levels of government and within governmental agencies must be a high priority.
- Add incentives at the state level to encourage high paying and high skilled business growth which seek to expand the tax base.
- Stop the continued shift of property tax revenue to the state; property taxes should go to property related services including but not limited to education, police and fire services, public infrastructure etc.
- Clearly identify the public service responsibilities and revenue sources of government at all levels.
- Permit local jurisdictions to prioritize the delivery of their public services according

- to locally defined needs.
- Encourage cost effective annexations of unincorporated communities (islands).
- Educate the public about the current system of local government finance and mandated services.
- Define "local" revenue, tie it to "local" services and stabilize the allocation of revenues to local governments.
- Counties have been placed in an untenable position and their role should be reexamined.
- The idea of Home Rule Community Charters, organized to examine governmental functioning and empowered to increase efficiency, eliminate duplication of services and lower the cost of government, should be detailed further and discussed widely prior to introduction in the legislature.
- Reforms undertaken to improve local control should be revenue neutral with respect to the total amount of taxes paid by taxpayers.
- Regionalize centers of government to bring government closer to the people and enhance the sense of community.

The Metropolitan Forum Project is to issue a final report with a consensus of the recommendations from each of the sub-regional areas.

V. VEHICLE LICENSE FEES (VLF) AND THE GOVERNOR'S PROPOSED REDUCTION

The VLF is an annual fee on the ownership of a registered vehicle in California. Since 1935 the state has collected the fee in place of each county taxing vehicles as personal property. The fee, which averages about \$180 per vehicle, is in addition to other fees, such as registration and air quality. The fee is two percent of the vehicle's estimated value which is set by a statutory depreciation schedule. Since it is paid in an annual lump sum payment, it is very noticeable to the vehicle owner. The voters approved Proposition 47 in 1986, constitutionally guaranteeing VLF revenue to cities and counties. Some of the funds (24.33 %) are earmarked for health and social service programs as part of the 1991 program realignment.

The Governor's 1998-99 May Revision contains a proposal to reduce the current 2 percent VLF fee rate. Beginning January 1, 1999, the rate would be reduced to 1 percent cutting each vehicle owner's fee in half. Beginning January 1, 2002, the rate would be halved again to 0.5 percent but other vehicle fees would not be affected. According to the Legislative Analyst's Office(LAO)⁷ the revenue loss statewide would be about \$1.0 billion in 1998-99, \$2.1 billion in 1999-00, \$2.2 billion in 2001-02. The first full year impact would be in 2002-03 when the revenue loss would be \$3.6 billion. The County's Proposed 1998-99 budget includes \$815.8 million of VLF revenue.

The Governor's proposal calls for holding local governments and realignment "harmless" by using the state's General Fund revenues. The funds to repay local governments would be continuously appropriated and would not need to be approved in the annual budget process. The Legislative

Analyst's Office notes, however, that this would not prevent the state from adjusting the subventions in future years. **The Governor's proposal for repeal of the VLF was removed from the Assembly and Senate 1998-99 Budget Bills as adopted by the Assembly Budget Committee and the Senate Budget and Fiscal Review Committee.**

VI. LEGISLATIVE PROPOSALS REGARDING THE STATE-LOCAL RELATIONSHIP

There are pending bills which address the following issues: repeal of the VLF, reversing the property tax shift, local government reorganization and a study of all 58 counties. Following are summaries of each of these issues.

Vehicle License Fees (VLF)

One bill (ACA 42) would maintain the VLF and ensure appropriations for replacement funding for cities and counties prior to the amendment or repeal of the VLF. Three bills (ACA 45, SB 1723 and AB 1776) would repeal the VLF over a five year period and provide for replacement of the VLF with State sales and use tax revenue. One bill (SB 2001) would abolish the VLF immediately and does not provide for replacement revenue. Another bill (SB 1998) would change the method of calculating the annual depreciation of the motor vehicle, effectively reducing the amount of revenue to be allocated to cities and counties, and does provides for replacement funding.

Property Tax Shift

The following bills would reverse the property tax shift by establishing a limit on the amount of property tax shifted to the schools and then reduce local agencies' contributions to the Educational Revenue Augmentation Fund (ERAF) by ten percent each year over a period of ten years.

1. ACA 4 (Aguiar, Sweeney and Lemper -- amended 6-15-98) This bill would limit the amount of property tax revenues that local agencies shift to the schools (ERAF) to the amounts shifted in 1998-99. The revenues not allocated to ERAF would be allocated among the local agencies in the county proportionately, as specified. The bill specifies that there must be no net fiscal impact on school or community college districts.

2. AB 95 (Sweeney and Aguiar -- amended 5-13-97) This is being carried as an active bill and is being held in the Senate Appropriations Committee without recommendation. The bill would freeze the amount of property tax revenues that local agencies are required to deposit to the ERAF at the 1996-97 levels and further reduce the amount shifted each year by an additional 10 percent until the amount shifted is zero. The revenues not shifted would be allocated among local agencies in the county proportionately.

Local Government Organization and Services

There are various bills, active and chaptered, pertaining to local government organization and service

delivery. Three measures relevant to the state-local relationship are summarized below.

1. AB 2368 (Herzberg – amended 6-29-98) This bill would permit the Los Angeles County Board of Supervisors to adopt a resolution proposing the creation of a Commission on Local Government Services for the purpose of developing a plan to more efficiently deliver and finance local government services. The Commission would be established if approved by the governing bodies of a majority of the cities in the county, representing a majority of the population of the incorporated areas of the county. If a Commission is created, the bill requires that it be established by January 1, 2000 and consist of up to 18 members, six members appointed by the Board of Supervisors, five by a City selection committee, one by the City of Los Angeles and six by a Special Districts selection committee. It requires that the Commission develop and adopt a Governmental Services Plan to address the delivery and financing of local services.

The Government Services Plan may contain all of the following:

- a) changes that will determine how to provide needed services in a manner that is more efficient, more accountable, and less costly to local government, taking into consideration the geography, population density, ethnic issues, and the fabric of existing communities, and other factors that influence the operation of local government.
- b) changes that result in greater accountability to the public.
- c) specifications that designate which local government agencies should be responsible for the delivery of certain services, the local agency governing entity responsible for each service, and the method of financing that service.
- d) a multi-year capital outlay plan for infrastructure needs in the jurisdiction covered by the governmental services plan and the local government agencies responsible for implementation of the capital outlay plan.
- e) the reallocation of the non-school and non-community college share of the property tax, Bradley-Burns Sales and Use tax, and vehicle license fee revenue as determined pursuant to the Revenue and Taxation Code.
- f) recommendations for the organization, reorganization, and boundaries of local government agencies covered by the government services plan that would be implemented by LAFCO.

The bill requires that the Commission complete the Governmental Services Plan and submit it to the Board of Supervisors no later than December 31, 2003. It requires that if the plan is

approved by both the Board of Supervisors and a majority of the cities representing a majority of the voters, that it be placed before the voters on or before the November 2004 election. The voters would have to approve the plan by a majority vote. Amendments to the plan must be adopted by a) the county, b) a majority of the cities representing a majority of the population, and c) the county voters.

After adoption of a Governmental Service Plan, the following shall apply:

- a) The county, each city, and each special district in the county shall have their Educational Revenue Augmentation Fund (ERAF) contribution reduced by 10%.
- b) The non-school and non-community college property tax revenue and the vehicle license fee shall be allocated according to the Governmental Services Plan.

According to the committee report, Los Angeles County and its cities shift approximately \$2.5 billion to ERAF each year meaning a \$250 million reduction upon adoption of the Government Services Plan.

2. AB 1484(Hertzberg – Chaptered 10-12-97) This bill creates a 15 member Commission on Local Governance for the 21st Century to evaluate municipal boundary changes, policies to increase community participation in municipal government and conformity to the federal Voting Rights Act. The members are appointed by the Governor (9), the Assembly Speaker (3) and the Senate Rules Committee (3). The bill requires the Commission to conduct public meetings to solicit views and advice from the public about local agency organization and boundary changes and report by June 30, 1999 to the Legislature and the Governor on all of the following:

- a) a review of current statutes relating to local agency boundary changes,
- b) proposals to increase citizen and community participation in local government,
- c) proposals to conform with the 1965 Voting Rights Act and other Federal laws, and
- d) recommendations for statutory changes, if any.

The Commission's success in increasing citizen and community participation in local governments will be of interest to local governments in their efforts to minimize the use of the initiative process. The Commission shall remain in existence until January 1, 2000, unless a statute, enacted before that date, deletes or extends the Commission's existence.

3. AB 2007 (Torlakson – amended 4-29-98) This bill would create the Local Government Streamlining, Efficiency, and Mandate Relief Account within the General Fund to be administered by the Governor's Office of Planning and Research (OPR). The bill

appropriates \$2million from the General Fund to the account. The account must be used for local government streamlining and efficiency studies resulting in local government collaboration, including, but not limited to, consolidations, annexations, joint powers authorities and shared administration between agencies.

The bill requires that OPR convene a nine-member panel to develop guidelines for distribution of the funds. Five members would be appointed by the Governor, two by the Speaker of the Assembly, and two by the President pro Temp of the Senate. The panel may allocate up to \$500,000 of the appropriation for a regional planning pilot project that must include the development of a comprehensive template or instructional guide that may be used by other agencies or commissions for regional planning and collaboration projects.

Assembly committee background material indicates that proposals to reduce the number of units of local governments for greater efficiency has sparked increased interest in the role and funding of LAFCOs. It states that most of the frustration over local agency boundary changes has centered around the inability to fund fiscal and economic feasibility studies with respect to consolidations and other reorganizations. Accordingly, the bill provides for state funding for studies that would result in local government collaboration, such as consolidations, annexations and shared administration between agencies.

Study of California Counties

The following bill would require the Little Hoover Commission to conduct a study of California counties to determine their capabilities and efficiency.

1. SB 2022(Knight – amended 5-12-98) This bill would require the Little Hoover Commission to conduct a study to determine the capability and efficiency of service delivery by counties. The study shall consider how California's current county boundaries are affected by demography, civic identity, land use planning, public finance, rural and urban economics, and state or federal legal mandates. The Commission would make recommendations to increase the capability and efficiency of service delivery by the counties. A report on the study would be submitted to the Legislature on or before July 1, 2000. The provisions of the bill remain in effect only until January 1, 2001 unless a statute that is enacted before that date deletes or extends the date.

***VII. LAO REPORT - WHY COUNTY REVENUES VARY: STATE LAWS AND LOCAL CONDITIONS AFFECTING COUNTY FINANCE.*⁸**

The LAO report provides a detailed look at the group of revenues that counties depend on extensively, their general purpose revenues. The report reviews the 1996-97 data for the five largest sources of county general purpose revenues, and explains how much money each county gets, and why. The revenues reviewed are the property tax, two sales taxes (Proposition 172 and Bradley-Burns), vehicle license fees, and trial court subventions.

The LAO data illustrates a wide variation in county per capita revenue. The LAO identifies three factors that explain most of the variation in revenue among counties:

- a) **Taxation decisions of a generation ago.** Differences in their 1970's property tax shares are noted as the most important factor explaining differences in revenues for Los Angeles, San Diego and Orange Counties which receive \$126, \$81 and \$40 per capita respectively.
- b) **Amount, value, type and location of property developments.** Counties tend to receive more general purpose revenues if they have high value property development, particularly retail development, in their unincorporated areas.
- c) **Income of residents.** Counties with higher income residents receive more revenue due to counties' reliance upon a local tax structure influenced by the wealth of its residents. The LAO also notes, however, that for most counties, program costs appear to be inversely related with wealth. Counties spend much of their general purpose revenues on criminal justice and poverty programs, and the demand for these programs tend to be lower among wealthier counties.

The following table compares Los Angeles with the statewide average in each of the revenue categories. The LAO grouped the VLF and Trial Court Subventions for comparison purposes.

General Purpose Revenues Per Capita		
	Los Angeles County	Statewide Average
1. Property Tax	\$126	\$106
2. Vehicle License Fee & Trial Court Subventions	69	64
3. Sales Tax (Proposition 172)	44	49
4. Sales Tax (Bradley-Burns)	2.5	14

When the revenues are grouped, Los Angeles receives about \$241 per capita compared to the statewide average of about \$233.

The LAO report is relevant to the discussion of the state-local relationship because as the LAO notes, these revenues serve as the counties' fiscal foundation. Virtually no county responsibility can be fulfilled without an expenditure of general purpose revenues, either as the main funding source or as a local match for state and/or federal funds. The bills and proposals referenced in this report propose some change in all of these general purpose revenues except the trial court subventions.

Because of the reasons given by the LAO for the variations in revenue, with the exception of the one-half cent sales tax available to the County, it is generally not possible for the County to take action which will increase these general purpose revenues. This emphasizes the importance of the

various bills, projects and proposals related to local government finance referenced in this report.

VIII. LAO REPORT - CALIFORNIA COUNTIES: A LOOK AT PROGRAM PERFORMANCE

This is the Legislative Analyst's first report⁹ on the performance of California counties and it addresses four program areas: children's programs, social services and health, criminal justice, and roads and libraries. The report acknowledges the shortage of information available on county programs but gives a snapshot view of performance. Outcome data was not available for all programs. The study used information on key inputs that were believed to be associated with program success. No information was provided on programs for which satisfactory information was not available on outcomes or inputs. These programs were mental health, adult protection and public health.

For the programs reviewed, the County ranked low in three areas; the percent of county maintained roads in poor condition; collection of child support, and the rate of failure to appear by criminal defendants after being released from custody. The report was reviewed by the Chief Administrative Officer and the affected departments and a report was submitted to the Board of Supervisors. Therefore, there is no discussion of the program data in this report.

The report's conclusions regarding differences in program performance should be noted. Three theories were developed to explain why some counties might perform better than others.

- a) Counties with higher per capita general purpose revenues might perform better.
- b) Counties with a greater percentage of high income residents might perform better.
- c) Counties with a smaller proportion of residents needing services might perform better.

Two counties which ranked highest in the report, San Mateo and Santa Clara, and two counties which ranked highly, Marin and San Francisco, are the state's counties with the wealthiest residents. Three of the counties (San Mateo, Santa Clara and Marin) have relatively low social service and criminal justice program caseloads. Three counties (San Mateo, Marin and San Francisco) reportedly have higher than average per capita general purpose revenues. Beyond these four wealthy counties, the LAO found that the relationship between county performance and resident income, per capita income and caseload became much less clear. The LAO found only one measure in which program performance correlated positively with income or county revenues - library circulation.

The LAO study did not find correlation across the board between program performance and the amount of a county's general purpose revenues. One can argue from a common sense perspective, however, that taxpayers will benefit from receiving more of the discretionary services that are available only with these revenues. Therefore, the County will continue to pursue its position supporting the return of property tax revenue and opposing any reduction in VLF revenue unless there is replacement revenue that is constitutionally protected.

**IX. LOS ANGELES COUNTY CITIZENS ECONOMY AND EFFICIENCY COMMISSION
– LITTLE HOOVER COMMISSION: STUDY OF STATE-LOCAL RELATIONSHIP**

The Chair of the Economy and Efficiency Commission has proposed to the Little Hoover Commission that the two organizations undertake a joint review of the California state-local relationship. The review would reflect current circumstances, existing legislation, program management structure, funding status, and current fiscal reform proposals of the various organizations.

The proposal suggests that since most former studies have focused on the collection and distribution of revenue, the joint review would be expanded to consider questions of program operations and how they are provided and funded. This approach would recognize that evaluation of revenue impacts only considers the "supply" side of the issue without regard to the "demand" side. The intent would be to in effect make the study an extension of the LAO's February 1993 study, "Making Government Make Sense." The end product of the study would include specific recommended state and local actions. The stated advantage of the joint review is the unique state and local government perspective that each could contribute. If there is a collaborative effort of these two organizations, there will be coordination with the Little Hoover Commission study of California counties, assuming passage of the legislation, SB 2022..

X. CONCLUSIONS

After a review of the Economy and Efficiency Commission's recommendations and the various projects, proposals and legislation related to state-local issues and local government finance, the following conclusions have been drawn:

- a) The seventeen recommendations in the Economy and Efficiency report cover most aspects of the state-local relationship. A draft work plan to implement the recommendations identified the need for many high level staff resources; resources then required for the annual budget process, precipitating the need to defer action.
- b) Some objectives of the Commission's recommendations have been overtaken by the events summarized above. For example, developing a Governmental Services Plan addressing efficient, accountable and less costly service delivery, would be accomplished under the provisions of pending legislation, AB 2368.

- c) At the Joint Senate-Assembly Field Hearing on the state-local fiscal relationship, hosted by the Metropolitan Forum Project, community leaders from nine regions of metropolitan Los Angeles recognized the need for cooperation among local governments in resolving common problems.
- d) If AB 2368 becomes law, cooperation of the many jurisdictions in the Los Angeles region will be essential in reallocating general purpose revenues and determining how services are provided and funded; Los Angeles County could capitalize on the groundwork for inter-jurisdictional cooperation that has been laid by the community leaders of the nine sub-regional areas involved in the Metropolitan Forum Project.
- e) The proposed study (SB2022) of California counties by the Little Hoover Commission would also address counties' capabilities and efficiency in service delivery; the proposed collaborative effort of the Little Hoover Commission and the Economy and Efficiency Commission would address program operations and how they are provided and funded.
- f) The five pending bills for repealing or abolishing the VLF, three of which provide for no replacement revenue, emphasize that, although the allocation of this revenue to cities and counties is constitutionally guaranteed, the amount available for allocation is essentially subject to legislative change on a year by year basis.
- g) Although counties have experienced fiscal relief from Trial Court Funding and welfare reform, the proposals for changing the VLF emphasize the need for continued pressure on the legislature to reverse the property tax shift.
- h) It is in the County's interest to maintain liaison with the California Governance Consensus Project since its objectives encompass the state-local relationship and local government finance issues that are of concern to the counties.
- i) The SANDAG proposal assumes that local governments in the region will join together to properly allocate resources and responsibilities through an "Areawide Agreement" but does not acknowledge the inequity to the counties resulting from the property tax shift to the schools nor does it indicate how this will be addressed in the future.

The County's fiscal condition has been improved by the Trial Court Funding Subventions and the effects of welfare reform. It is noted that the County's flexible costs, those costs funded with general purpose revenues, increased from 3.3 percent of the final adopted 1997-98 budget to 4.0 percent in proposed budget for 1998-99. Stated another way, the flexible costs proposed for 1998-99 are approximately 27 percent greater than those adopted for 1997-98.

In summary, it is believed that the County's best interests will be served by deferring action on the

Economy and Efficiency Commission's recommendations and instead focus on influencing the outcome of the projects, legislation and proposals summarized above. This will be in conjunction with pursuing the actions outlined in the following section.

XI. PLANNED ACTIONS FOR CONTINUING EFFORTS TO IMPROVE THE STATE-LOCAL RELATIONSHIP AND LOCAL GOVERNMENT FINANCE

Deferring implementation of the Economy and Efficiency Commission's recommendations does not mean that the County will pay less attention to concerns regarding its relationship with the state and the condition of local government finance. County staff will continue efforts to improve the state-local relationship and local government finance consistent with the Board of Supervisors actions of January 20, 1998, at which time the Board approved specific policies and goals covering the County's key issues.

Following are some of the Board approved goals and policies that relate to a project, proposal or legislation discussed above:

- a) Oppose any further erosion of the County's property tax, sales tax or vehicle license fee revenue base.
- b) Support legislative efforts to distribute growth in sales tax revenues on a per capita or other basis that acknowledges responsibilities of counties and their disproportionate losses under the property tax shifts.
- c) Continue to support measures that would return property tax to local government, but be prepared to participate in discussions on alternative assistance and be supportive of such measures to the extent that they allocate relief in a manner which is reflective of the County's proportionate share of the ERAF property tax loss, and with preference given to discretionary funding.
- d) Oppose any measure that would earmark or otherwise encumber the discretionary revenues made available to counties through the enactment of AB 233, Trial Court Funding.
- e) Support restructuring of state and local programs only if they follow rational principles, including:
 1. Restructuring should promote program effectiveness and program cost containment.
 2. Restructuring should recognize the limitations to county fiscal capacity by not transferring programs without sufficient revenues, both in the first year and in future years.

3. Restructuring should create a nexus between authority, responsibility, accountability and revenues.
 4. Restructuring should not be limited to the relationship between the state and the counties.
- f) Oppose program shifts which are not accompanied by revenues sufficient to cover current and future costs.
 - g) Oppose program shifts to counties when control over those programs remains outside of County control.
 - h) Oppose program shifts to counties when costs of those programs are offset by unproven savings estimates for mandate relief.
 - i) Oppose new unfunded mandates.

The Chief Administrative Office will ensure ongoing liaison with the following:

- a) the Metropolitan Forum Project and the effort of the nine sub-regional areas involved in the Project,
- b) the California Governance Consensus Project,
- c) the Commission on Local Governance for the 21st Century (AB1484),
- d) the Little Hoover Commission and the study of California counties, subject to the passage of SB 2022, and
- e) the Economy and Efficiency Commission collaborative effort with the Little Hoover Commission on a joint review of the state-local relationship.

Endnotes

1. *"Final Report and Recommendations to the Governor and the Legislature"*, California Constitutional Revision Commission, 1996 (Since the California Constitutional Revision Commission no longer exists, information on the future activity on the Commission's recommendations can be obtained from the Forum on Government Reform, PO Box 22550, Sacramento, CA 95822.)
2. *"Review of the Relationship between Los Angeles County and State Government"*, The Los Angeles County Citizens' Economy and Efficiency Commission, February, 1997.
3. The Metropolitan Forum Project. *Quarterly Document Update -- Metro Los Angeles --State of California Legislative Field Hearing results & Briefing Materials on State-Local Finance*. May 1998
4. Connor, James W. Project Director. *The California Governance Consensus Project*. May 8, 1998
5. San Diego Association of Governments (SANDAG). *A Proposal for State-Local Fiscal Reform in California -- Proposed Constitutional Amendment: Local Taxpayer Protection & Fiscal Stability Act*. March 1998
6. The Metropolitan Forum Project. Section 3
7. Hill, Elizabeth. California State Legislative Analyst. *An Overview of the 1998-99 May Revision*. pp. 6-9. Legislative Analysts Office, Sacramento CA, May 18, 1998
8. Hill, Elizabeth. California State Legislative Analyst. *Why County Revenues Vary: State Laws and Local Conditions Affecting County Finance*. May 1998
9. _____. *California Counties: A look at Program Performance*. May 1998



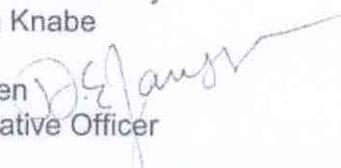
County of Los Angeles
CHIEF ADMINISTRATIVE OFFICE

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DAVID E. JANSSEN
Chief Administrative Officer

March 9, 2000

To: Supervisor Gloria Molina, Chair
Supervisor Michael D. Antonovich, Chair Pro Tem
Supervisor Yvonne Brathwaite Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

From: David E. Janssen 
Chief Administrative Officer

Board of Supervisors

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First District

YVONNE BRATHWAITE BURKE
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**PUBLIC POLICY INSTITUTE OF CALIFORNIA (PPIC) REPORT – “RISKY BUSINESS:
PROVIDING LOCAL SERVICES IN LOS ANGELES COUNTY”**

On February 29, 2000, on motion of Supervisor Antonovich, the Board instructed this office to report back to the Board with a response to the above-referenced draft PPIC study, prepared by Professor Mark Baldassare, that addresses Los Angeles County's financial situation, future liabilities, and the fiscal relationships between the Federal, State and local governments which threaten County solvency.

In a related matter, on April 8, 1997, the Board approved the Citizens Economy and Efficiency (E&E) Commission's report on recommendations made by the California Constitution Revision Commission addressing local government structure and operations. The E&E Commission report also included recommendations on how to initiate actions to improve State and local government relations. This office was instructed to chair a Governmental Structure Task Force to conduct an internal review of County structure, operations and responsibilities. While formative efforts were pursued toward development of the task force, and I provided a July 9, 1998 interim report to the Board on the matter, we believe the E&E Commission's issues are addressed in the PPIC study and through the efforts outlined in this report.

As further discussed below, our response can be summarized as follows:

- The PPIC study provides useful and compelling data to illustrate what I have often referred to as the “dysfunctional” relationship between State and local government, including the growing service demands placed on local government without accompanying revenues – or revenue-raising authority – to help meet these demands.

PPIC

- The County is actively engaged in addressing these inequities both through its own legislative advocacy and in collaboration with other efforts including those coordinated by the California State Association of Counties (CSAC), the Speaker's Commission on State and Local Government Finance, and the State Controller's State Municipal Advisory Reform Team (SMART) effort.
- While our health services system continues to reflect a structural shortfall, our restructuring efforts, including re-engineering, State and Federal legislative advocacy and the Medicaid Demonstration Project, show promise for greater efficiencies and long-term sustainability.
- While media reports have focused on the report's purported warning of potential County *bankruptcy* in the event of another recession, the report only makes passing, hypothetical reference to "*near bankruptcy*." More importantly, the County has been taking advantage of our improved fiscal standing over the recent past specifically to engage in long-term planning to ensure our fiscal solvency when inevitable economic downturns occur. A fundamental effort in this regard is the County's strategic planning and management process – key initial elements of which the Board has recently adopted.

PPIC Study Provides Useful Backup Information

The draft PPIC report provides useful and compelling data that supports many of the issues and concerns that the County has expressed over the last several years in terms of meeting the demands of public service. The study recognizes the funding constraints faced by the County as a consequence of historical governmental structure and further legislation that has placed the State in the dominant role. A case in point is the loss of nearly one-half of the local property tax to the State, a primary County source of discretionary revenue. Furthermore, the report confirms the dependency of the County on State and Federal revenue for mandated programs which are oftentimes not sufficiently financed to meet the service need in the County.

In addition to the fiscal strains, the study cites organizational stresses. The size of County government and the large number of local governments as well as the complexity of State revenues and local expenditures leads to confusion as to accountability for local services.

Key Efforts Are Underway to Address State/Local Relationship

The report concludes that the fiscal and organizational strains make long-term planning difficult, however there are many efforts underway to prevent the likelihood of another fiscal crisis alluded to in the study. There is a growing surplus in the State Budget coupled with a widespread focus on reforming State and local relationships. CSAC, the Speaker's Commission on State and Local Government Finance, and the Controller's SMART effort have issued reports focusing on several fiscal and accountability issues.

Fiscal issues that CSAC, SMART, and the Speaker's Commission are addressing include the return of the Educational Revenue Augmentation Fund (ERAF) property tax to counties and sales tax reallocation. In terms of accountability, a "compact model" (partnership) is proposed that would spell out roles, responsibilities, duties, work programs, finances, community outcomes, performance indicators, and evaluation systems that would govern each State and county partnership program.

The CSAC proposal, sponsored by Senator Dede Alpert (SB 1982), establishes a cabinet-level appointed position of the Secretary of Local Government Relations to act as a liaison between local governments and the administration. This position would administer the compact partnerships cited above. The bill also specifies new allocation requirements on sales tax growth, proposing pooling of taxes for distribution to jurisdictions according to a specified formula. Other provisions include the authorization for counties to levy taxes on a countywide basis and requirements for the State to pay the schools' share of property tax administration costs.

On an ongoing basis, counties have collectively pursued greater financial stability through legislation and litigation that would return a significant portion of the property taxes diverted to schools.

Additionally, the Board of Supervisors adopted State legislative policies for 1999-00 that addressed the State and County relationship by supporting restructuring to:

- Promote program effectiveness and program cost containment;
- Recognize the limitations of County fiscal capacity by transferring programs with sufficient revenues, both in the first year and in future years;
- Create a nexus between authority, responsibility, accountability and revenues; and
- Reform relationships with agencies beyond the State and counties.

Further, the Board policy supports:

- Restructuring demonstration or pilot projects in various program areas;
- Program shifts to counties only when control over those programs remains inside of the County; and
- Program shifts to counties when costs of those programs are offset by verifiable savings estimates for mandate relief.

Health Services System Challenges Are Being Addressed

However, as widely acknowledged, the health system still has a significant, yet reduced, structural shortfall that is being addressed, in part, through Department of Health Services (DHS) re-engineering efforts, resulting in savings of approximately \$70 million. DHS advocacy also contributed to permanent 175 percent Omnibus Budget Reconciliation Act '93 (OBRA) Disproportionate Share Hospital (DSH) cap relief. This relief provides DHS with the capability of retaining additional revenues it may obtain. Accordingly, DHS has requested SB 1255 funding for 1999-00 which would fully maximize the \$130 million in additional room under the DSH cap for this fiscal year.

Finally, discussions are underway between the County, State, and the Federal Health Care Financing Administration in conjunction with the County's Medicaid Demonstration Project (Project) extension request, which seek a solution(s) (i.e., administrative, or legislative, etc.) to the Department's current long-term structural shortfall, including the potential for eventual discontinuance of the Project.

Strategic Planning and Management Efforts Bolster Long-Term Fiscal Solvency

The report also indicates that the 1995-96 County budget was close to bankruptcy and that, without the Federal waiver, a potential DHS deficit of \$300 million could again place the County in a position of near-bankruptcy. The Board of Supervisors has never contemplated bankruptcy. Had the waiver not been effected, the Board had alternatives available, albeit harsh and unpalatable, which it would have pursued to avoid financial default. If the Board was faced with a similar situation in the future, it would be capable of collaboratively planning a fiscal solution that would avoid bankruptcy.

Each Supervisor
March 9, 2000
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But, importantly, we believe the fiscal prudence and strategic planning efforts undertaken by the County in recent years, when the County's budget picture has somewhat improved, will help avoid the need to make such hard, devastating choices. This County has taken dramatic steps toward long-term fiscal solvency including the LACERA buy-down and clearer identification of one-time-only budget expenditures. Moreover, in November 1999, the Board adopted a County Vision Statement and organizational goals that confirm a commitment to organizational effectiveness and fiscal responsibility. Many of the specific tasks which will be undertaken in concert with the Vision and the goals are fully consistent with suggestions in the PPIC report, including expanded public/private partnerships and cross functional/jurisdictional collaborative efforts.

In summary, we are actively engaged in addressing the County's fiscal and organizational issues, and the PPIC report will prove a useful tool to underscore the nature of the problems. Further consideration of the remedial options offered in the report will be undertaken consistent with our individual and collaborative efforts as outlined above; we will keep the Board appropriately apprized of these efforts.

Please let me know if you need any additional information.

DEJ: MKZ
DSP:bjjs

c: Executive Officer, Board of Supervisors
County Counsel
Auditor-Controller
Director of Health Services
Executive Director, E&E Commission