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State Revenue Data Can Be Used with Confidence

For more than two decades, Californians have engaged in a great debate about the size, shape, and role of state and local governments. With the 1978 passage of Proposition 13, voters began to use the initiative system to limit the size of their governments, severely constraining the ability of state and local governments to raise revenue locally. In essence, California is engaged in a great experiment, leading the nation in the use of direct democracy to limit representative government. Like all critical experiments, it requires evaluation, and valid evaluation requires reliable data.

Several key studies of the policy issues generated by this experiment have raised concerns about the quality of the data on local public revenues. Many policymakers and analysts throughout the state have hesitated to use the available data, citing three assumptions about their quality: (1) The data do not capture all public entities in the state. (2) They do not accurately reflect the fiscal activity of those they do capture. (3) They are not produced in a timely manner. A 1997 Public Policy Institute of California study by Michael Shires and Melissa Glenn Haber evaluated these claims by analyzing the revenue information that the California State Controller's Office collects and publishes. Their findings end years of doubt about the quality of the state's fiscal data. The study's conclusion: Timeliness remains an issue, but the data are basically sound. The study also makes recommendations for improving the comprehensiveness, accuracy, and timeliness of the data. The findings and recommendations on each issue are summarized below.

How Comprehensive Are the Data?

Because the initiative system has increasingly constrained local governments, some argue that those governments have found creative ways to get around the constraints and that the state's data systems cannot track this creativity. A particular concern is that the systems do not capture some institu-

tions resulting from this creativity—Mello-Roos districts, for example. Thus, studies that use the data underestimate the size of public sector activity. The Institute's analysis found that the data were quite comprehensive. It verified that more than 7,000 local entities, which appear on other authoritative public lists, are included in the State Controller's annual reports. In fact, Mello-Roos or community facility districts (CFDs) are the primary exception: They are not systematically included in the Controller's database. However, in a follow-up analysis of all the CFDs in existence, the study found that their revenues are such a small percentage of total local-government revenues that excluding them represents a trivial source of error—only 0.3 percent.

To make the data more comprehensive, Shires and Glenn Haber recommend that the annual surveys include specific instructions that would lead to inclusion of Mello-Roos districts. They also recommend that the Controller's Office implement a watchdog-type mechanism for identifying new entities that might not be captured under the current reporting scheme.

How Accurate Are the Data?

Put another way, does the information in the Controller's reports accurately represent what's happening in local governments? Since that information comes from questionnaires completed by each entity, interpretation of the instructions could vary enormously across more than 7,000 entities. Moreover, the questionnaires are usually submitted before annual audits are completed. Shires and Glenn Haber verified the survey data against third-party sources of information: the entities' audited data and information tracked by other agencies. In both comparisons, the correspondence between the Controller's Office data and these sources was very high.

Correspondence Between State and Local Data (total revenues in billions of dollars)

| | Counties | Cities | Special Districts |
|-----------------------|----------|----------|-------------------|
| State Controller | \$ 22.22 | \$ 16.31 | \$ 9.56 |
| Audited reports | 22.50 | 16.08 | 9.42 |
| Difference | \$ 0.28 | \$ 0.23 | \$ 0.14 |
| Percentage difference | 1.2% | 1.4% | 1.5% |

The study found a high correlation between the audited reports of local entities and the data reported by the State Controller's Office.

Even though the data are highly accurate, the authors made five recommendations for accuracy improvements:

- Provide more-specific instructions and follow-up regarding capital project funds, debt service, and housing authorities.
- Expand and clarify the reporting of special assessment districts.
- Expand the reporting of school district information.
- Provide detailed fiscal information for community college districts.
- Establish a consistent reporting format for all categories of entities.

What Could Be Done to Make the Data More Timely?

The study did not examine timeliness in great detail because the problem is self-evident: Since each type of entity publishes its data separately, the data become available at different times. The delay can be as long as two years. This is problematic for policymakers and analysts who have much shorter and more-demanding time horizons. Shires and Glenn Haber made two recommendations to the Controller's Office for improving timeliness: Institute Internet/Web-based submission and make the data available immediately—before they have been reviewed. The latter would make the bulk of the material available 90 days after the end of the fiscal year—not more than a year later, which is the current schedule. Unreviewed data would be identified as such and changes made after the Controller's review. Large and complex entities, which are more likely to affect policy choices, should be reviewed first.

Implications for Analysis of California's Governance and Finance Issues

The primary motive of the Public Policy Institute of California in undertaking this study was to determine whether the State Controller's data were of adequate quality, and if not, what changes might make them more usable. While Shires and Glenn Haber recommend a number of changes, the data as they currently exist are usable for further research into more-detailed aspects of state and local governance. The revenue data accurately portray the range of activity occurring in local government. Thus, decisionmakers and analysts can focus on the methodology and substance involved in policy and not worry about shortcomings in the data.

This research brief summarizes a report by Michael A. Shires and Melissa Glenn Haber, A Review of Local Government Revenue Data in California. The report may be ordered by calling (800) 232-5343 [mainland U.S.] or (415) 291-4415 [Canada, Hawaii, overseas]. A copy of the full text is also available on the Internet (www.ppic.org). The Public Policy Institute of California is a private, nonprofit organization dedicated to independent, nonpartisan research on economic, social, and political issues that affect the lives of Californians.
