

May 28, 2009

May Revision Overview: Local Government

L E G I S L A T I V E A N A L Y S T ' S O F F I C E

Presented to:
Budget Conference Committee



Special Districts

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- Non-Enterprise Districts.** These districts provide fire, park and recreation, flood control, mosquito abatement, and other services. In 2006-07, these districts' operating revenues totaled \$13.6 billion. About a quarter of this amount (\$3.3 billion) came from the 1 percent property tax.
- Enterprise Districts.** These districts include water utility, waste disposal, electric, harbor and port, and hospital districts. In 2006-07, these district's revenues totaled \$37.6 billion. Most of these revenues came from user charges. Less than 3 percent of the revenues (about \$1 billion) came from the 1 percent property tax rate.
- May Revision.** The administration proposes to suspend Proposition 1A (2004) and shift to K-14 education in 2009-10 8 percent of the property taxes received by each special district, city, and county. The state would repay this amount (almost \$2 billion), including interest, in three years.
 - **Amount of Shift.** The administration estimates that special districts would shift \$330 million.
 - **Related Action in 2004-05 and 2005-06.** The state shifted \$350 million of special district property taxes to K-14 education during 2004-05 and 2005-06. Specifically, enterprise districts shifted 40 percent of their property taxes and non-enterprise districts shifted up to 10 percent. No district shifted a sum exceeding 10 percent of its total revenues. (Prior to passage of Proposition 1A, the state could shift property taxes for more than one year and not provide for repayment.)

Cities

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- ☑ **Variation Among California's 480 Cities.** Older, more populous cities tend to be “full service” cities, responsible for providing fire, police, library, and park and recreation services. Smaller, newer cities frequently rely on other local agencies to provide some (or all) of these services.
- ☑ **2006-07 Financial Data.** Cities received \$19.4 billion of general-purpose revenues, including \$4.3 billion in property taxes. (Cities also received \$35.6 billion from service charges, assessments, and other dedicated sources.)
- ☑ **May Revision.** The administration proposes to suspend Proposition 1A and shift \$692 million from cities.
 - **Related action in 2004-05 and 2005-06.** The state shifted \$350 million of city property taxes in each year. The amount of each city's was determined in proportion to its relative receipt of major tax revenues. No city's amount exceeded 4 percent of its general revenues.

Counties

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- ☑ **Administrative Arms of the State.** Counties administer most of California’s health and social services programs and carry out many criminal justice responsibilities (such as jails, probation, and the district attorney).
- ☑ **2006-07 Financial Data.** Local general-purpose tax revenues comprised \$12.2 billion, including \$10.5 billion from the property tax. Revenues from all sources (including state and federal aid for designated programs) totaled \$54 billion.
- ☑ **May Revision.** The administration’s proposals would have significant direct and indirect effects on counties.
 - **Revenue Reductions.** The administration’s Proposition 1A suspension shifts \$960 million from counties. (In contrast, the 2004 05 and 2005 06 property tax shifts redirected \$350 million from counties.) The May Revision also repeals Williamson Act subventions, \$34.7 million.
 - **Likely Increased Demand for County Indigent Programs.** Because state law makes counties the health care and social service “providers of last resort,” the May Revision’s elimination of support for the California Work Opportunity and Responsibility to Kids, Healthy Families, Cash Assistance Program for Immigrants, and other programs would increase demand for county indigent programs.
 - **Likely Cost Pressure on Other County Programs.** Although the May Revision eliminates General Fund support for Proposition 36 programs, county obligations to provide these drug and alcohol programs continue under Proposition 36. Similarly, the May Revision proposals to change sentencing laws to classify more offences as misdemeanors would increase demand for county jail space.

Redevelopment Agencies

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Most California Cities (and Some Counties) Have Redevelopment Agencies. California has 425 agencies with 745 project areas. Almost 15 percent of the state's property value is under redevelopment.

- In 2006-07, redevelopment agency revenues (excluding bonds and other financing sources) totaled \$5.9 billion, including \$4.6 billion of property taxes.
- Agencies deposited \$1.4 billion of their property tax revenue into Low and Moderate Income Housing Funds, provided nearly \$1 billion to other local agencies, and used the remainder (\$2.2 billion) for redevelopment activities.



May Revision. No proposal.

State Mandates (Excluding Education)

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- Constitutional Reimbursement Requirement.** Every year, the state generally must pay its mandate bills in full—or suspend or repeal the mandate. The 2009-10 budget fully funds over 50 state mandates.

- May Revision.** The May Revision maintains *all* state mandates—and increases mandate funding by \$15 million to cover cost escalations.
 - **Actions in Other Years.** The Legislature and administration previously have acted to modify mandates to reduce or eliminate their costs.

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- Acknowledge Strain Budget Proposals Will Place on Local Finances.** Any budget package will affect local governments—whether by budgetary cuts or payment delays. We recommend that the Legislature acknowledge the impact of the budget solutions on local governments, implement budget solutions in a targeted fashion, and take actions to maximize local flexibility.
 - **Consider Adjusting the Proposition 1A Borrowing Amounts.** The State Constitution does not require that the borrowing be implemented on an across-the-board basis. Instead of borrowing 8 percent from *each* local agency, the state could borrow larger sums from agencies with greater capacity to (1) reduce programs or (2) replace property taxes with fees or other revenues. For example, the state could borrow over a quarter of the total amount from waste and water enterprise districts and borrow less from agencies with less flexibility.

- Revisit Decision to Use Some Vehicle License Fees (VLF) for Local Public Safety.** The Legislature carved out a piece of the VLF increase to protect local public safety programs. These activities are primarily a local responsibility, and the funds are a small part of the resources available for front-line law enforcement. The Legislature could revisit this decision and deposit some of the VLF revenues into the General Fund.

- Suspend or Repeal Mandates.** We recommend the Legislature examine mandates and modify, repeal, or suspend them as appropriate. For example, the Legislature could repeal the animal adoption mandate for ongoing savings of \$25 million.