An LAO Report

Why County Revenues Vary: State Laws and Local Conditions Affecting County Finance

Background

Ever since the state adopted its first constitution, California counties have played a major role in providing services to the state's residents. Despite these significant responsibilities, the way in which counties finance their operations remains a mystery to many.

This report provides a detailed look at a group of revenues that counties depend on extensively—their general purpose revenues. Specifically, this report reviews the five largest sources of county general purpose revenues, and explains how much money each county gets, and why.

LAO Findings

The report finds that:

- ❖ The Legislature controls the allocation of *all* major county general purpose revenues.
- ❖ Orange, Riverside, and San Bernardino Counties receive less than $170 per capita from the five largest sources of county general purpose revenues. Napa, Sonoma, Marin, and many rural counties receive more than $270.
- ❖ Much of the variation in county revenues stems from taxation decisions of a generation ago and the extent of development today. In some cases, the level of county revenues appears to be *inversely* related with local need for county programs.

Conclusion

The Legislature has long acknowledged the need for reforming California's system of county finance. By adopting trial court realignment and welfare reform last year, as well as other recent changes, the Legislature ameliorated some of the funding problems counties face (which were exacerbated by the property tax shift of the early 1990s). Yet, the fundamental dilemma of counties remains: (1) counties have little control over their expenditures or revenues, and (2) county supervisors are elected locally, but have few tools to respond to local preferences.

Ultimately, we believe the Legislature will need to broadly reexamine county government responsibilities and finance. Implementing any changes in these areas will be difficult as they will require trade-offs between multiple policy objectives and interests.

Elizabeth G. Hill
Legislative Analyst

May 7, 1998

INTRODUCTION

Ever since California adopted its first constitution, California counties have played a major role in providing services to the state's residents. For example, California's counties prosecute and incarcerate most felons, supervise most felons released into the community, administer most welfare programs for families, respond to cases of child and elder abuse, maintain most libraries, operate the trial courts, and provide services for people with drug and alcohol addictions and the mentally ill.

Despite the significant role counties play, the way in which counties finance their programs remains largely unknown. This limited information is unfortunate, because it impedes a citizen's and policymaker's ability to influence the scope and scale of county programs, and to understand the constraints on county budgets. In addition, the information limitations impede Californians' ability to evaluate the state's overall system of county finance.

This report provides a detailed look at a group of revenues that counties rely on extensively, namely their "general purpose revenues" or money counties use for program purposes of their own choosing. Although total county general purpose revenues are smaller than the revenues counties receive from the state and federal governments for specific programs, this report focuses its attention on county general purpose revenues because they serve as each county's fiscal foundation. Simply put, virtually no county responsibility can be fulfilled without an expenditure of general purpose revenues, either as the main funding source or as some of the local "match" for state and/or federal funds. In addition, in many cases, a county's capacity to expand a program's operations—such as programs to respond to child abuse, help people with drug or alcohol addictions, or work with troubled youths—ultimately depends on the county's ability to access additional general purpose revenues.

This report begins with a brief overview of county use of general purpose revenues and county differences, and then explains how much general purpose revenue each county receives from these sources—and why. The report concludes with observations regarding the variations in county revenues.

WHAT ARE GENERAL PURPOSE REVENUES AND HOW DO COUNTIES USE THEM?

Five principal revenue sources—each under the Legislature's control—make-up most of the county fiscal foundation: property taxes, two sales taxes, vehicle license fees, and trial court subventions. Together, as Figure 1 shows, these revenues total $7.5 billion, or $233 per California resident. The amount of general purpose revenue any county receives from these sources, however, varies tremendously due to state laws and local conditions, as will be discussed in this report.

How do counties spend general purpose revenues? California counties are all responsible for providing three basic types of services to their residents:

- Municipal services to people in the unincorporated areas.
- State and federal social service and health programs.
- County services to all residents.

Each category of services requires some county general purpose revenues.

Municipal Services in Unincorporated Areas

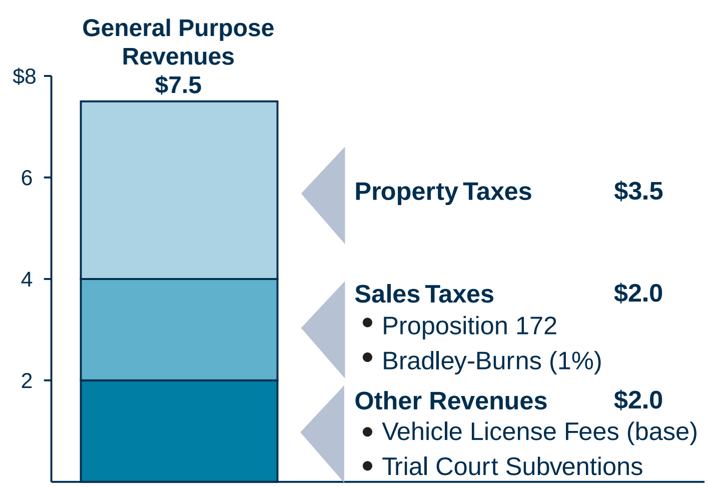
Statewide, 7.1 million people (22 percent of the state's population) live *outside* a city's boundaries, or in an area that is both a city and a county (San Francisco). In these cases, counties are responsible for providing "municipal" services to the residents and businesses. These services typically include sheriff patrol and land use planning, and may include fire protection, libraries, water, sewer, refuse collection, park and recreation services (if these services are not provided by a special district or through the private sector).

Although counties typically offset some of their costs to provide municipal services with user fees, some programs—such as sheriff patrol—are not

Figure 1

Major General Purpose County Revenues Controlled by the State

1996-97
(In Billions)



amenable to user fee financing. In these cases, counties pay for the cost of the municipal program with general purpose revenues. Statewide, counties spend over $1 billion of their general purpose revenues providing municipal services to people and businesses.

State and Federal Social Service And Health Programs

Counties administer many social service and health programs on behalf of the state and federal governments. These programs include cash aid to families with children (CalWORKs, or California Work Opportunity and Responsibility to Kids), Food Stamps, foster care, and In-Home Supportive Services. Typically, the state or federal government makes most of the key policy decisions regarding these programs and pays most program costs. Counties, however, are responsible for administering these programs and paying a share of the programs' costs. Counties, statewide, spend $1 billion to $1.5 billion of their general purpose revenues for this purpose.

County Services to All Residents

The Constitution and state law assign counties many responsibilities for providing services to all county residents. These area-wide programs include: prosecuting criminals, jailing offenders, supervising criminals released into the community, operating the trial courts, administering elections, collecting the property tax, and aiding the indigent who are ineligible for state or federal assistance. While counties operate these programs pursuant to state and federal restrictions and requirements, we classify these programs as "county services" because counties generally have much greater responsibility and authority over these programs than the state and federal programs described above.

Counties use their general purpose revenues to pay for a large share of these programs. In some cases, however, the state provides fiscal assistance, or has authorized counties to transfer some program costs to cities. (For example, the state authorized counties to offset some of their jail costs by charging fees to cities to book people arrested into county jail—Chapter 466, Statutes of 1990 [SB 2557, Maddy]). Statewide, counties devote more general purpose revenue to these area-wide programs than for the two other sets of program responsibilities combined—or about $5 billion of their general purpose revenues from property taxes, sales taxes, vehicle license fees, and trial court subventions.

DIFFICULTIES IN COMPARING COUNTY REVENUES

The primary purpose of this report is to examine and explain differences in county general purpose revenues. In order to have a common base from which to review county revenues, this report displays each county's revenues on a "per capita" basis. That is, revenues from each source is divided by the county's population of year-round residents. We chose this approach because it helps illustrate the factors underlying the allocation of revenues across counties of different size and across economic regions. (For a description of the regions referred to in this report, please see Figure 2.)

Notwithstanding the above, any county analysis undertaken on a per capita basis has significant limitations. For example, as we discuss in Figure 3:

- Some counties attract many commuters, visitors, and seasonal residents. These counties are likely to face greater demand for services than their number of year-round, nighttime residents would suggest.

- Poverty is not constant throughout California. Counties with a greater percentage of families in poverty are likely to have higher costs to administer social service and health programs.

- Counties differ in crime rates. All else constant, a county with a higher crime rate will have higher criminal justice system costs.

- Counties differ in terms of the extent of city incorporation. Counties where few residents live in a city face additional costs to provide municipal services to these residents.

- Residents of some counties are more willing to approve taxes to supplement these five sources of general purpose revenues.

For these reasons, readers are therefore cautioned *not* to conclude that one county is "better off" than another simply because it receives somewhat higher revenues. A higher level of revenues may reflect only a county's additional municipal or other program obligations. (The report's appendix provides information about differences in county responsibilities and populations.) Finally, we recommend readers review data for counties with very small, often seasonal, populations (such as Alpine, Sierra, and Mono Counties) and counties with unusually large "daytime" populations (such as San Francisco) separately from the rest of the counties. In these cases, an analysis based on the number of year-round nighttime residents (the basis for the per capita numbers) significantly understates the population served.

Figure 2

Nine California Regions

Source: Center for the Continuing Study of the California Economy.

Figure 3

Counties Are Not All the Same

Some Counties Have Greater Municipal Responsibilities

County obligations to provide sheriff patrol, fire, and other "municipal" services varies markedly. In the Los Angeles Basin region, 88 percent of the people live in cities which provide police services, or contract for these services. As a result, counties in this region pay for sheriff services for only 12 percent of their residents. In contrast, Bay Area region counties pay for sheriff services for 23 percent of their residents, and Mountain region counties, 74 percent. Similarly, some counties pay for fire services for most (or all) their residents, while other counties rely upon special districts or cities to provide fire services.

Different Populations Pose Different Needs For Services

Many county area-wide services pertain to poverty and crime, but the rate of poverty and crime is not constant throughout the state. For example, residents of Marin, on average, have nearly *three* times the income of Yuba, and the crime rate in Fresno and Sacramento is about *three* times that of San Mateo, Marin, Napa, and many rural counties. Overall, counties where people are wealthier and the crime rate is lower—such as Marin, San Mateo, Napa, and Santa Clara—probably face a lower demand for many services than counties with greater numbers of people in poverty and a higher crime rate—such as Los Angeles, Sacramento, Riverside, Fresno, and San Bernardino.

Some Counties Serve Many NonResidents

Tourists, commuters, and seasonal residents contribute to the county tax base by paying sales and property taxes, but these non residents are *not* counted in the county's population figures. Thus, counties with many tourists, commuters, and seasonal residents are likely to have higher *per capita* revenues, than counties with fewer nonresidents. These higher revenues are needed, in part, to offset the increased costs posed by tourists, commuters, and seasonal residents. For example, nonresidents may commit crimes, need sheriff assistance, fall ill, or own a building needing fire protection. Counties vary greatly with regards to the number of non-residents in their community. For example, because many people have second homes in Alpine County, the number of homes in the county actually *exceeds* its number of permanent residents. Similarly, San Francisco has an unusually high day-time population, because many people commute to the county for outlying areas and there is a high level of tourism.

Counties Have Differing Local Revenue Raising Capacity

Counties typically supplement the revenues discussed in this report with smaller locally controlled general purpose sources. These additional sources include: utility users taxes, hotel taxes, and business taxes (taxes that counties may levy only in their unincorporated areas); payments from redevelopment agencies; and interest earnings. The level of county revenues from these sources varies greatly, depending on local willingness to approve taxes, the extent of city incorporation and development, tourism, and other factors. For example, the City and County of San Francisco receives $94 million in hotel taxes (about $120 per capita), while Orange County (where most developments lie within city boundaries) receives $10,000 (less than a penny per capita). Similarly, while some counties receive modest sums from utility users tax, most counties do not impose this tax. Overall, the counties that have the greatest ability to supplement the five revenue sources discussed in this report have greater capacity to provide services.

THE PROPERTY TAX

Property taxes represent counties' largest source of general purpose revenues. In 1996-97, California landowners paid about $19 billion in property taxes. Counties—on average—received 20 percent of each tax bill, or about $106 per resident. As we discuss below, the amount of property tax revenues any county received varied considerably due to differences in the:

- Property values in the county, or its "tax base."
- Share of the property tax bill allocated to the county.
- Extent of redevelopment.

Property Values Vary

A county's property tax receipts depends, in part, on the taxable value of property in the county. Under Proposition 13, a landowner's base property tax bill is calculated by multiplying the property's "assessed value" by 1 percent. The property's assessed value is generally its purchase price, increased by up to 2 percent per year for inflation. Because the price of homes and businesses and the density of land developments vary throughout the state, each county's property tax base also varies.

Typically, counties where residents have incomes to support high home prices and where many businesses have located have the highest property tax bases. For example, Bay Area counties, have a property tax base of over $70,000 per resident. In addition, some small counties, such as those in the Mountain region, have high property tax bases because of the extent of the tourism business and second-home investments by nonresidents. San Joaquin Valley counties, in contrast, typically have relatively low home prices and are sparsely developed. These counties report a property tax base of less than $44,000 per resident.

County Share of Property Tax Varies

County property tax receipts also vary due to differences in their property tax "share," or the percentage of a landowner's property tax bill that is allocated to the county, instead of the city, special districts, and schools serving the landowner's property. Statewide, the share of a county resident's property tax bill that is allocated to the county varies from less than 20 percent to more than 60 percent.

The history behind the assignment of county property tax shares is very complex, but stems from the Legislature's desire to allocate property taxes in a manner consistent with local choices prior to Proposition 13. Specifically, Proposition 13 transferred the authority to allocate property taxes from local government to the state. To implement this new responsibility, the Legislature developed a property tax allocation system (AB 8, Leroy Greene, Chapter 282, Statutes of 1979) that largely prorates property taxes among local governments within a county in a manner very similar to how property taxes were allocated before Proposition 13. That is, if a county or city got a very small share of countywide property taxes before Proposition 13, it tends to get a very small share today.

In order to provide some relief from the revenue losses caused by Proposition 13, the Legislature also transferred a portion of many school districts' shares of property taxes to cities, special districts, and counties (and offset any school funding losses with increased state school aid). The Legislature also reduced some county health and welfare programs responsibilities. The distribution of this Proposition 13 relief among local governments was done in a manner that reflected the amount of property taxes each local government lost as a result of Proposition 13. Furthermore, the property tax shift of the 1990s was also implemented in a manner that reflected this pre-Proposition 13 fiscal transaction. The net result of all of these changes is that the allocation of property taxes today is quite varied, and is based on decisions of a generation ago. (For a detailed history of these changes, please see our 1996 report: *Property Taxes: Why Some Local Governments Get More than Others*.)

Differences in Reliance Upon Redevelopment

The final major factor affecting county property tax revenues is redevelopment. When a city or county creates a redevelopment project area, the taxable value of property in the redevelopment area is treated differently for purposes of allocating property taxes among local governments. Specifically, the assessed value of the redevelopment area is frozen. Most *increases* in property taxes in the project area are allocated to the redevelopment agency, instead of the other local governments. California communities vary remarkably in the extent to which they use these redevelopment powers. In some rural counties, there are no redevelopment projects. Conversely, in some cities, vast tracts of land are included in a redevelopment project.

Which Counties Get the Most Property Taxes?

As can be seen in Figure 4, the range in county per capita property tax receipts is very large. This large range is evident among the state's 10 most populous counties (shown in dark blue) and small and medium size counties. Which of the three factors above best explains this variation? Our review found that most of this variation reflects (in roughly equal proportions): current property values and taxation decisions of a generation ago. Variation in reliance upon redevelopment explains a much smaller amount of the property tax differences.

Mountain Counties on Top

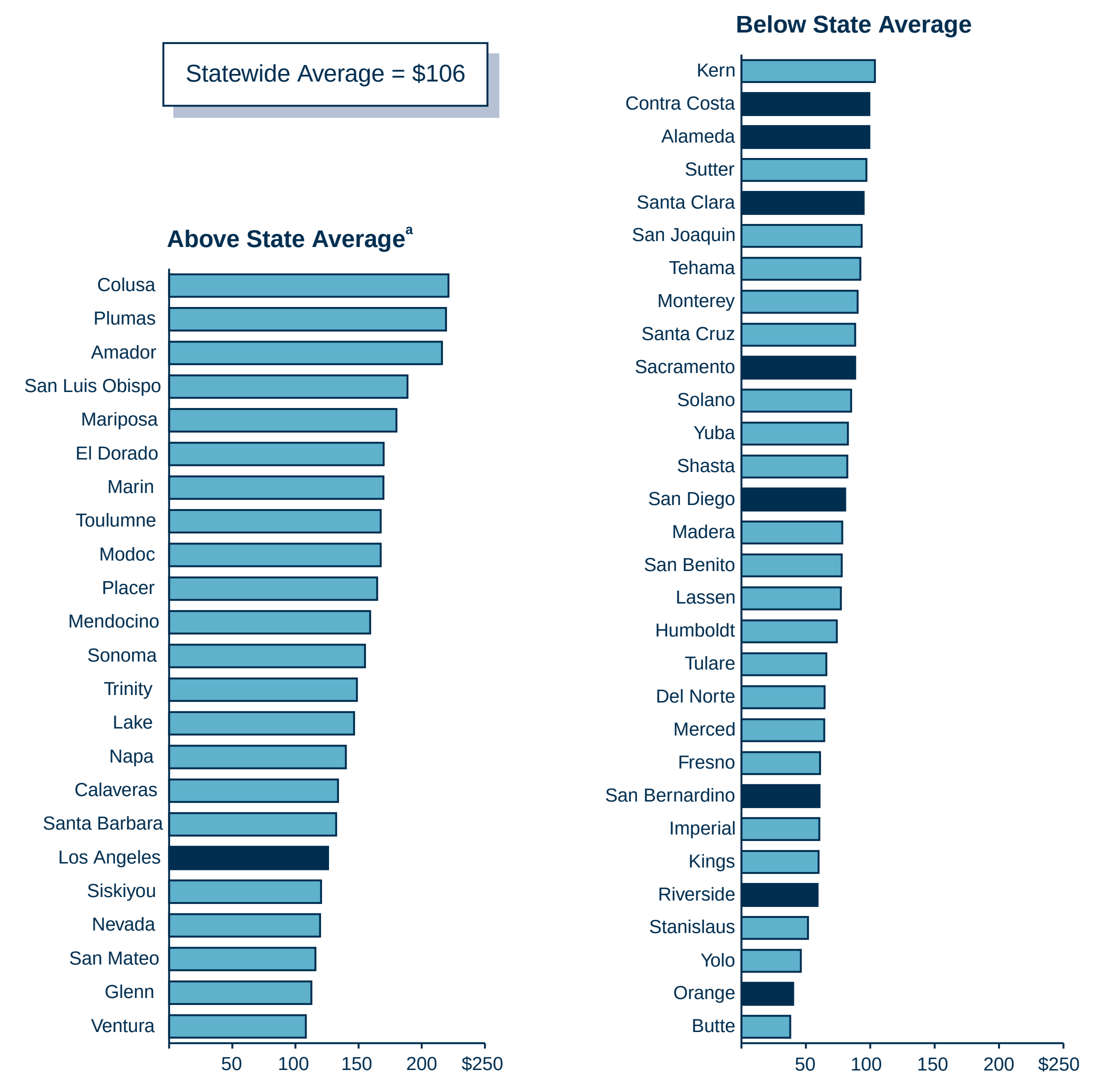
Mountain region counties receive about two-thirds more property taxes per capita than other counties in the state. In general, the high amount is because mountain counties (1) have the highest level of property *values* per year-round resident in the state, (2) continue to receive the large *share* of the property tax they received before Proposition 13, and (3) do not include many redevelopment project areas.

It is important to note that the Mountain region counties' large property tax *share* did not result from a higher tax *rate* before Proposition 13. Rather, the large share resulted from the fact that there were few cities and few children living year-round in the region in the 1970s, and accordingly, the city and school tax rates were unusually *low*. (In Alpine County, for example, the composite property tax rate charged by schools and all local governments was less than 1 percent, *even before*

Figure 4

Property Taxes Per Capita

1996-97



[a] Five counties excluded from this chart: Alpine ($1,167), Sierra ($603), Mono ($595), San Francisco ($457), and Inyo ($373).

Proposition 13.) Overall, then, the Mountain region's high share today reflects their high share over 20 years ago.

Urban Regions: Bay Area Gets the Most

Of all the *urbanized* regions in the state, Bay Area counties receive the highest level of per capita property taxes—$149 per resident. In comparison, LA Basin counties average $98 per capita, the County of San Diego receives $81 per capita, and the Sacramento region averages $101 per capita. In general, the reason Bay Area counties get more property taxes per capita is due to the region's very high property values and somewhat lower use of redevelopment. Contrary to popular belief, the region's high property tax yields are *not* due to their pre-Proposition 13 share of the property tax. In fact, with the exception of San Francisco, each of the Bay Area counties had a pre-Proposition 13 share of the property tax that was *lower* than the state's average, often significantly so.

Riverside: Redevelopment Matters

Cities in the County of Riverside have embarked on ambitious redevelopment projects. Virtually every city in the county operates a redevelopment agency, and the county is home to some of the state's largest redevelopment projects. As discussed earlier, when property values in a redevelopment project area grow (due to new construction or resale of property at higher prices), most of the increase in value goes to the redevelopment agency. In Riverside County, 20 percent of property taxes collected are allocated to redevelopment agencies, far over the state average of 8 percent. While redevelopment activities may promote growth in property values in the project area, a recent study by the Public Policy Institute of California found that counties and other local governments receive significantly lower property taxes when cities create redevelopment projects. That is, the County of Riverside is effectively subsidizing its cities' redevelopment efforts. This subsidy is part of the reason the county's property tax revenues are so low—$59 per resident.

Orange County Taxes Reflect Past Taxation Decisions

Although Orange County's property values exceed the state's average and its reliance upon redevelopment is moderate, the county receives the lowest amount of property taxes per capita of any urban county. Orange County's low property tax revenues ($40 per capita) reflect the continuing influence of taxation decisions of a generation ago.

Specifically, before Proposition 13, Orange County had an unusually low *county* tax rate, while its tax rates for schools, cities, and special districts were about the state average. As a result, in 1977-78, the County of Orange received 17 percent of all property taxes collected in the county—the lowest share of any county in the state. (Los Angeles, in contrast, received 35 percent, and the statewide average was 30 percent.) In addition, while AB 8 directed most county auditors to transfer a small share of the school's property taxes to counties to help offset their losses from Proposition 13, AB 8 directed the Orange County auditor to transfer a small share of the county's property taxes *to the schools*. This reduction to Orange County's share (as well as to Butte and five other rural counties' property tax shares) was done because the value to Orange County of the state's assumption of certain health and welfare costs was large, relative to its Proposition 13 losses, and the state's objective was to provide the *same* level of overall relief to all counties.

SALES TAXES

In addition to property taxes, counties receive almost a third of the revenues generated under the state's uniform 7.25 percent sales tax. Some of these county sales taxes must be spent for *specific* programs, and are not reviewed in this report. The rest of county sales tax revenues—equivalent to a tax rate of 1.5 percent—are available to counties for largely general purposes. We discuss these sales tax revenues below.

Bradley-Burns Sales Tax ($450 Million). Whenever a sale occurs in the *unincorporated* area of a county—or in a jurisdiction that is both a city and county (San Francisco)—the county receives tax revenues equivalent to 1 percent of the sales price. Counties may use these funds for any purpose.

Proposition 172 Sales Tax ($1.6 Billion). Counties also receive tax revenues equal to 0.5 percent of all taxable sales occurring anywhere within their boundaries. Counties must redirect a small portion (less than 10 percent) of these revenues to cities, based on each city's net losses from the 1993-94 property tax shift. While state law requires counties (and cities) to spend these Proposition 172 sales taxes on public safety purposes, local governments were allowed to *redirect* to other purposes monies they previously spent on public safety programs. Local governments were required to increase public safety expenditures annually by the amount of growth in their Proposition 172 revenues. As a result, although Proposition 172 is referred to as the "public safety" sales tax, the predominate effect of enacting this tax in 1993 was to replace some of the discretionary revenues lost due to the property tax shift. It is for this reason we include Proposition 172 monies in our analysis of county general purpose revenues.

Figures 5 and 6, respectively, display each county's per capita revenues from the Proposition 172 and Bradley-Burns sales taxes. As we discuss below, the relative county ranking under these two sales taxes is often very different.

Wealthier Counties Get More Proposition 172 Funds

Generally, the counties with the greatest number of sales per resident occurring within their boundaries are those where:

- Residents have high incomes.
- There are many property developments, such as shopping centers and office developments.

Figure 5

Sales Taxes Per Capita — Proposition 172

1996-97

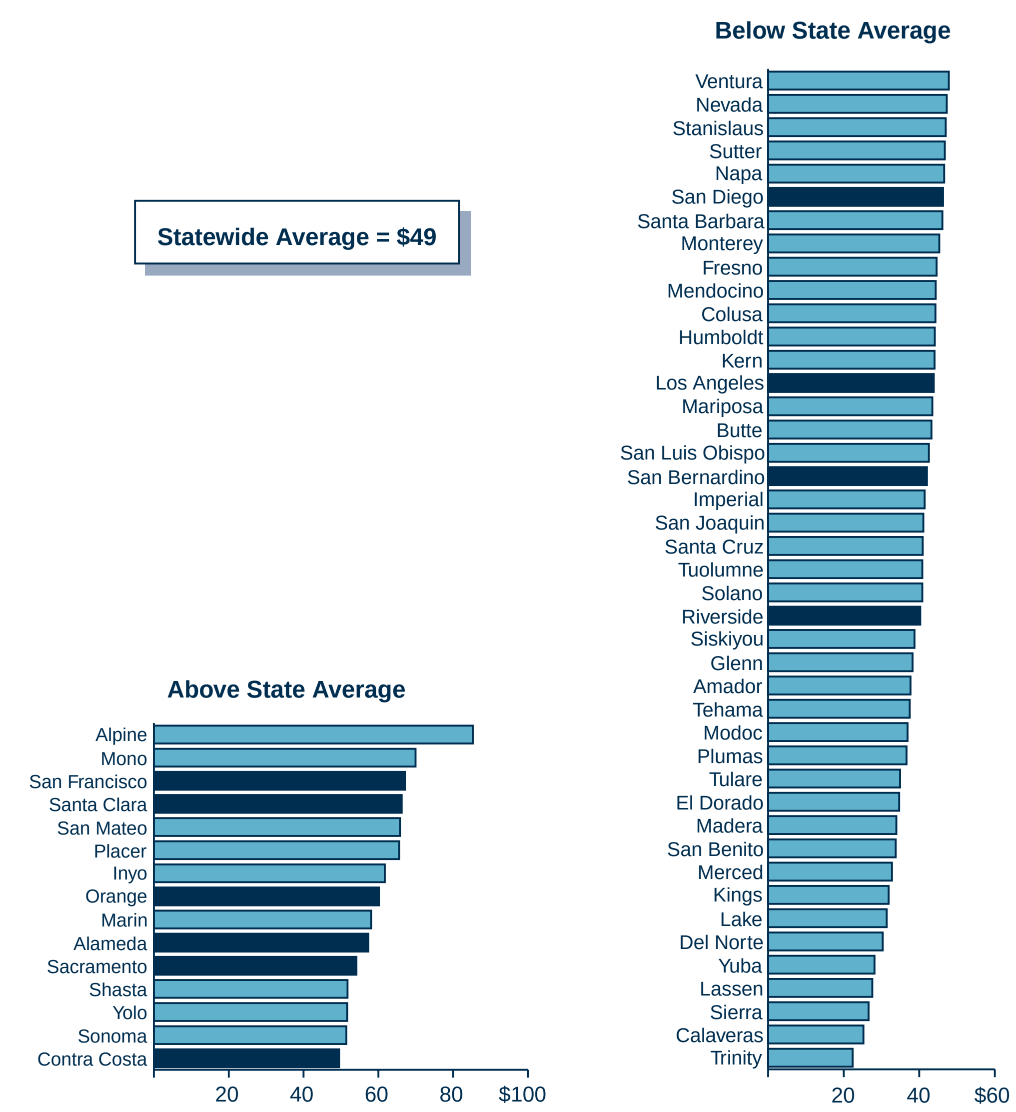
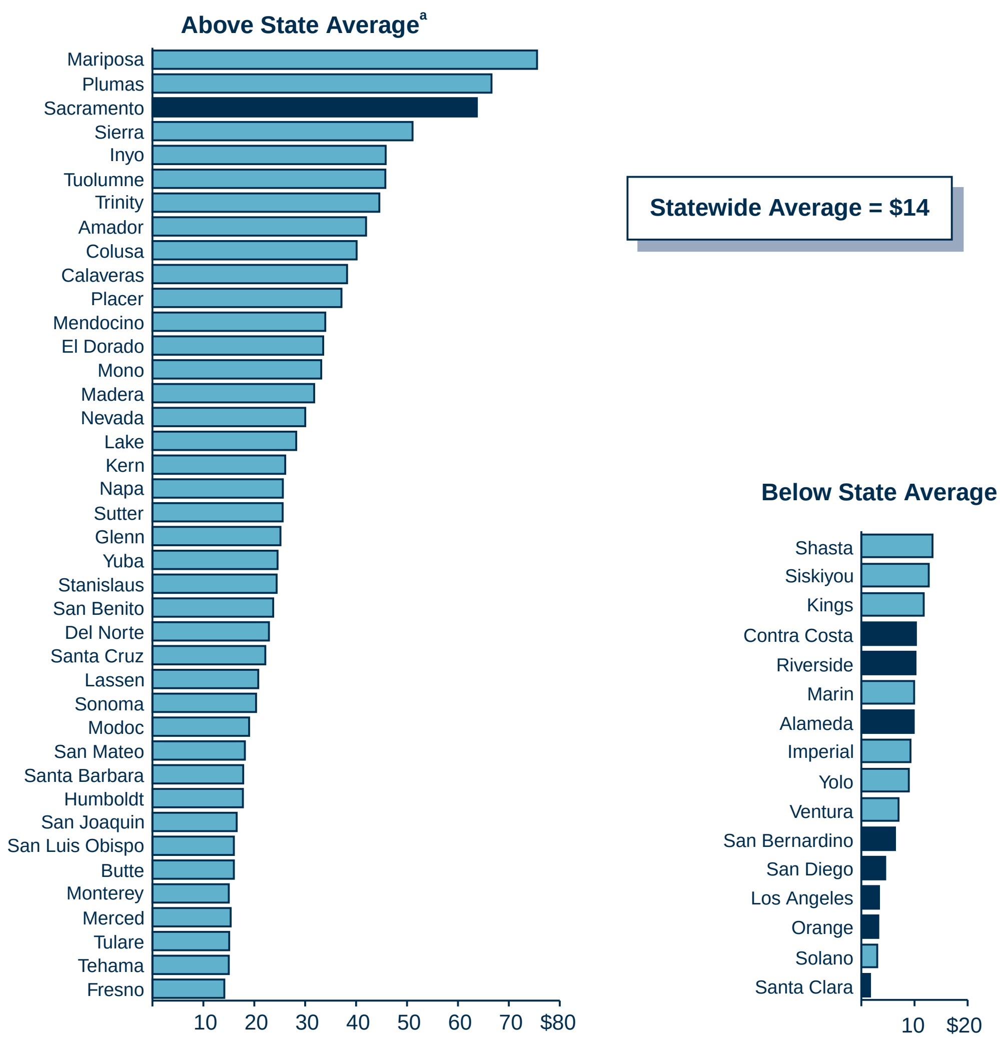


Figure 6

Sales Taxes Per Capita — Bradley-Burns

1996-97



[a] Two counties excluded from this chart: San Francisco = $138, and Alpine = $179.

- The county serves as a regional service center because neighboring counties have fewer property developments.

In California, the counties that best fit this profile are those in the Bay Area, Orange County, and some counties in the Mountain and Sacramento regions.

As Figure 5 shows, Proposition 172 revenues follow this pattern. Specifically, Bay Area counties average $59 per capita, $10 above the statewide average. Residents of Los Angeles and San Diego Counties tend to have somewhat lower incomes; as a result, these counties receive $44 and $46, respectively. Counties receiving the lowest Proposition 172 revenues tend to be the counties where the lowest income Californians live, such as Trinity, Calaveras, Lassen, Yuba, and Del Norte.

Bradley-Burns Taxes Reflects Pattern of Development

The Bradley-Burns tax rate is *twice* that of Proposition 172, but counties *only* receive the revenue if the transaction occurs in their unincorporated area (or, in a city and county). As a result, county Bradley-Burns revenues vary widely. Like Proposition 172 revenues, a county tends to receive more per capita Bradley-Burns revenues if its residents are wealthy and there are many property developments. Unlike Proposition 172, however, the extent of city incorporation and the county's land use policies greatly affect its tax receipts.

Specifically, counties receive fewer Bradley-Burns revenues if:

- Their land use policies encourage developments inside city boundaries.
- Cities have developed in the formerly unincorporated areas.

As Figure 6 indicates, some of the state's most urbanized counties receive the lowest per capita Bradley-Burns taxes. In 1996-97, Los Angeles, Orange, Santa Clara, and San Diego Counties, all received less than $5 per capita. Sacramento, in contrast received $64. While Sacramento's Bradley-Burns revenues are likely to decline in the future, given the recent incorporation of Citrus Heights, the county is likely to continue to receive a relatively high amount of Bradley-Burns taxes, because more than half of the population still resides in the unincorporated area.

OTHER REVENUES

Two lesser known county revenue sources—vehicle license fees and trial court subventions—contribute as much to county general purpose revenues as do sales taxes.

Vehicle License Fees. Instead of taxing cars and other vehicles as personal property, the state created an in-lieu property tax for vehicles in 1935. This tax, collected by the state at the same time as vehicle registration fees, has been changed many times over the years—most recently in 1991 to raise money for "realignment" health and welfare programs. With the exception of the additional funds for realignment programs, all "base" vehicle licenses are allocated to cities and counties as general purpose revenues. (For detailed information regarding vehicle license fees, please see Part V of our *1998-99 Perspectives and Issues.*)

Trial Courts. State subventions for trial court funding relieve county spending obligations for this program, and give counties discretion as to where to redirect their savings. As a result, these state subventions for trial courts are a significant source of county general purpose revenues. Last year, the Legislature and Governor acted to increase state trial court support and restructure county court funding obligations. The effect of these changes are *not* shown in the charts in this report (which reflect state subventions in 1996-97), but are discussed below.

How the Counties Stack

Figure 7 shows each county's revenues from vehicle license fees and trial court subventions. Compared with the counties' three major sources of general purpose revenues, there is much less variation in per capita county revenues from these sources.

Allocation of Vehicle License Fees Very Even

Because most base vehicle license fees are allocated to counties on the basis of county population (instead of the amount of fees county residents pay), the distribution of these revenues is very even. The little variation shown in Figure 6 reflects (1) San Francisco's ability to collect vehicle license fees as a city and as a county, and (2) a state law that directs the Office of the State Controller to rely upon each county's *highest* population estimate by the Department of Finance—not the most recent estimate—when distributing vehicle license fee revenues. Several years ago, Department of Finance estimates had shown a greater number of people living in rural areas.

Trial Court Subventions Benefit Small Counties

As shown in Figure 7, rural counties received the highest per capita level of trial court funding in 1996-97. The modest variation in support for the rest of the counties reflected: differing levels of court activity among counties, state perceptions of relative county fiscal health, and historical factors.

Under the 1997 trial court restructuring, the state assumed *all* court costs for the state's 20 least populated counties (generally Mountain region counties). In addition, the state pays all *growth* in trial court costs for the rest of the counties, while requiring each county to pay a certain percentage (from 20 percent to 49 percent) of its 1994-95 total court costs. Accordingly, over time, the extent of state relief for a county from trial court restructuring will reflect:

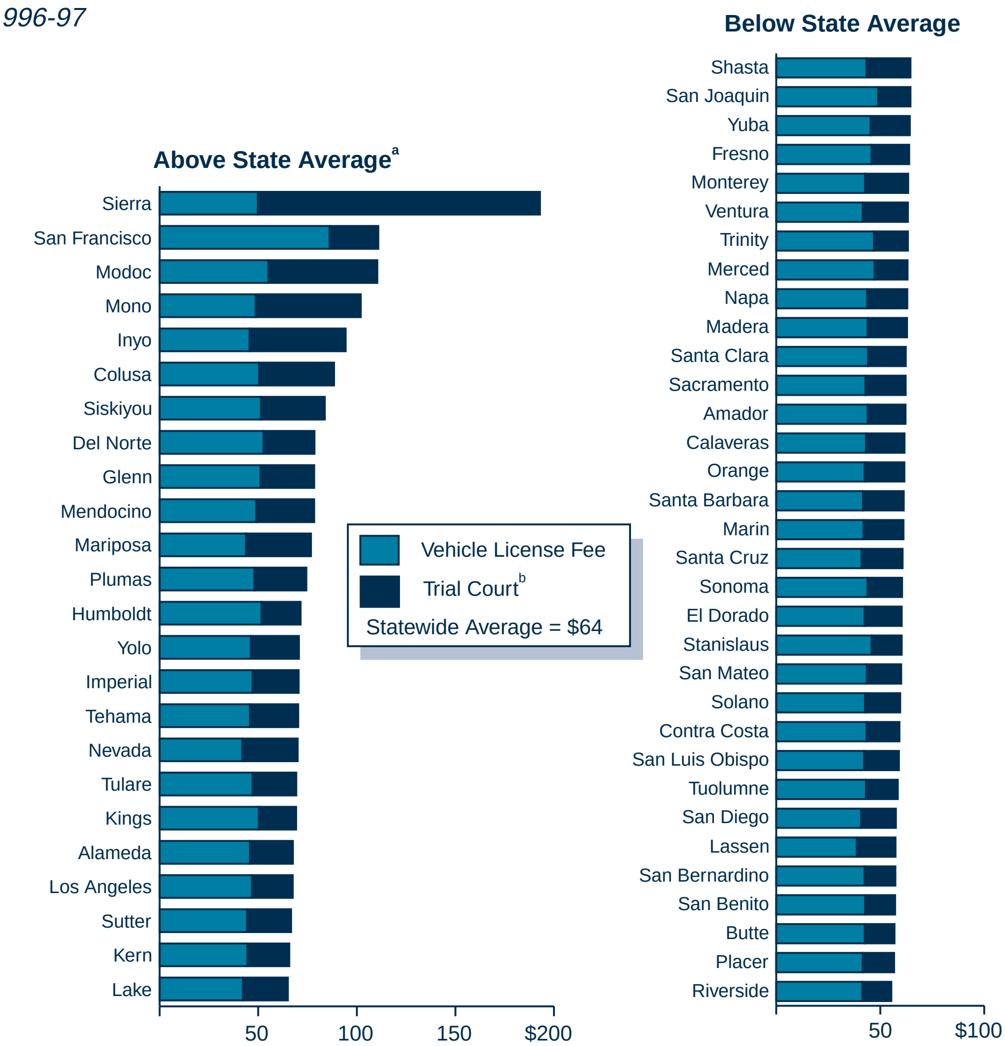
- The county's size.
- Growth in court activity.
- The portion of 1994-95 court costs the county must pay.

Given the formula's structure, the counties most likely to benefit from these changes are rural counties and fast-growing counties.

Figure 7

Other General Purpose Revenues Per Capita
Vehicle License Fees and Trial Court Subventions

1996-97



[a] Alpine County is excluded from this chart at $48 for Vehicle License Fees and $367 for Trial Court Subventions.

[b] County Trial Court subventions do not reflect changes and increased funding made available by the Lockyer-Isenberg Trial Court Funding Act of 1997 (Chapter 850).

PUTTING IT TOGETHER

Figure 8 presents each county's *total* per capita revenues from the five major sources of county general purpose revenues. The distribution of revenues is wide, even within regions. For example, Butte County receives $154, while adjacent Colusa and Plumas Counties receive nearly $400. In addition, Los Angeles County receives somewhat above average revenues, while Riverside, Orange, and San Bernardino Counties receive among the state's lowest.

As we discussed earlier in this report, counties' municipal and other program responsibilities differ markedly. In reviewing Figure 8, therefore, we suggest that readers compare only those counties known to have similar responsibilities because differences in program responsibilities may fully offset apparent revenue differences. For example, Figure 8 shows that Sacramento County receives higher general purpose revenues than San Mateo County. Because Sacramento County has many more people living in its unincorporated areas, and has a higher poverty and crime rate, Sacramento probably has less revenue flexibility than San Mateo. For similar reasons, Kern County probably has less revenue flexibility than Santa Clara County. Finally, as discussed earlier, because of the size of their seasonal and daytime populations, we suggest reviewing data for very sparsely populated resort-oriented counties and San Francisco separately than other counties.

What Causes This Revenue Variation?

Viewed as a group, three factors—summarized in Figure 9—explain most of the variation in revenues among counties.

First, taxation decisions of a generation ago continue to be a dominant influence on the level of county revenues today. For example, differences in their 1970's property tax shares appear to be the most important factor explaining the differences in revenues for Los Angeles, Orange, and San Diego Counties, and for Butte and adjacent Colusa Counties.

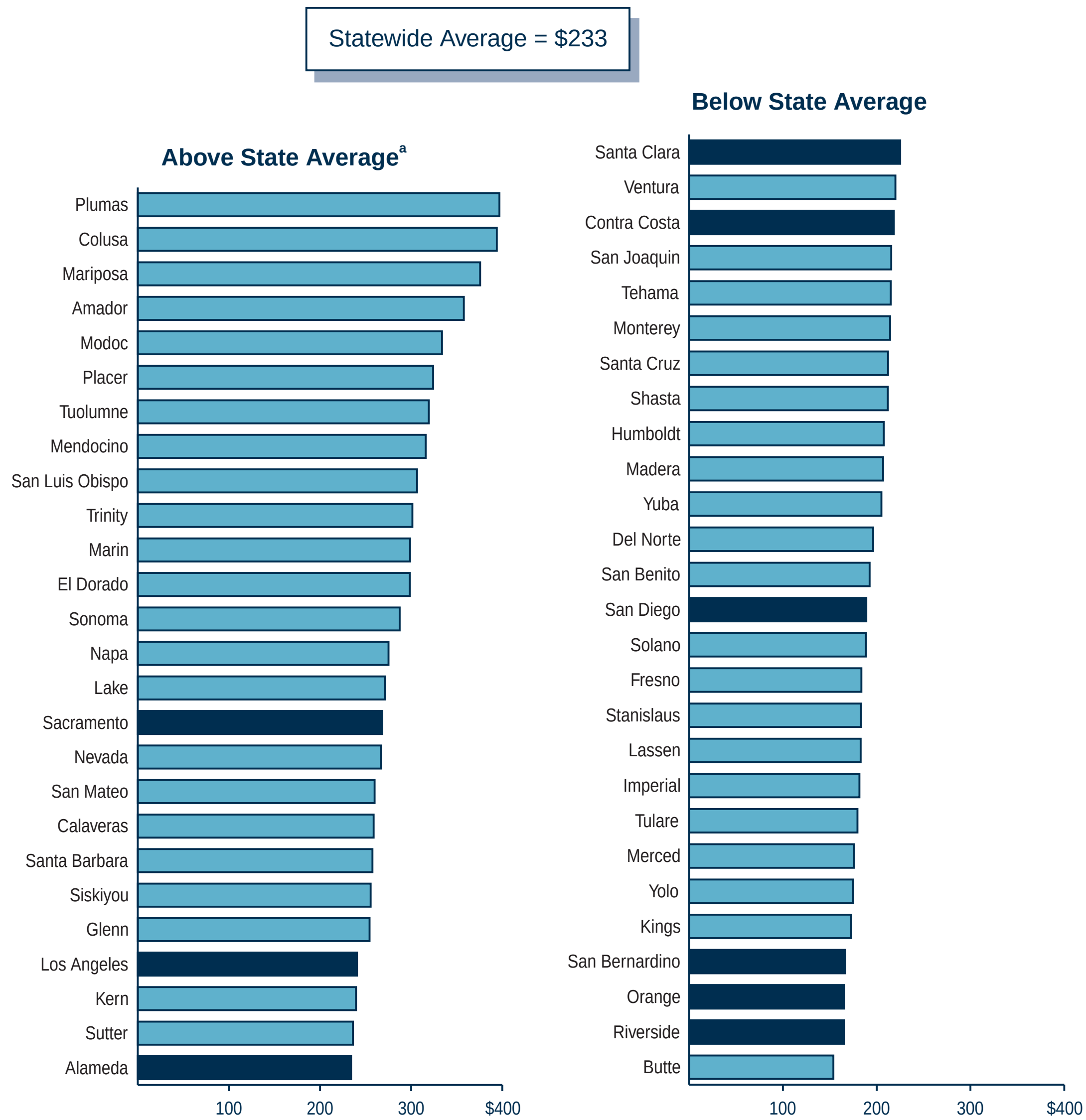
Second, the amount, value, type, and location of property developments affect county revenues. Specifically, counties tend to receive more general purpose revenues if they have many high value property developments—particularly retail developments—in their unincorporated areas.

Third, counties with higher-income residents receive more revenues. This relationship is the natural outgrowth of counties' reliance upon a local tax structure that is heavily influenced by the wealth of its residents. We would note, however, that for most counties, program costs appear to be *inversely* related with wealth. That is, counties spend much of their general purpose revenues on programs related to criminal justice and poverty, and the demand for these programs tends to be lower among wealthier counties.

Figure 8

Per Capita General Purpose Revenues From Five Major Sources

1996-97



[a] Five counties are off this chart: Alpine ($1,897), Sierra ($874), Mono ($800), San Francisco ($773), and Inyo ($575).

SHOULD THE LEGISLATURE BE CONCERNED BY THESE REVENUE VARIATIONS?

The preceding figures illustrate wide variation in county per capita revenues. Some commentators have pointed to this type of variation as evidence of a problem in county finance. This view implicitly assumes that every county should have the same access to revenues, despite differences in service obligations and local preferences.

In our view, the evidence of revenue variation is less important than the purpose and cause of the variation, and the overall characteristics of the county finance system. That is, if the finance system were comprehensible to local residents, and responsive to local preferences as well as state needs, variation in county general purpose revenues might be appropriate. The finance system however, fails in these respects. Specifically, as we have discussed in this and many previous reports, we find that the state's system of county finance is:

- Exceedingly complex and difficult for residents and policy-makers to understand.
- Rooted, in part, to local resident preferences of 20 years ago.
- Sometimes aligned with land use incentives of questionable value, such as encouraging counties to approve retail developments outside of city boundaries.
- Not oriented towards matching the level of county revenues with the level of county program obligations.

In short, because the revenue variations shown in the preceding figures cannot be explained by differences in current local preferences, program needs, or the rate of local taxation, we believe the Legislature *should* be concerned by these differences in resources. Some counties have much less ability to provide services to their residents, and we find little policy justification for this difference.

Figure 9

Factors Explaining Variation in General Purpose Revenues

- Taxation decisions of a generation ago.
- Amount, value, type, and location of property developments.
- Income of residents.

COULD THE LEGISLATURE IMPROVE CALIFORNIA'S SYSTEM OF COUNTY FINANCE?

Because the California Constitution establishes counties as "agents of the state" and the state controls most county revenues, the Legislature has considerable authority to modify county finances and program responsibilities. Over the years, however, the Legislature has found that translating this authority into practical and significant improvements to county programs and financial affairs has proven to be exceedingly difficult.

In short, because of the shared nature of county revenues, most changes to county revenues also involve changes to school, city, special district, and/or redevelopment finances. Modifying any county's finances could potentially "disadvantage" some jurisdiction unless additional revenues are made available to local government.

Largely because of the vast fiscal and program interconnections among California's local governments, reorienting the county's system of finance has often appeared to be "too large" of a problem to be cured. Hence, most of the Legislature's attempts to ameliorate the negative impacts of the state's system of county finance have focused on modestly modifying county program responsibilities or funding. For example, the Legislature acted in recent years to reduce county costs for trial courts, transfer responsibility and funding for mental health programs to counties, and allow counties to reduce their general assistance program costs. The Legislature has also acted to allow counties to shift some costs to cities, by charging cities property tax administration fees and "booking" fees to incarcerate people arrested by city police officers.

While these changes have alleviated some fiscal pressures on counties, they have not made the county finance system more understandable, or responsive to local and state objectives. In addition, the cost shifts to cities have aggravated the strained relationships among California's local governments. Ultimately, therefore, we believe the Legislature will need to broadly reexamine county government responsibilities and finance. Implementing changes in these areas will be difficult, as they will require complex trade-offs between multiple policy objectives and interests.

Appendix: Differences Among Counties

County	Percent of Population County Provides Municipal Services	Crime Rate Per 100,000 Population	1995 Unemployment	1996 Per Capita Income
Alameda	9%	2,935	5%	$27,071
Alpine	100	—	10	22,105
Amador	56	—	7	18,761
Butte	53	1,773	9	18,040
Calaveras	93	—	9	17,973
Colusa	53	—	19	19,799
Contra Costa	20	2,063	5	31,246
Del Norte	69	—	10	14,935
El Dorado	79	1,401	6	23,161
Fresno	22	3,926	13	18,329
Glenn	55	—	15	15,866
Humboldt	52	2,049	8	18,917
Imperial	24	2,564	29	14,790
Inyo	81	—	8	20,645
Kern	45	2,396	13	17,625
Kings	30	1,958	13	13,982
Lake	70	—	11	19,060
Lassen	50	—	11	16,058
Los Angeles	10	3,155	8	23,501
Madera	57	2,608	14	15,842
Marin	28	1,138	3	43,318
Mariposa	100	—	9	18,255
Mendocino	69	—	8	19,673
Merced	39	2,641	16	15,653
Modoc	69	—	12	15,519
Mono	50	—	11	20,084
Monterey	27	1,871	11	25,270
Napa	25	1,171	6	27,881
Nevada	72	—	7	20,917
Orange	7	1,727	4	27,420
Placer	44	1,641	5	25,933
Plumas	90	—	12	19,844
Riverside	27	2,860	8	19,632
Sacramento	61	3,581	6	23,038
San Benito	38	—	12	18,266
San Bernardino	18	3,143	7	17,848
San Diego	16	2,279	5	23,263
San Francisco	100	3,350	5	36,061

Continued

County	Percent of Population County Provides Municipal Services	Crime Rate Per 100,000 Population	1995 Unemployment	1996 Per Capita Income
San Joaquin	24%	2,895	11%	$18,874
Santa Cruz	55	1,941	8	26,202
San Luis Obispo	43	1,193	6	20,490
San Mateo	9	1,110	3	35,802
Santa Barbara	42	1,530	6	25,860
Santa Clara	7	1,441	4	31,487
Santa Cruz	55	1,941	8	26,202
Shasta	41	2,069	10	19,558
Sierra	74	—	11	19,176
Siskiyou	55	—	13	17,853
Solano	5	2,381	8	21,873
Sonoma	36	1,496	4	25,888
Stanislaus	25	3,177	14	18,122
Sutter	47	—	16	19,767
Tehama	64	—	10	15,154
Trinity	100	—	14	15,877
Tulare	40	2,282	16	16,144
Tuolumne	92	—	10	18,214
Ventura	13	1,368	7	24,736
Yolo	14	2,078	6	22,083
Yuba	77	—	14	14,532
Statewide Average	**22%**	**2,559**	**7%**	**$24,090**

Acknowledgments

This report was prepared by Marianne O'Malley with the assistance of Michael Cohen, under the supervision of Mac Taylor. The Legislative Analyst's Office (LAO) is a nonpartisan office which provides fiscal and policy information and advice to the Legislature.

LAO Publications

To request publications call (916) 445-2375.

This report and others are available on the LAO's World Wide Web site at http://www.lao.ca.gov. The LAO is located at 925 L Street, Suite 1000, Sacramento, CA 95814.