The State-Local Fiscal Relationship in California: A Changing Balance of Power

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Foreword

Thirty years ago, students of U.S. government took the concept of home rule for granted. It was a self-evident truth that local governments had the authority to tax residents and to fund services with the revenue. Students in the latter part of the century, however, know that the fiscal foundation of home rule in California has shifted enormously. In *The State-Local Fiscal Relationship in California: A Changing Balance of Power,* Fred Silva and Elisa Barbour trace nearly a century of budgetary shifts between state and local government. They also note the importance of Proposition 13—the fiscal earthquake of 1978—which, among other things, shifted control over property tax revenue to the state.

As the authors note, home rule was itself the result of a ground shift that occurred in the 1910s, when Progressive Era advocates pressed successfully for local autonomy and a division of state and local revenue streams. Before home rule and the separation of sources, local governments were regarded as mere creatures of the state. Although the authors do not argue that California has come full circle with Proposition

13, they do call attention to the diminishing fiscal authority of local governments, especially counties. The lack of a clean separation of tax revenues—property tax for local government, income and sales tax for the state—has aggravated the chronic tension in the state-local fiscal relationship. This tension, in turn, endangers the smooth and efficient delivery of local services and undermines local officials' sense of accountability. In an earlier PPIC study, *Why Government Fails*, Mark Baldassare concluded that it was this very confusion over revenue expectations that led in part to the bankruptcy of Orange County.

The authors conclude that the current fiscal relationship between state and local government reflects neither the potential benefits of a state-run system nor those of a more decentralized one. The redistributive function of a broad-based tax has lost out to a rapid growth in licenses, fees, and assessments. Property taxes, a traditional source of discretionary income for local governments, shrank to a mere 10 percent of total county revenues in the 1990s. In sum, the authors describe a system that manages to meet the expectations of local residents but that also stands in need of a substantial overhaul. They conclude with several options for creating a less risky way to finance the business of state and local government.

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Summary

The evolution of public finance in California is the story of a shifting balance of power between the state and local governments. Local governments' resistance to state control has been a constant source of policy conflict throughout the century. As California has grown and developed, however, its different forms of government have evolved along different lines, and this has modified the outcome of the struggle between them.

This study identifies two major turning points in the evolution of fiscal authority in California. The first is 1910, when the Progressive movement pushed for greater local control after two generations of untempered state power. The second is the passage of Proposition 13 in 1978, when voters awarded (or rather, reawarded) powers to the state that Progressives had successfully assigned to local governments. Proposition 13 heightened the chronic tension between the state and local governments, so much so that advocates for these local governments are now calling for another round of reforms. The need for such reforms

becomes especially clear when the matter is viewed against a historical backdrop, for as we hope to show, that landmark initiative magnified a growing distinction between city and county governments, throwing their different strengths and weaknesses into relief. It is only when these historical patterns are acknowledged that the full effects of Proposition 13 can be gauged, because only then do we understand its varying effects.

At the center of this study is the matter of fiscal power and how it is shared. In addition to providing historical analysis, this report develops several measures for assessing the changing nature of the state-local fiscal relationship in California. In particular, we use revenue and expenditure data between 1916 and 1995 to gauge federal and state control over local governments' ability to tax and spend freely. We also test the vulnerability of various local government revenue streams to economic and political shocks at the state and national levels. After exploring recent shifts in city and county governments and their respective fiscal structures, we conclude the report with a discussion of current proposals for reform and their policy implications.

Home Rule Is Established: Finance in California Before Proposition 13

The relationship between the state and local governments in California has been contentious since the state's inception in 1849. During the Progressive Era, reformers gradually won independent political and fiscal authority for local governments. By the start of World War One, two legal principles had been established: *home rule power*, or the right of cities to draw up and establish their own charters and govern municipal affairs; and the *separation of sources*, which formally marked off state and local revenue streams.

Home rule power, and the local fiscal authority that underpins it, became a watchword during the Progressive Era. Local power was limited, however, by two constraints: the state's interest in the uniform application of its policies, and federal constitutional law, which grants state government the right to strike the balance of power between itself and local governments. The balance began to shift when the Separation of Sources Act of 1910 granted local governments exclusive control over property taxes. Because most public revenue at that time came from this tax, the exclusivity was especially important. The separation of sources doctrine ensured that the fiscal powers of local governments were aligned with their responsibilities. In particular, the doctrine endorsed the notion that the governmental body that levied taxes or fees would determine how that revenue would be spent. This balance shifted even further toward local government in 1914, when California voters approved a constitutional amendment allowing communities to adopt charters, which permitted cities to enact local ordinances without state authorization. Taken together, these two developments—charter cities and the separation of sources doctrine—granted local governments a degree of fiscal autonomy within the state's overarching control.

Although this legal framework for the state-local fiscal relationship remained stable until 1978, city and county governments changed considerably over the century and along different lines. Beginning with the New Deal and continuing through the postwar period, counties assumed a more prominent role in administering state and federal programs in areas such as health care and welfare. As county governments increasingly became "agents of the state," their revenue profiles also changed. In 1932, 82 percent of county funds came from own-source revenue; by the end of World War Two, subventions, or funds sent by the state or federal government, formed about 50 percent of that total. An even higher proportion of county revenue—more than two-thirds—was spent according to state or federal guidelines.

In addition to their role as agents of the state, counties also acted as local general-purpose governments, providing services in areas such as transportation, corrections, tax collection, and public safety. Most of the discretionary revenue for these services came from property taxes, which were cut dramatically by Proposition 13.

Much more than counties, cities achieved and maintained fiscal independence from the state. Subvention funding has rarely constituted more than one-fifth of city revenue, and an even smaller share—seldom more than a tenth—has ever been restricted by state or federal spending guidelines. As cities adopted the role of provider of local utility and public safety services, they gained increasing amounts of revenue from locally levied sources intended to fund those services. Cities came to rely less and less on property taxes, which made up 36 percent of city revenue in 1945 but only 16 percent in 1978.

The Era of Limits: Proposition 13 and Its Aftermath

From the perspective of local government, the fiscal shock of Proposition 13 was unlike any event during the century, including the Great Depression. In one year, property tax revenue to local governments was cut in half. Counties were affected most, because they still relied almost solely on the property tax for discretionary revenue. Their budgets contracted 24 percent from 1978 to 1980, whereas city revenue, which was tied more closely to public services, dropped less than 10 percent.

In addition to reducing the size of county government, Proposition 13 changed the terms of the state-local fiscal relationship. Although the initiative reflected growing public dissatisfaction with government in general, it had the effect of enhancing state power at the expense of local governments by giving the state control over distribution of the property tax. Because the property tax rate is now set by statute, and revenue distribution is controlled by the state, the property tax now resembles a state-controlled revenue source rather than a local one. This development has undermined the traditional separation of sources doctrine.

The passage of Proposition 13, however, was not solely responsible for the transformation of the property tax. If the state had continued to allocate property tax revenue based on local preferences, the separation of sources would not have been so significantly eroded. But the state began to allocate property tax revenue in response to political and economic pressure. First it attempted to cushion the effects of Proposition 13 by enacting a fiscal relief program in 1979, replacing about two-thirds of the property tax revenue lost to local governments with various forms of state aid. Faced with constitutionally mandated spending guarantees for education enacted in 1988, however, the state revised its fiscal relief plan when the economy slid into recession during the early 1990s. During 1993 and 1994, the state changed the allocation formula to direct more property tax revenue toward school districts and away from cities, counties, and special districts. The state replaced a portion of the lost property tax revenue with funds dedicated for law enforcement, thereby trading local discretionary revenue with funds earmarked for a specific purpose. The "property tax shift" angered local governments, giving rise to calls for reform. The shift was particularly hard on county governments, whose per capita discretionary revenue declined by nearly 25 percent from 1992 to 1995.

Cities and counties have responded differently to increasing fiscal constraints in recent decades. Cities were better prepared to cope with the constraints because they had broader local revenue bases. In particular, they increased revenue from sources closely tied to the cost of services, such as user charges and fees. Communitywide taxing power has declined as a result. Counties, on the other hand, have come to rely more than ever on state aid, and their general-purpose functions have been undermined. Many counties have sold assets, taken on debt, or substantially cut services to balance their general-purpose budgets.

The Future of the State-Local Relationship: The Need for Reform

Many government observers are concerned that the recent trend toward more state control over local finance has gone too far and should be reversed. Current reform proposals focus on two primary areas of concern: the need to define more clearly the responsibilities of local governments, and the need to restore local fiscal authority.

Redefining Local Government

Sorting out state and local responsibilities is especially important for counties, whose traditional responsibilities outstrip their financial capacity. County government is increasingly subsumed by state priorities, but expectations regarding its general-purpose role have remained largely unchanged since the 1930s. The appropriate role for county government is being determined in a de facto fashion as counties cut local services to remain solvent.

County fiscal authority could be realigned with county responsibilities in a number of ways. One solution is to return to the status quo ante by restoring the level of fiscal control counties experienced before the passage of Proposition 13. This reform would enable counties to maintain their dual role as agents of the state and local general-purpose governments. A different solution would call on the state to take on even greater responsibility for county functions, further reducing the county general-purpose role. The best solution may be a combination, in which the state takes on greater responsibility for certain current county functions, for example, in the area of courts and justice, and counties gain greater authority over other functions, such as transportation planning. At a time when many observers point to a growing need for regional policymaking, the underlying functions of counties and even their geographical boundaries would benefit from a thorough reexamination.

Redefining Fiscal Authority

A strong state role in local finance makes sense if the primary objective of California's citizens is to maximize equity in the allocation of public resources. However, the state government has not exercised its redistributive power to devise an effective system for property tax allocation. The system that the state government established in 1979, based on the relative tax shares in place before Proposition 13, increasingly fails to reflect local needs and preferences. The problem was compounded when the state used the tax to maintain its own fiscal health in the early 1990s by redirecting property tax revenue toward schools. Viewed as a policy choice, the state opted to avoid state expenditure reductions or tax increases at the expense of countywide services.

Reflecting concern that the state government is using the property tax as a fiscal shock absorber, many current reform proposals would separate local property tax revenue from the state budget to restore the traditional separation of sources. Proponents argue that such reforms would enhance efficiency, accountability, and innovation in local government. Opponents counter that local control over the raising of revenue is not a prerequisite for accountability in relation to expenditure. Regardless, the current state of local finance in California is in need of repair. It reflects neither the potential benefits of a state-run system based on commonly defined principles nor those of a more decentralized system based on a separation of sources. Instead, the current system reflects efforts to cope with fiscal stress through cost-shifting and competition between levels of government.

Once again, control over the property tax dominates current debate about the state-local fiscal relationship. This same issue lay at the heart of the two major popular reform movements of this century: the movement to establish home rule powers and the tax revolt of the 1970s. Even as local governments diversified their revenue base over the century, the property tax remained the local revenue source that provided the greatest level of flexibility, discretion, and accountability. Progressive Era reforms wrested control of the property tax from the state. Proposition 13 did the opposite, thereby returning the state-local relationship to the situation that existed before the Progressive Era. Local governments have resisted the recent shift, and current reform proposals reflect the need to reestablish a sustainable relationship between the state and local governments.

Citizens have yet to achieve consensus about what that relationship should look like. Although Proposition 13 reflected their desire to limit local government taxing and spending, their views are less distinct when it comes to the virtue of home rule as opposed to state control over local affairs. To find the proper resting point for the state-local balance, governance and finance issues must be reviewed together.

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Although these individuals helped improve our report, the authors are solely responsible for its content.

1. Introduction

Although the state-local fiscal relationship has become a matter of much concern and debate in recent years, tension between the state and local governments is nothing new. In fact, current controversies are an extension of debates that long pre-date 1978. Today's policy debates can be viewed as only the most recent expression of a much older struggle to define the proper balance between local governments' desire for fiscal and political autonomy and the state government's desire to exert its policy authority. This report places current issues in their historical context by assessing the changing nature of the state-local fiscal relationship throughout California's history.

From the first days of statehood in 1849 to the present, legislators, governors, and local officials have argued over their respective roles and the amount of autonomy that local communities should possess. In spite of significant shifts over the last century and a half in the structure of government finance, this fundamental struggle has persisted. The ability of local governments to act on their own behalf, or "home rule power," ends where the state expresses an interest in the uniform application of a statewide policy interest. And therein lies the dilemma—where should the line be drawn?

The focus of this study is the relationship between the state government and *general-purpose* local governments, by which we mean local governments that provide a range of services in response to local voter preferences. There are two forms of general-purpose government at the local level: cities and counties. Other governmental entities such as school districts and utility service districts also form part of the fabric of local government. The essential purpose of such districts, however, is to provide *specific* services in a given geographic area. In fact, special-purpose districts are often dependent agencies of cities or counties, governed by the respective city council or county board. Because we are primarily interested in evaluating the general-purpose and state agency functions of local government, districts are not addressed in our study.

The state government has always played the primary role in determining the amount of power local governments may exercise. Throughout the state's history, however, local governments have sought to carve out and maintain a sphere of influence within the state's overarching control. The degree of control exerted by the state over local government has changed over time, depending on the backdrop of state politics. Furthermore, local governments have evolved in different ways over time, affecting their ability to respond to constraints imposed by the state. We hope to show that current debates about the proper balance between state and local power can be properly understood only when recent developments are viewed in relation to the history of the conflict.

We start with an overview of the legal framework of the state-local relationship over the century. This legal framework sets the structure within which the struggle between local governments and the state plays out. However, the framework itself has changed over time as a result of the struggle and also as a result of broader political shifts. An overview of this history highlights some of the most fundamental issues involved in the state-local relationship.

The Legal Framework of the State-Local Relationship

The state government ultimately determines the amount of power local governments may exercise, whether through the legislature, the courts, or voter initiatives that change the constitution or state statutes. Local governments have no status under federal constitutional law, which leaves the state to determine the balance of power. The doctrine that establishes the allocation of local powers is called "Dillon's rule," which refers to the name of the judge in a pair of 1868 rulings that narrowly constructed the powers of municipal corporations. As interpreted by the Supreme Court in 1903, the doctrine establishes that local governments are "the creatures, mere political subdivisions of the state for the purpose of exercising a part of its powers. They may exert only such powers as are expressly granted to them, or such as may be necessarily implied from those stated."[1]

The first decades after statehood was established in 1849 reflected this unilateral construction of the state-local power balance. Those years were marked by mistrust and attempts by the California legislature to intervene in the affairs of local communities. Gradually, local

[1] *Merriam v. Moody's Executors,* 25 Iowa 163, 170 (1868).

governments won independent political and fiscal authority, but it would take 60 years to firmly establish new terms for the state-local relationship.

The first state constitution of 1849 kept local governments on a tight leash. The current constitution, established in 1879, first introduced the principle of home rule, or the right of cities to draw up and establish their own charters, but the power to raise local resources was still tightly held by the state. The new constitution granted San Francisco the ability to adopt a home rule charter to govern its affairs. Other cities wanted the same advantage, but this new power was granted slowly. In 1887, the ability to frame a charter was granted to cities larger than 10,000. Three years later the right was extended to cities of 3,500 or more.[2] An 1896 constitutional amendment provided that cities would be subject to general laws except in municipal affairs—a more liberal grant of power than had been originally provided.

A 1914 amendment to the state constitution finally cemented home rule power by providing that chartered cities could "make and enforce laws and regulations in respect to municipal affairs, subject only to the restrictions and limitations provided in their several charters." These "charter cities" could enact local ordinances without seeking state authority to do so. This affirmed the power of cities to take independent action regarding municipal affairs. The amendment reflected a desire to establish a basis for local control that extended beyond the narrow confines of "Dillon's rule." It granted protection from legislative interference in municipal affairs by establishing a standard for reviewing this delegation of power.

[2]Detwiler (1996).

Local fiscal authority—the ability to levy taxes at the local level for services determined locally—has long been viewed as a critical underpinning of home rule power. The right to levy property taxes was first established in 1850. This tax formed the primary revenue base for both the state and local governments for the next 50 years. By the turn of the century, about 20 percent of the local property tax bill went to the state.[3] A 1910 ballot measure, known as the "Separation of Sources Act," changed that. It provided that the property tax was to be used exclusively for local purposes. Given that the property tax formed the bulk of local government revenue, the ballot initiative established the principle that state and local revenue sources should be separated. From then on, the state would derive the bulk of its revenue from other state-levied taxes.

Taken together, the establishment of charter cities and the separation of sources provided a measure of autonomy for local governments. However, although we tend to lump cities and counties into the same category of general-purpose local government, each has been given a distinct role in California's government structure and a different constitutional status. The constitution grants counties the authority to provide municipal services in unincorporated areas, and counties are also expected to provide certain services at the county level, but counties have not been granted the same home rule powers as cities. Cities enjoy a greater degree of protection in governing municipal affairs under the provisions of the 1914 state constitutional amendment; counties' legal status is still governed principally by the narrower provisions of "Dillon's rule."

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[3] *Tax Digest* (1946).

From Local Control to State Power: Proposition 13 Shifts the Balance

The framework for the state-local relationship established during the Progressive Era remained largely unchanged for 70 years until the passage of Proposition 13 in 1978. It is widely understood that Proposition 13 reduced property tax rates, but fewer Californians recognize that the state-local relationship changed in some fundamental ways as a result of its passage. The initiative transferred control over the distribution of property tax revenue from local governments to the state. By giving the state the authority to determine how property taxes are allocated among different governments, Proposition 13 substantially undid the provisions of the 1910 separation of sources doctrine.

The passage of Proposition 13 alone did not guarantee that property tax revenue would become a state-controlled revenue stream. Another important source of local government revenue—the 1 percent local sales tax—is a state-authorized locally levied tax, for which the state sets a maximum rate. Revenue from the local sales tax is considered to be under local control in spite of the state's role, however. That is because a stable nexus between the receipt of the revenue and the local activity that generated it has been preserved through the situs rule, which ensures that the tax is levied locally and the revenue is returned to the jurisdiction in which the sale took place. Cities and counties retain a certain amount of discretion in relation to levying the tax—whether to levy it at all, and in the case of counties since the 1980s, whether to adopt add-on rates for a variety of countywide services that exceed the statewide rate. These special countywide sales taxes now represent about one-third of locally levied sales tax revenue.[4]

In implementing Proposition 13, the state legislature might have protected the property tax as a locally controlled revenue source in a fashion similar to the sales tax. Instead, the state legislature repeatedly shifted property tax revenue allocations in response to political and economic pressures. First, the state attempted to cushion the effects of the initiative by providing fiscal relief. Assembly Bill 8 (AB 8) was enacted in 1979 as an effort to provide relief and establish a long-term local finance system in the wake of Proposition 13. It is still the basic operating legislation, although it continues to be tinkered with. Local fiscal relief was financed by shifting property tax revenue from schools to cities, counties, and special districts. The state cost of K–12 education increased by the amount of the shift. In its final report to the governor and the legislature, the California Constitution Revision Commission noted that the action taken by the state to replace lost property tax revenue was the beginning of the end of a locally controlled finance system independent of the state.[5] In effect, local own-source revenue used for local services was replaced with state funds.

AB 8 also established the formula by which property taxes are allocated to the local governments in each county based on the proportional shares that were in place before 1978. So, for example, a city with a relatively high tax rate based on decisions made by local voters before 1978 receives a larger share of the county's now fixed property tax revenue pool than a city that had a lower rate. After AB 8 was adopted,

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[4]California State Board of Equalization (1997).

[5]California Constitution Revision Commission (1996a).

the only way that local governments could affect property tax receipts was through annexation, incorporation, or economic development under the special provisions of redevelopment law.

Two problems have emerged over time that served to disconnect property tax allocation from local fiscal needs and preferences. First, the AB 8 property tax shares were locked into place permanently. As communities have continued to grow and develop, the allocation system increasingly fails to reflect current realities. The effect of the current system is to provide large older cities with a larger share of the property tax than growing suburbs, because the older cities tended to have higher tax rates when the system was instituted.

Second, the state altered the distribution of property tax revenue in response to economic and political pressure, thereby reversing the 70-year trend of separating the basic sources of state and local revenue. It was only when California fell into severe recession in the early 1990s, however, that the consequences of the shift in the balance of power toward the state level became fully apparent. When the recession hit, the state government was in a position to balance its own budget by reversing the fiscal relief program instituted in 1979. Had the state maintained a stable allocation mechanism for property tax revenue based on local preferences, rather than shifting property taxes in response to fiscal pressure, the separation of sources would not have been eroded so significantly.

By the time of the recession, the cost of local fiscal relief represented nearly one-quarter of the state budget.[6] The state government faced new statutory mandates for education spending as a result of Proposition 98,

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[6]California Constitution Revision Commission (1996a).

passed by voters in 1988. When the economy soured, the legislature and the governor partially reversed the fiscal relief program enacted in 1979 to solve the state's fiscal crisis. In fiscal years 1992–93 and 1993–94, the state reduced the property tax allocation to cities and counties and transferred the revenue to the schools, thereby reducing the state general fund commitment to K–12 education. Although the state returned a portion of the lost funds to local governments in the form of revenue earmarked for public safety, the "property tax shift" ended the state's commitment to provide discretionary fiscal assistance in response to Proposition 13.

For all practical purposes, the property tax is now treated as a state tax used for the purpose of financing that portion of the state budget allocated to K–12 education. Thus, although property tax revenue is still levied locally, the state's manipulation of this revenue stream has tended to transform its character. The property tax more closely resembles a state-controlled revenue stream than a stable local revenue source that the state merely administers.[7]

Assessing the Effects of Proposition 13 on Local Governments

Proposition 13 undermined the traditional doctrine of the separation of sources by providing the state government with control over the property tax. This development has prompted calls to restore the old arrangement. Many reformers argue that a separation of state and local revenue sources is necessary to ensure that fiscal responsibility is aligned with fiscal authority.

[7]See Shires (1999) for further discussion of this issue.

By the time that Proposition 13 passed in 1978, however, local government finance was much more complex than it had been when the original doctrine of the separation of sources was established in law in 1910. That doctrine reflected the common fiscal structure of cities and counties at the time: Local government general-purpose functions were funded primarily by property taxes. By 1978, however, cities and counties had developed very distinct fiscal structures, both from their own beginnings and from each other. As a result, the effects of Proposition 13 have been different for cities and counties, and proposals for reform need to accommodate those differences.

Proposition 13 not only affected cities and counties differently, it intensified the differences between them. By tracing the different historical trajectories of cities and counties over the century, we can better understand why this occurred. In certain fundamental ways, the struggle between local governments and the state has changed little. Control over the property tax continues to dominate governance debates, even as it did at the turn of the last century. In other ways, however, the struggle has indeed changed, because the actors themselves have changed. The roots of today's policy obstacles and controversies are to be found in the past. The purpose of this report is to find them.

Measuring the State-Local Relationship

To trace the evolution of local finance, we analyze shifts in the major sources of local government revenue between 1916 and 1995, using data compiled by the State Controller's Office. We develop measures for assessing local fiscal control on *two principal dimensions:*

1. How much control do local governments have over how their revenue is *raised* and how much to raise?

2. How much control do they have over the way their revenue is *spent*?

Both dimensions of control are important in evaluating local fiscal autonomy. The second measure, however, is perhaps more important in evaluating home rule power. Local power depends especially on being able to control how revenue is spent, regardless of its origin.

Measuring Local Control over the Raising of Revenue

City and county governments receive revenue from many sources. Ultimately, they all fall under state control. However, the state exerts varying levels of functional control over the different local revenue sources that it has authorized. In some cases, the amount of state control over a particular revenue source has also changed over time.

Attempts to define local control over the raising of revenue usually seek to distinguish which level of government—federal, state, or local—controls whether and how much revenue is *levied*. To fund local activities, the state has authorized local governments to levy revenue in various ways, including taxes, fees, assessments, services charges, and fines. In each case, it takes an action of the voters or the governing body of the city or county to raise this local revenue. Revenue from such sources, often called own-source revenue, is usually considered to be under local control.

Own-source revenue is usually contrasted with subvention revenue. Subventions are local shares of revenue levied by the state or federal government and then allocated to local governments on a formula basis. Examples include federal funding for health and welfare programs, revenue from gas taxes, and motor vehicle license fees that the state government allocates to local governments. Some subventions come with restrictions imposed by the sending government on how the money may be spent; others have no restrictions. From the point of view of local fiscal autonomy over the *raising* of revenue, however, subventions represent revenue over which local governments have no control.

Since the passage of Proposition 13 in 1978, the traditional distinction between own-source revenue and subvention funding has become less useful as a measure of local control over the raising of revenue. As we have discussed, Proposition 13 transferred control over the allocation of property taxes to the state. Our measure of *locally controlled revenue* is based, in general, on the traditional distinction between own-source revenue and subvention funding, except in the case of property tax revenue. We designate 1978 as the year when property tax revenue shifted in character from being locally controlled to externally controlled.[8]

A Second Measure of Control over the Raising of Revenue: Revenue Predictability

As an additional measure of local fiscal control over the raising of revenue, we evaluate the stability of the main components of local revenue over time. Stable revenue sources lend another measure of fiscal control to local governments, since they enable local governments to plan more effectively. Some local revenue streams have been stabler than others, because they have been less susceptible to external shocks of either economic or political origin. For example, city revenue derived from public service enterprises such as utilities or hospitals has been relatively

[8]Table B.1 in Appendix B provides a breakdown of the main components of own-source revenue for cities and counties in the state. The more detailed tables in Appendix C provide a breakdown of all revenue line items recorded by the State Controller's Office from 1916 to 1995.

stable because it is not as heavily affected by swings in the business cycle as other sources. On the opposite end of the stability scale, subvention revenue can be volatile, since it is particularly subject to political shifts at the state and national level. However, some subvention funding has been quite stable, in particular, funding sent to counties for health and welfare programs.

Measuring Local Control over the Expenditure of Revenue

A thorough evaluation of local fiscal control must consider whether restrictions have been placed on how revenue may be *spent* by local governments, not just how it is raised and allocated. In measuring discretion, we seek to define the share of revenue that best measures local governments' ability to choose between competing priorities. We define *discretionary revenue* as the share of local revenue whose expenditure is not earmarked for purposes strictly mandated by another level of government or for ongoing maintenance of quasi-independent enterprises such as hospitals and utilities.[9]

Agency Funding: The Measure of Counties' Role as Agents of the State

Since the time of the Depression in the 1930s, counties have been given a major role as agents of the state, administering state and federally mandated services. These services are funded in large part by agency subventions sent by the state and federal governments to counties. Although both cities and counties receive subventions that are targeted

[9]Appendix A discusses the components of discretionary and restricted revenue used in our analysis.

for certain program areas such as transportation improvements, only counties receive agency subventions. Agency subventions entail the greatest degree of external control, requiring that the recipient government carry out programs in a specific manner subject to detailed regulatory oversight by the sending government. Most agency funding is provided for health and welfare programs, including programs such as Temporary Assistance for Needy Families (TANF) and food stamps.

Although the state government requires that counties provide these strictly defined services (and the federal government through the state), it does not provide all of the funding that counties need to carry them out. Counties are obligated by law to commit a certain portion of their general-purpose revenue toward agency functions or, as they are often called, state-mandated local programs. This county contribution to agency programs is considered restricted revenue in our analysis. We define the degree to which counties act as agents of the state or federal government by their level of agency funding, which consists of agency subventions on the one hand and the required local contribution of general-purpose revenue on the other.[10]

Organization of the Report

In the following chapters of this report, we review the history of local finance in California during two time periods over this century:

- 1911 to 1978: the era of separation of sources and home rule power, and
- 1978 to 1995: the era of fiscal constraint and state control.

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[10]For a description of the different types of subventions that local governments receive, as well as the manner in which we calculated the local county contribution of general-purpose revenue required for agency programs, see Appendix A.

Finally, we discuss the policy implications that arise from our findings in relation to current efforts to restructure the state-local fiscal relationship.

2. The History of Local Finance in California Before Proposition 13

The Era of Expanding Power and Separation of Sources: 1911 to 1932

By 1916,[1] the basic legal framework for the state-local relationship had been established. Progressive Era reformers had instituted home rule for charter cities and local fiscal autonomy through the separation of sources. The property tax was the principal source of revenue for both cities and counties, and after the passage of the Separation of Sources Act in 1910, it was reserved for that purpose alone. From this similar starting point, the fiscal structure of cities and counties then began to diverge.

[1]Our data analysis starts in 1916, when the State Controller began collecting revenue data from local governments in a systematic way.

As cities became the main provider of utility services, revenue from "public service enterprises," namely, quasi-independent public entities such as utilities and hospitals, began to rise. From 1919 to 1932, per capita city revenue from this source more than tripled, as Figure 2.1 reveals. Counties could not diversify their own-source revenue base in this fashion. Counties manage dependent special districts, but they do not operate public service enterprises within their general operating budgets, as cities do. Instead, counties began to receive more and more subvention funding for administration of state and federal programs, as Figure 2.2. indicates. Revenue from public service enterprises and subvention funding grew more quickly than other revenue streams during the first few decades of the century, and this largely accounts for the diverging fiscal structure of cities and counties.

Figures 2.1 and 2.2 depict the main revenue components to cities and counties in California from 1916 to 1945.[2] Own-source revenue is broken down into three categories: property taxes, public service enterprises, and a category labeled "licenses, fees, assessments, and other income." This last category includes revenue from licenses, permits, fees, service charges, other taxes, assessments, and use of money and property. The figures convey the growing importance of public service enterprise revenue for cities and subvention funding for counties during the early decades of the century.[3]

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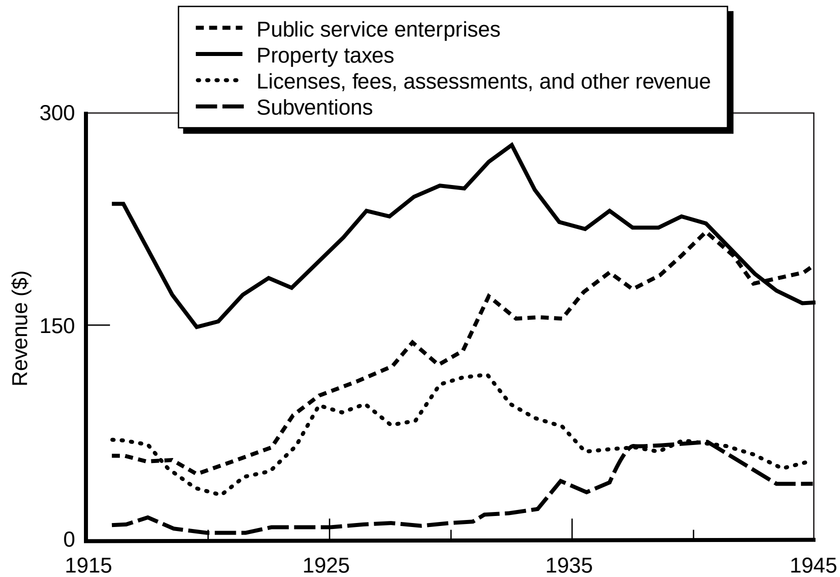
[2]In our graphs, revenue levels from fiscal year 1915–16 are labeled as "1916," and so forth. Revenue is depicted in per capita dollars, adjusted for inflation to 1995 levels, for all cities and counties in the state.

[3]Figures for revenue by category to cities and counties at critical junctures between the time periods discussed in this report are presented in Tables B.2 through B.7 in Appendix B.

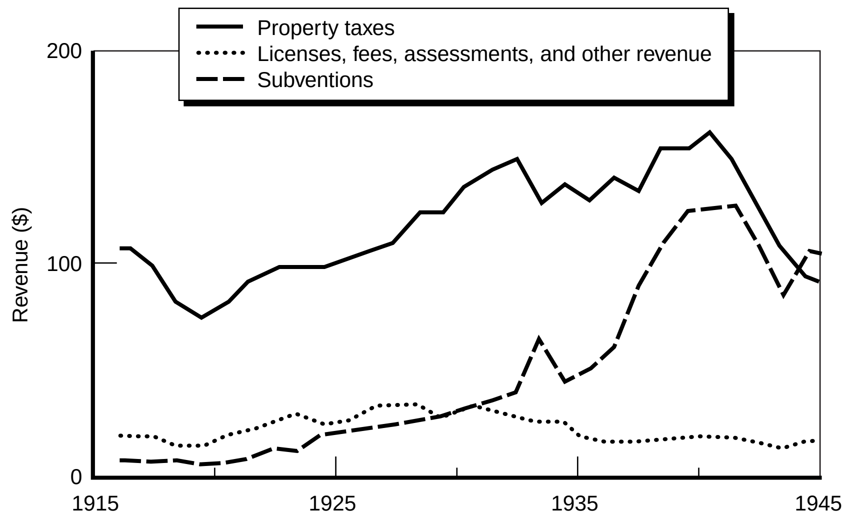


SOURCE: State Controller's Office, *Annual Financial Transactions* series.

Figure 2.1—Per Capita Revenue by Type for California Cities, 1916–1945 (1995 dollars)

The New Deal Transforms County Governments: 1932 to 1945

The onset of the Great Depression marked a key turning point in local finance. Own-source revenue for cities and counties declined by about one-tenth from 1932 to 1934. State and federal subventions to local governments increased rapidly from 1932 to 1937 as New Deal programs were established to alleviate the shock to local economies. Although subventions to cities would be reduced after the worst effects of the Depression had subsided, subventions to counties would continue to



SOURCE: State Controller's Office, *Annual Financial Transactions* series.

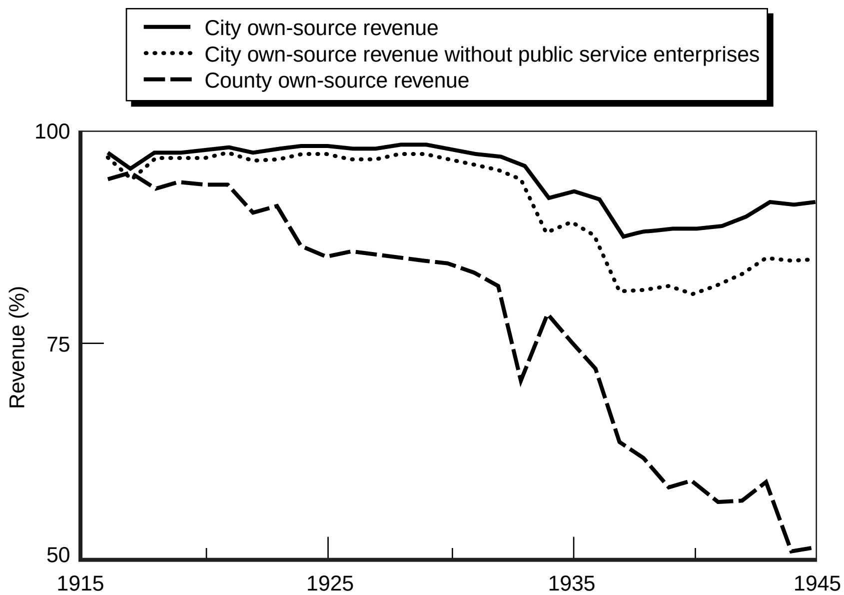
Figure 2.2—Per Capita Revenue by Type for California Counties, 1916–1945 (1995 dollars)

rise, transforming counties into agents of the state and federal governments.

The state legislature took steps in response to the Depression that set the stage for a larger state role in local finance. In 1933, the legislature placed a plan before the voters to change the structure of the state-local finance system. Known as the Riley-Stewart Act, it introduced a new era of larger state involvement in school finance, laying the foundation for major growth in state and local spending over the next 45 years. The state took on greater responsibility for funding schools, and soon levied new taxes, including a 2¢ sales tax for education and a new state income tax.[4]

[4]Hartley, Sheffrin, and Vasche (1996).

The period from the Depression to the end of World War Two was critical for county government. In 1932, four-fifths of county funds came from own-source revenue; by 1945, that share had dropped to only one-half. Figure 2.3 portrays the widening gap between the structure of city and county finance over the period. It shows own-source revenue as shares of total city and county revenue. Even when public service enterprise revenue is subtracted from city revenue—to ensure greater comparability with the county fiscal structure—the greater independence of the city revenue structure is evident.

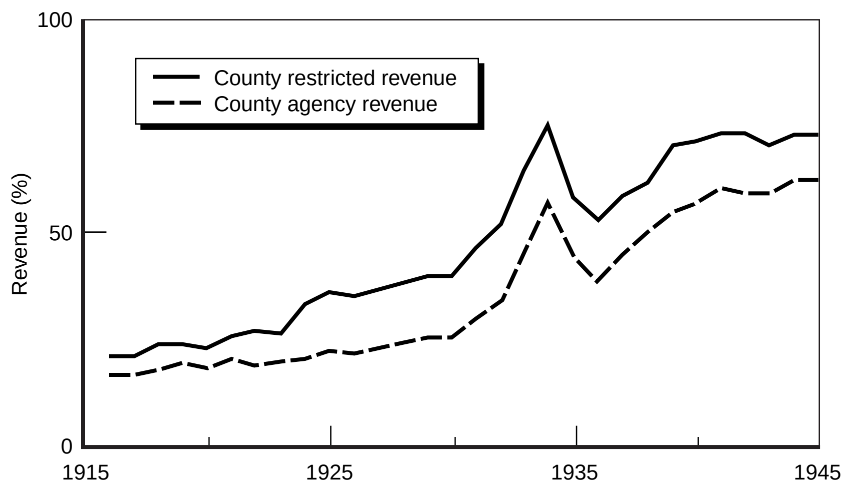


SOURCE: Author's calculations based on data from the California State Controller's Office.

Figure 2.3—Own-Source Revenue as a Percentage of Total Revenue for California Cities and Counties, 1916–1945

If another level of government controls the raising of local revenue, local governments might be said to be dependent. However, if another level of government also mandates how the revenue can be spent, then local governments are truly constrained. At the extreme, local governments may become agents of the controlling government.

Although half of county revenue was derived from external sources by the start of World War Two, an even higher share—more than 70 percent—was restricted in terms of how counties could spend the funds, as Figure 2.4 reveals. Restricted revenue forms a higher share because we include the portion of county general-purpose revenue devoted to health and welfare programs. It is misleading to characterize the county role in providing such relief as an agency role before the Depression, since counties provided the assistance with little state or federal oversight.



SOURCE: Author's calculations based on data from the California State Controller's Office.

Figure 2.4—Restricted and Agency Revenue as a Percentage of Total Revenue for California Counties, 1916–1945

Starting with the Depression years, the amount of such oversight has increased over the course of the century. Therefore, the county relief role represents a case where a revenue and expenditure stream has remained relatively constant while the level of external control has shifted over time.[5]

During the Depression, counties adopted a major role as agents of the state and federal governments, as agency subventions for health and welfare programs began to increase sharply. Figure 2.4 reveals that most of the rise in restricted revenue to counties over the period was due to a rise in agency funding. By the start of World War Two, more than half of all county revenue reflected this new agency role.

A key long-term pattern in subvention funding emerged during the years after the Great Depression. Over the century, city subvention funding has been more volatile, subject to external political shifts, whereas county subvention funding has been relatively stable. New Deal programs were not geared just toward county governments. In fact, subventions to cities increased more rapidly than those for counties from 1932 to 1937. That pattern reversed completely by the onset of World War Two, however, when city subventions began to decline. In contrast, subventions to counties continued to rise as a share of county revenue even during the war years.[6]

The new county revenue structure emerged rapidly because subventions to counties increased whereas local government own-source

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[5]See Appendix A for a description of our measure of the required county contribution for agency programs. Figures on the components of restricted revenue to counties at critical junctures over the century are presented in Table B.8 in Appendix B.

[6]Table B.9 in Appendix B presents a statistical measure of variability in revenue streams over time. It confirms that city subventions have been more unstable than county subventions over the century.

revenue suffered a long decline over the period between the Depression and the end of World War Two. Just as subventions helped stabilize county revenue over the period, public service enterprise revenue provided a stable source for cities. By 1945, nearly half of city revenue (43 percent) came from public service enterprises. This revenue is generally earmarked for the ongoing maintenance and operation of the enterprises themselves. Thus, we see that during the long decline of the Depression and war years, the most restrictive forms of local government revenue also remained the most stable.

By end of World War Two, a fiscal pattern was established that would prevail until the passage of Proposition 13. Subventions formed half of county revenue but only one-tenth of city revenue. Counties had shifted in a matter of three decades from almost complete revenue independence to a situation in which nearly three-quarters of county expenditure was externally restricted. Although cities had maintained revenue independence by developing a more diverse own-source revenue base, counties increasingly relied on subventions.

The Roles of City and County Governments in the Postwar Period

By 1945, the responsibilities of city and county governments had stabilized into a pattern that persists to this day. Tables 2.1 and 2.2 outline the responsibilities assigned to city and county governments by the end of World War Two, which still hold half a century later.

The Era of Growth: 1946 to 1978

In comparison with other periods, the time between 1945 and the passage of Proposition 13 in 1978 was characterized by stable

Table 2.1

Counties' Dual Role as Agents of the State and as Local Governments

a. County Functions as Agents of the State	
Temporary income maintenance and employment training	Mental health
General relief	Public health
Health care for indigents and related activities	Social services
Elections	Alcohol and drug program services
	Courts and court-related activities
b. County Functions as Countywide Government	
General administration	Treasury/tax collector
Assessor	District attorney
Sealer of weights and measures	Local Agency Formation Commission
Youth and adult corrections	Probation
Transportation	
c. County Functions as Local Government in Unincorporated Areas or Undertaken on Behalf of Cities	
Land use planning	Development regulation
Recreation and parks	Library services
Fire protection	Police protection
County roads	Waste disposal
Flood control	

Table 2.2

City Government Functions

Public Safety	Culture and Leisure	Utility Services
Police	Park and recreation	Water/sewer
Fire	Libraries	Street lighting
	Community centers	Waste disposal
		Gas and electric
Community Development		
Planning and development regulation	Development and maintenance of community infrastructure	
Economic development		
Redevelopment		

uninterrupted growth. The state's population grew from 9.5 million in 1946 to 22.6 million in 1978. During this period, 135 new cities were formed. Local government authority to levy local taxes expanded with the state's growth. Inflation-adjusted per capita local government revenue more than tripled—from $516 in 1945 to $1,742 in 1978.[7] This period is often referred to as the "Tax and Spend" period in California's fiscal history.

The basic structure of local finance was stabler over the period than earlier in the century. Counties continued to receive about half their revenue from external sources; for cities, the share was less than one-quarter. Although this basic structure remained stable, cities continued to diversify their own-source revenue base. Counties did not do so, relying primarily on property taxes for discretionary revenue.

Cities began levying a sales tax under their home rule authority. In 1946, six cities levied a sales tax; by 1951, 141 cities were doing so. Each city set its own tax rate and collected the tax until 1955, when the legislature enacted the Bradley-Burns Uniform Local Sales Tax Act in response to complaints from retailers.[8] The Bradley-Burns Act established a uniform locally levied sales tax rate of 1 percent. The local agency that levied the tax received the proceeds of the tax paid within its jurisdiction. Sales tax revenue to cities climbed until it leveled off at about 13 percent of city revenue after 1957. As more and more cities levied the sales tax, the county share dwindled to the small portion levied in unincorporated areas. Counties received only one-tenth the amount that cities did.

In 1948, the motor vehicle in-lieu tax, first instituted in 1935, was increased. A vehicle registration fee and a 2¢ per gallon tax on fuels had been enacted in the 1930s, and the state subvened a portion of the

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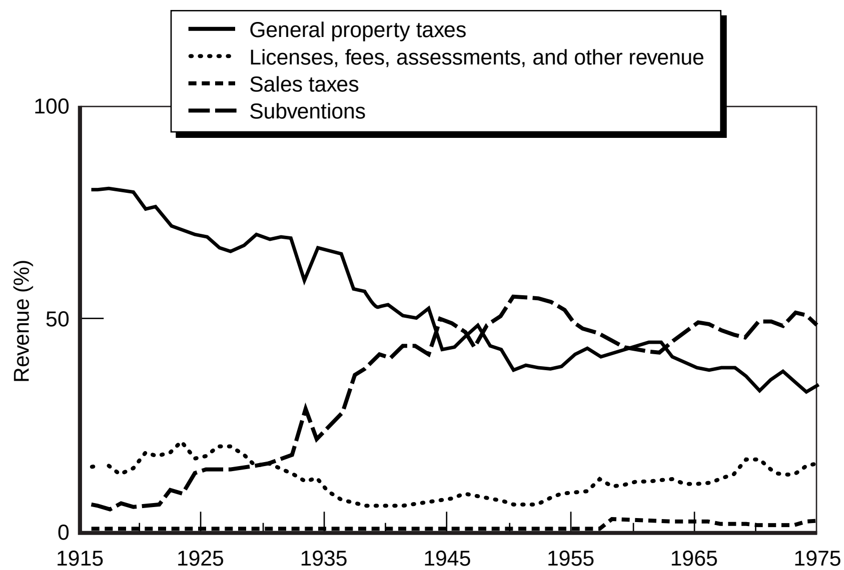
[7]These figures are calculated as the sum of combined total revenue to cities and counties divided by the total population of the state.

[8]Doerr (1997).

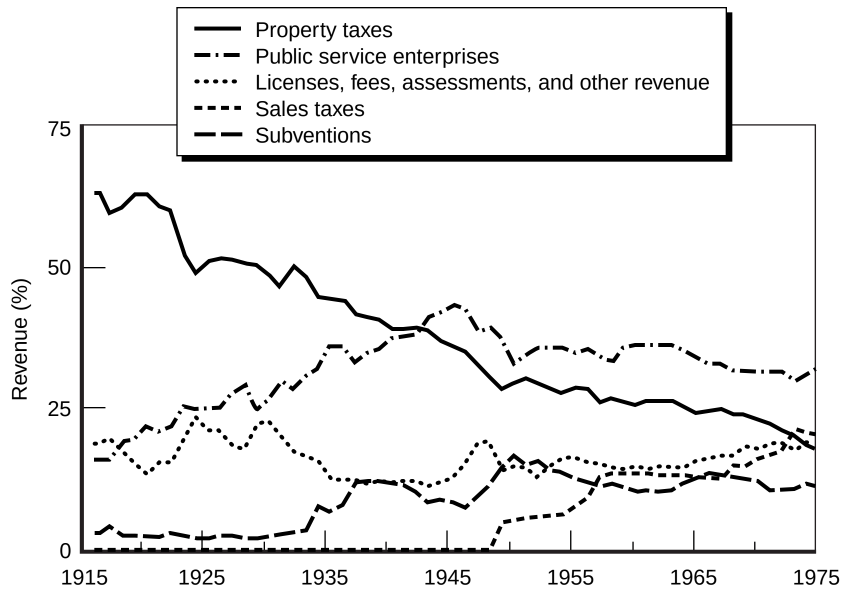
revenue to cities and counties for streets and roads. With the flood of new automobiles, these became important revenue sources. Economic conditions often provide the backdrop for changes in the state local finance system, as in this example.

Figures 2.5 and 2.6 portray the development of local finance during the postwar growth years. Figure 2.5 confirms that the story of county revenue is largely the story of only two revenue streams: property taxes and subventions. Property taxes declined steadily as a share of county revenue as subvention funding increased. Figure 2.6 indicates that although property tax revenue also declined steadily as a share of city



SOURCE: State Controller's Office, *Annual Financial Transactions* series.

Figure 2.5—Revenue by Type as a Percentage of Total Revenue for California Counties, 1916–1975



SOURCE: State Controller's Office, *Annual Financial Transactions* series.

Figure 2.6—Revenue by Type as a Percentage of Total Revenue for California Cities, 1916–1975

revenue, cities replaced that funding with new own-source revenue instead of subventions.

During the immediate postwar growth years, local governments became more self-reliant. Subvention funding leveled off from 1950 to 1963, and own-source revenue grew more consistently. With the advent of Great Society programs in 1963, however, subventions began to rise again. Subventions to cities rose especially quickly, repeating the pattern of the New Deal period. From 1963 to 1979, subventions to cities nearly quadrupled in per capita terms, outpacing other revenue sources. Federal grants to cities increased 20 times, accounting for most of the rise. Subventions to counties also increased rapidly, but only about half as much as for cities. By 1978, subventions formed a quarter of city revenue.

In spite of the sharp rise in subventions to cities, own-source revenue still dominated city finance by the end of the period, because cities generated so much revenue from new locally levied sources. As a result, their reliance on property taxes declined from 36 percent of city revenue in 1945 to only 16 percent by 1978. Counties, unable to diversify their own-source revenue base, remained dependent on property taxes, which still formed two-thirds of county own-source revenue by the 1970s.

3. The Era of Limits: 1978 to 1995

The passage of Proposition 13 in 1978 introduced a new era of fiscal constraint and increasing state control over local governments. In this chapter, we consider the effect on the structure of local finance.

Proposition 13 had three primary elements that affected local finance:

- It limited the general property tax rate to 1 percent of the full value of property and limited the reassessment of property to no more than 2 percent annually, except for cases of a change in ownership or new construction.
- It assigned the state the responsibility of allocating the proceeds of the property tax.
- It increased the ability of the electorate to vote on certain local tax increases. Any special taxes (which were not defined) needed to be approved by two-thirds of the voters. No new ad valorem property taxes could be imposed.

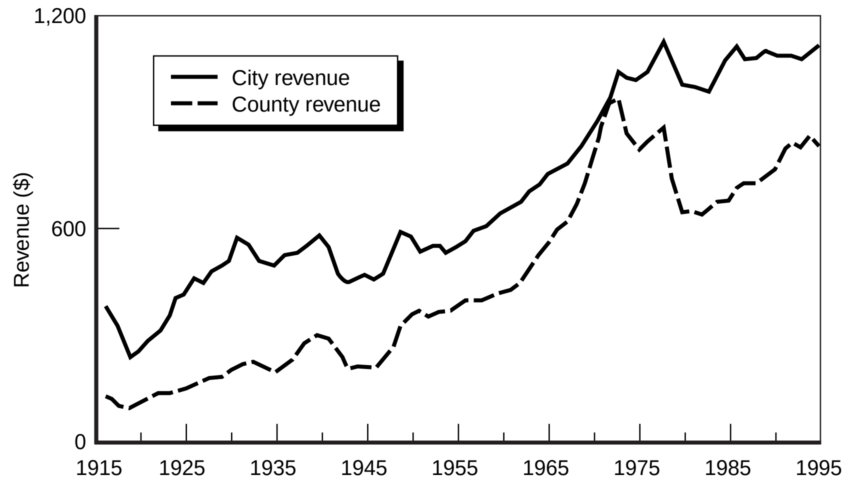
The Immediate Fiscal Effect of Proposition 13

The most immediate effect of Proposition 13 was a drastic reduction in local government resources, as property tax revenue was cut in half because of the new tax rate limits. The shock experienced by local governments was unlike any event during the century, including the Great Depression. Because counties were more reliant on property tax revenue than cities, they were hit the hardest. County own-source revenue declined by 39 percent in one year, whereas city own-source revenue declined only by 6 percent. Following on the heels of the property tax cuts, the federal government began to reduce subvention funding, as federal "devolution" to the states began to accelerate. The double blow was most severe for counties. County government contracted in size by one-quarter from 1978 to 1980 but city per capita revenue dropped only by a tenth. Figure 3.1 shows the steep drop in revenue to cities and counties from 1978 to 1980.

Figures 3.2 through 3.5 break down the underlying revenue components, revealing the decline in property tax revenue and subvention funding that explain the overall pattern.

The Deepening Distinction Between Cities and Counties

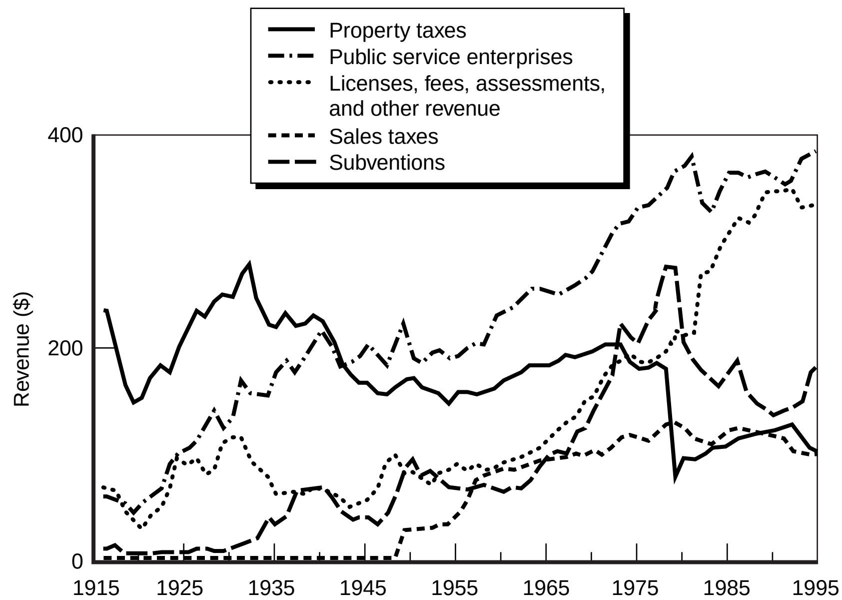
Proposition 13 and declines in federal subvention funding over the 1980s affected cities and counties differently. By 1978, cities and counties had different revenue bases, affecting their abilities to cope with increasing fiscal pressure. New constraints brought the contrasting strengths and weaknesses of city and county fiscal structures to the surface.



SOURCE: State Controller's Office, *Annual Financial Transactions* series.

Figure 3.1—Per Capita Revenue for California Cities and Counties, 1916–1995 (1995 dollars)

Proposition 13 revealed the relative fragility of county finance. Counties have been more vulnerable to external forces than cities, not only because of their greater reliance on subvention funding, but because of their heavy dependence on property tax revenue to fund their general-purpose functions. By 1978, property taxes had declined to one-fifth of city own-source revenue, and cities no longer relied on the property tax for discretionary revenue. By contrast, county general-purpose finance had not changed much at all over the century. As a result, counties were more fundamentally destabilized by Proposition 13. In 1978, property tax revenue still represented two-thirds of county own-source revenue.

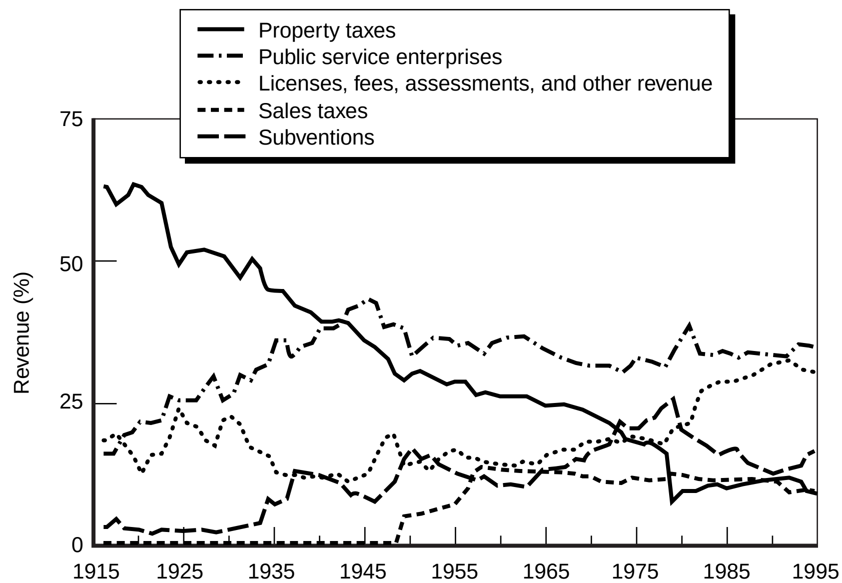


SOURCE: State Controller's Office, *Annual Financial Transactions* series.

Figure 3.2—Per Capita Revenue by Type for California Cities, 1916–1995 (1995 dollars)

Other than the property tax, counties have always had limited *countywide* taxing power. Although they are expected to provide such services as property tax assessment, jails, and transportation at the countywide level, their power to raise revenue is generally restricted to unincorporated areas. As the state continues to develop, less area remains unincorporated, which serves only to compound the problem.

Figure 3.6 shows our measure of local control over the raising of revenue for cities and counties. It is a variation on the traditional breakdown between own-source revenue and subvention funding. The only change is the way we categorize property tax revenue, which is considered locally controlled before 1978, and externally controlled after

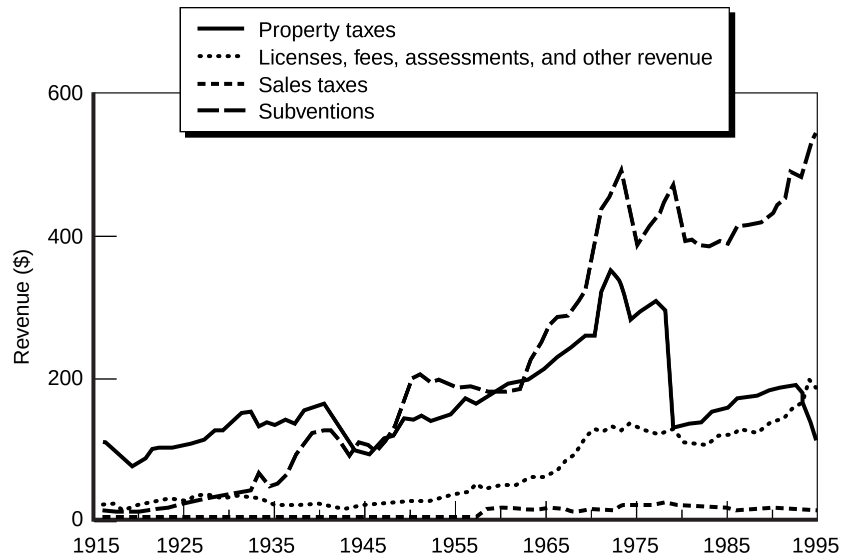


SOURCE: State Controller's Office, *Annual Financial Transactions* series.

Figure 3.3—Revenue by Type for California Cities as a Percentage of Total Revenue, 1916–1995

then. We recategorize property taxes at that point because Proposition 13 gave control over their allocation to the state.

The figure reveals that Proposition 13 dramatically altered the basic structure of county revenue, while leaving the city revenue structure less changed. Because of Proposition 13, county governments effectively lost control over the way the majority of their revenue is raised. Externally controlled revenue jumped from one-half to four-fifths of total revenue overnight, because of the drop in property tax revenue as well as the transfer of control over the property tax to the state. Cities, on the other hand, remained largely revenue-independent, with externally controlled



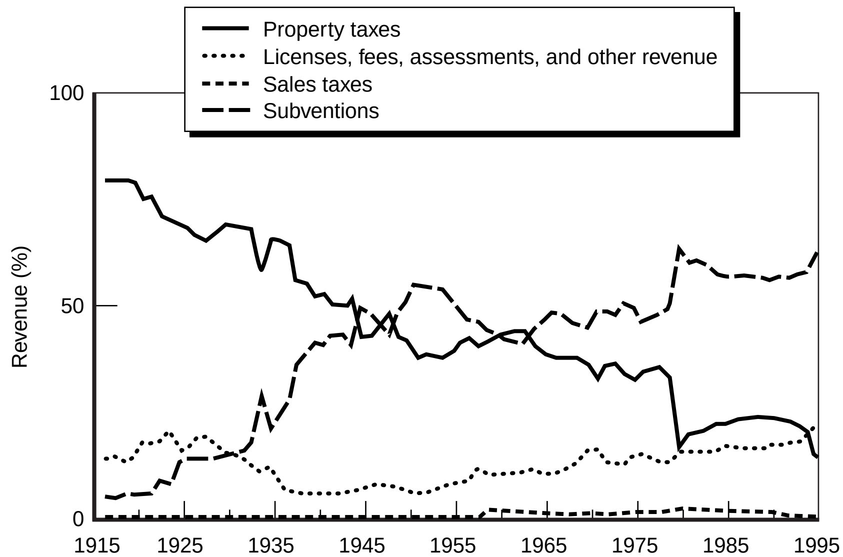
SOURCE: State Controller's Office, *Annual Financial Transactions* series.

Figure 3.4—Per Capita Revenue by Type for California Counties, 1916–1995 (1995 dollars)

revenue generally forming about one-quarter of total city revenue in the most recent period.

Cities were vulnerable in a different way, however, in the aftermath of Proposition 13. Although they had a more robust own-source revenue base, cities paid a price for their independence. They faced a problem during the 1980s that counties were not forced to contend with: a steady decline in subvention funding. Figure 3.7 tracks per capita subventions to cities and counties over time by their government of origin: either state or federal. (Cities also receive subventions from counties, which are included with state subventions to cities.)[1] Immediately after the passage

[1]The State Controller's Office began to track city subventions by type only in 1959.



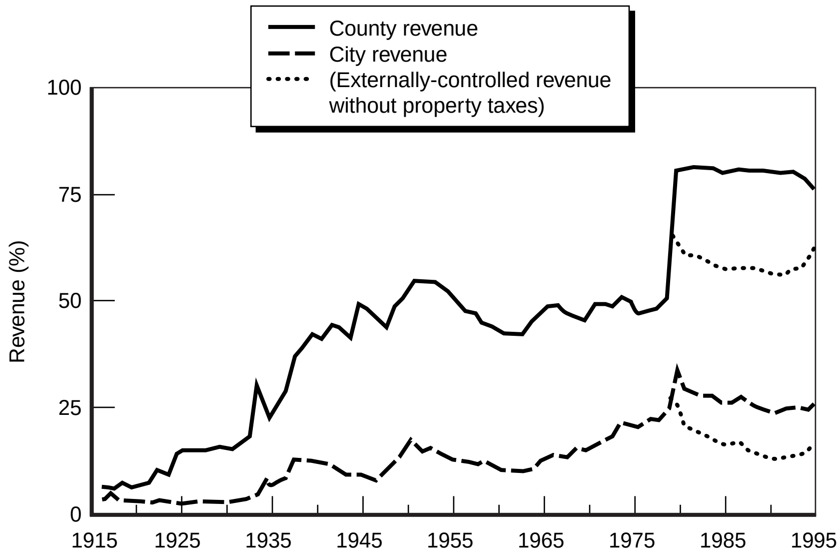
SOURCE: State Controller's Office, *Annual Financial Transactions* series.

Figure 3.5—Revenue by Type for California Counties as a Percentage of Total Revenue, 1916–1995

of Proposition 13, federal subventions to both cities and counties began to decline precipitously, as the graph indicates. Federal subventions to California cities dropped by over three-quarters in per capita terms from 1978 to 1992 and by about one-quarter to counties.

The state's increasing commitment to counties more than made up for the loss of federal subvention funding during the 1980s. As a result, per capita county subventions kept rising. In contrast, state subventions to cities have remained flat since 1978.[2] Therefore, the loss of federal

[2]In part, the reduction in state subventions to cities was due to Proposition 13 itself. When faced with tight budgets during the recessions of the early 1980s and 1990s, the state reduced a variety of general-purpose subventions to local governments and eliminated others entirely. Subventions from homeowners' tax relief were reduced (one of the effects of Proposition 13) as was the cigarette tax subvention and the motor vehicle



SOURCE: Author's calculations based on data from the California State Controller's Office.

Figure 3.6—Externally Controlled Revenue as a Percentage of Total Revenue for California Cities and Counties, 1916–1995

funding over the decade produced a sharp drop in the share of city revenue derived from subventions. Earlier in the century, subventions to cities and counties had always risen and fallen during the same periods. The new pattern after 1980 helped to deepen the structural distinction between cities and counties, as cities became increasingly self-reliant, and counties relied more than ever on external funding.

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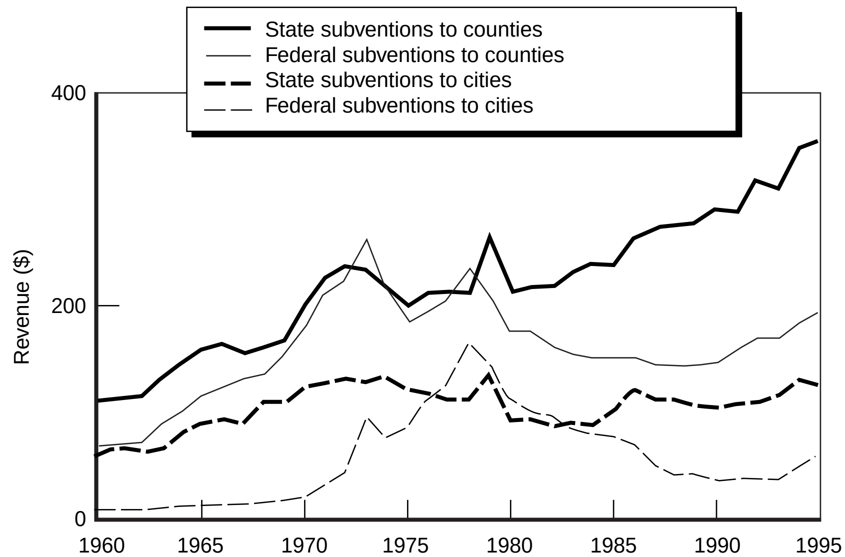
in-lieu tax subvention. Liquor license funds were eliminated in 1982 and business inventory tax relief in 1985. Subventions from trailer in-lieu taxes and cigarette taxes were eliminated in 1994.



SOURCE: State Controller's Office, *Annual Financial Transactions* series.

Figure 3.7—Per Capita State and Federal Subventions for California Cities and Counties, 1960–1995 (1995 dollars)

Our statistical measure of the predictability of different local revenue streams over time helps to confirm these conclusions about the relative strengths and weaknesses of city and county fiscal structures.[3] It indicates that county revenue has been more volatile in general than city revenue since the 1930s. This volatility has been due to the greater variability of county own-source revenue. The pattern for subventions is the mirror opposite; county subventions, especially agency subventions, have been stabler than city subventions.

Since the mid-1950s, city revenue has been composed of higher shares of more predictable sources, in particular, revenue from public

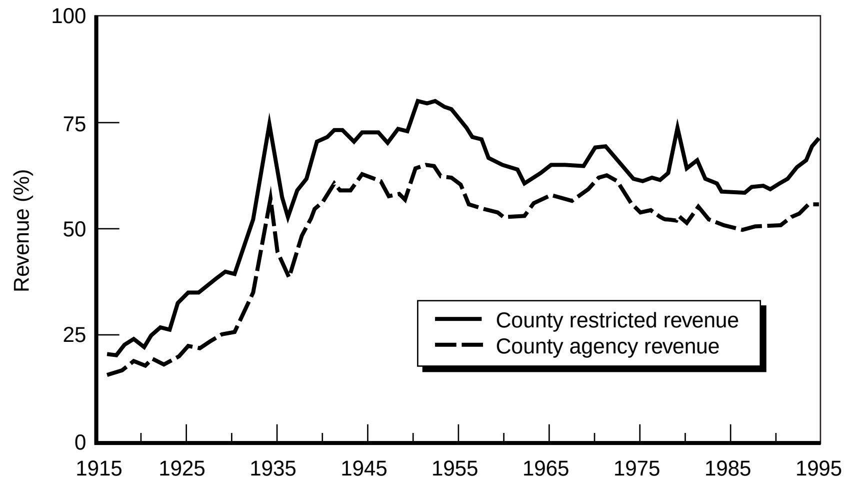
[3]Table B.9 in Appendix B lists the results.

service enterprises and licenses, fees, and assessments. The property tax has been a relatively unstable revenue source, even when the effect of Proposition 13 on its variability is not considered. Since the passage of Proposition 13, variability in property tax revenue based on fluctuations in the economy has been reduced, as property taxes are now levied according to a set formula. However, the passage of Proposition 13 itself and manipulations of the property tax by the state demonstrate that property taxes continue to be particularly susceptible to external shocks, although now the shocks may be considered as primarily political rather than economic.

The Effect of Proposition 13 on Counties: Greater Dependence Leads to a Growing Crisis

Like the implementation of the New Deal, the passage of Proposition 13 fundamentally altered the fiscal structure of county governments in the state. County government contracted by a quarter from 1978 to 1980 as the new property tax limits shrank county own-source revenue. Counties have spent the last 20 years trying to make up the lost ground. Although city per capita revenue nearly regained its pre-1978 level by 1986, counties were still slightly below pre-1978 revenue levels by 1995, the endpoint of our analysis.

Because of Proposition 13, county governments effectively lost control over the way the majority of their revenue is *raised*. However, we must also consider whether counties lost control over the *expenditure* of their revenue. In fact, counties' role as agents of the state remained fairly stable immediately after the passage of Proposition 13, as Figure 3.8 (an extension of Figure 2.4) reveals. It began to rise substantially only during



SOURCE: Author's calculations based on data from the California State Controller's Office.

Figure 3.8—Restricted and Agency Revenue as a Percentage of Total Revenue for California Counties, 1916–1995

the 1990s. Thus, our two principal measures of local fiscal power indicate that although counties lost control over the raising of their revenue following the passage of Proposition 13, they retained roughly the same degree of control over spending until recently. At first glance this is surprising, given that county own-source revenue—the main source of discretionary funding—contracted by nearly one-half from 1978 to 1979.

The key to this apparent anomaly lies in the structure of county agency revenue. This revenue has two main components: subventions and mandated county contributions of general-purpose revenue. After 1978, the local contribution to agency programs plummeted because the state government, as part of its fiscal relief plan, spent $1.3 billion to "buy out" the mandated county share of a variety of health and welfare programs including Medi-Cal and Supplemental Social Security.[4] Many of the state's new commitments formed part of an expanding state budget for health and human services during the 1980s, but they did not appear as subventions to counties. As the county contribution to these programs declined, the state general fund budget for health and human services rose from $3.7 billion in fiscal year 1977–78 to $7.1 billion by fiscal year 1981–82.

We are now in a position to explain why counties' agency role remained stable as a share of total county revenue until the 1990s. Counties became a smaller unit of government in the 1980s than they were in the 1970s; county inflation-adjusted per capita revenue declined by more than a third from 1973 to 1980. This decline did not substantially affect counties' agency role, when measured as a share of county revenue, because the state "bought out" the equivalent of the property tax revenue lost after the passage of Proposition 13. In effect, the state balanced the equation for counties in terms of their agency role. Having argued above that control over the expenditure of local revenue is a better measure of home rule power than control over the raising of the revenue, we might conclude that the role of county government has not changed substantially since the passage of Proposition 13.

An important consideration has been left out of the analysis, however. Since the *overall size* of county government—measured simply by total inflation-adjusted per capita revenue levels—diminished in the post-Proposition 13 environment, it is important to consider whether

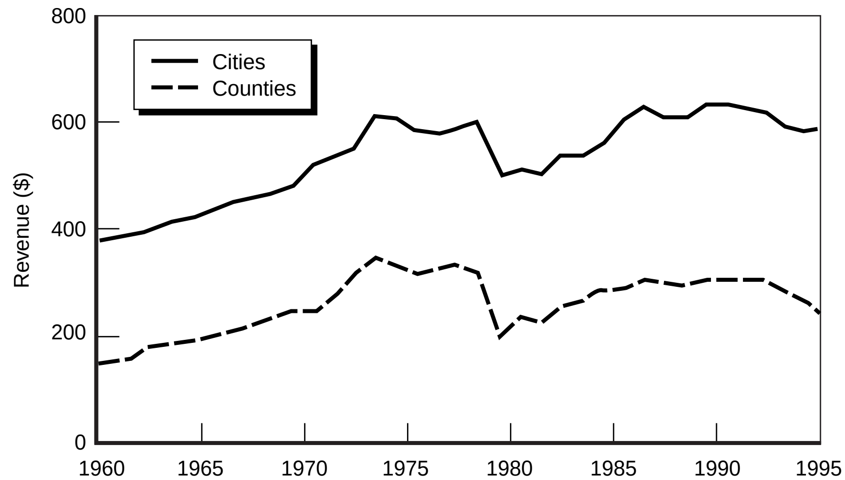
[4]See California Legislative Analyst's Office (1985). A certain portion of the local contribution to state-mandated health and welfare programs is actually discretionary, but it is impossible to distinguish in the data. Given that a portion is discretionary, the reduced local contribution to state-mandated programs may also reflect reduced service levels by counties. See Appendix A for more detail on this measure.

counties have had less revenue to spend on general-purpose functions than they did in the 1970s. In other words, we cannot measure home rule power only in terms of *relative* shares of discretionary versus restricted revenue. The *absolute* level of discretionary revenue is also critical. In the 1980s, the state took over many of the health and welfare functions that counties had funded and provided before then, but there was no similar effort to "buy out" the general-purpose functions of county government.

Figure 3.9 addresses this matter. It shows the absolute per capita level of discretionary revenue for cities and counties from 1960 to 1995. It reveals that counties did lose ground in terms of per capita discretionary revenue after the passage of Proposition 13. County discretionary revenue declined by 39 percent immediately after 1978, then slowly made up ground until recently. By contrast, city discretionary revenue faltered during the early 1980s, but by 1985 it exceeded pre-Proposition 13 levels.

The Property Tax Shift: A Tightening Vise for County Governments

We have seen that the new property tax limits constrained local government budgets after the passage of Proposition 13. However, the full effect of the initiative was never actually imposed on local governments because the state took steps to cushion the blow. In 1979, the state adopted AB 8 as a response to Proposition 13. This bill included a fiscal relief plan to ameliorate Proposition 13's effects on local services. As a result, city and county expenditures were reduced only by



SOURCE: Author's calculations based on data from the California State Controller's Office.

Figure 3.9—Per Capita Discretionary Revenue for California Counties, 1960–1995 (1995 dollars)

about 10 percent in the year after its enactment. In the largest local assistance program in state history, the state government replaced about two-thirds of the property tax lost by local governments. This was possible because there was a state budget surplus of $3.8 billion in fiscal year 1978–79.[5] Approximately $1 billion was dedicated to cities, counties, and special districts to prevent major reductions in local government services, particularly police and fire protection. Most non-school aid went to counties to protect their agency role.

A decade later, the cost of local fiscal relief had topped $9 billion out of a state budget of $40 billion.[6] When the economy slid into recession

[5]Department of Finance, historical data.

[6]California Constitution Revision Commission (1996a).

in the early 1990s, the legislature and the governor partially reversed the fiscal relief program enacted in 1979. In fiscal years 1992–93 and 1993–94, the state reduced the property tax allocation to cities and counties and transferred the revenue to the schools. In the process, the state abandoned its earlier post-Proposition 13 goal of ensuring that growth in the property tax base would be used for local services. Instead, the state aimed to take advantage of a growing property tax base by transferring a greater share of the tax to the schools, thereby reducing its own general fund commitment to education.

The property tax shift was especially hard on counties, and their general-purpose functions have suffered as a result. Counties lost $2.5 billion or 23 percent of their own-source revenue because of the shift. For cities, $488 million was shifted—only 2 percent of own source revenue.[7] The state replaced about half of the revenue lost as a result of the shift with funds derived from the extension of an existing 1/2 percent state sales tax raised in 1991 to help close the budget gap left by the recession. The measure, a constitutional amendment, was placed on the ballot as Proposition 172. The funds were directed only for public safety purposes, however, and the state established a "maintenance of effort" requirement to ensure that the funds from the sales tax could not replace money already committed to public safety. The state therefore traded local discretionary revenue with funds earmarked for a specific purpose.[8]

[7]The effect was greater on many older cities with higher property tax rates before Proposition 13, such as Los Angeles, Oakland, and San Jose.

[8]Although the stated purpose of Proposition 172 was to help offset the property tax shift from local government to schools, it did so only partially, since the value of the 1/2¢ sales tax revenue was only $1.6 billion. In addition, there is a mismatch between the shift of the property tax from cities and counties and the allocation of the 1/2¢ sales tax for public safety. Some counties have received more in sales taxes than they lost in transferred property taxes, and others have received less.

Because of the property tax shift, county discretionary revenue declined by nearly a quarter between 1992 and 1995. This decline represented a loss of $2 billion in inflation-adjusted dollars, or $71 per capita. By 1995, per capita county discretionary revenue was less than three-quarters of its pre-Proposition 13 level, and restricted revenue had increased to nearly three-quarters of county revenue. Many counties have been forced to sell assets, increase debt, or substantially cut services in recent years to balance their general-purpose budgets.[9]

City Government in the Post-Proposition 13 Environment: Tighter Budgets Lead to More Entrepreneurial Strategies

In the 1980s, cities faced two significant new budget constraints: Not only was property tax revenue limited by the new tax rates, but subvention funding declined steadily, leaving cities with a growing budget shortfall. To address the problem, cities became more entrepreneurial. They increasingly tailored land-use policies to garner more revenue and increased revenue from sources over which they have substantial discretion. Between 1978 and 1995, per capita revenue from local sources other than property taxes, sales taxes, and public service enterprises nearly doubled. From the start of the century until the 1980s, these other local revenue sources together had formed a steady one-fifth of city revenue. After 1978, the share increased rapidly, reaching nearly a third by 1990.

Much of this new local revenue has come from licenses, fees, assessments, and other sources that are more closely linked with services

[9]Erie, Hoene, and Saxton (1998).

received. As a result, the cost of city services has become increasingly "internalized." In the past, most city discretionary revenue came from two communitywide taxes—namely, property and sales taxes—but these sources have been overtaken by forms of revenue that link payments to services. City revenue from property and sales taxes declined from more than one-third of own-source revenue in 1978 to less than one-quarter in 1995.

The principal components of the increase in own-source revenue to cities over the period were the utility users tax, the transient lodging tax, special benefit assessments, quasi-external transactions, other current service charges, and "other" revenue.[10] Increases in these categories alone make up 69 percent of all revenue in categories that increased between 1980 and 1995. Revenue from interest income and investments also rose substantially until 1990 but then dropped by 30 percent by 1995. Reliance on interest earnings declined as more prudent investment strategies followed the Orange County bankruptcy.

In spite of their efforts to increase local revenue, city governments have faced tighter budgets since 1978. Although city revenue was not hit as hard as county revenue during the 1970s, it has been more constrained since then. City per capita revenue nearly regained its pre-Proposition 13 level by 1986 but stagnated after that. In contrast, county revenue grew steadily as a result of the flow of state subvention funding. Per capita county revenue grew more than twice as quickly as per capita city revenue, on average, from 1979 to 1995.

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[10]See Table B.10 in Appendix B.

4. Conclusion

The pendulum in the balance of power between the state and local governments first shifted from strong state control during the early days of statehood toward greater local control by the time of the Progressive Era at the turn of the last century. In recent decades, however, the pendulum has swung back again toward a system of stronger state control. Local governments have protested the shift, and they are seeking to reestablish the old terms of the relationship. In this chapter, we evaluate the major implications of recent changes in the state-local fiscal relationship and consider current reform proposals in light of historical expectations and standards.

Current Issues in the State-Local Relationship

We draw three major conclusions from the preceding analysis.

- The post-Proposition 13 era has been characterized by greater fiscal constraint for local governments.

- That era has also been characterized by a shift toward greater state control over local finance, to the degree that the traditional separation of sources doctrine has been significantly undermined.
- The effect of these changes has been quite different for cities and counties and has deepened the structural differences between them. Although the main effect on cities has been to alter the composition of discretionary revenue, the ability of counties to raise discretionary revenue has been significantly reduced. This pattern has destabilized the general-purpose role of county government.

Proposition 13 was only the beginning of a longer-term process of increasing fiscal pressure. Local governments have been squeezed in a tightening fiscal vise, constrained by voter initiatives on the one hand and by the state and federal governments on the other. A number of additional voter initiatives were passed over the years following 1978 aimed at curbing local government taxing and spending.[1] The vise tightened from the other side as federal subventions began to decline starting in the 1980s. The state government then squeezed local governments even more during the property tax shift of the early 1990s. In addition to these events, the state spent the last two decades replacing local discretionary revenue other than the property tax with funds earmarked for specific purposes. On several occasions since 1978, the state government repealed or reduced local own-source revenue and replaced it with a subvention targeted for specific purposes.[2] A number

[1]These include Proposition 4, passed in 1979; Proposition 62, passed in 1986; and Proposition 218, passed in 1996.

[2]In 1979, business inventories were exempted from property taxes, and a subvention (Financial Aid to Local Agencies, or FALA) was enacted to replace the tax; in 1982, the

of these subventions were later repealed when the economy slid into recession.

Although local government fiscal power has been curtailed, the state's power has grown, because voter initiatives permitted the state to raise and allocate more revenue. It took the recession of the early 1990s, however, to fully manifest the consequences of this shift in the balance of power. When the recession hit, the state government could balance its own budget at the expense of local governments.

Control over the property tax has been a defining issue in the state-local relationship since the first days of statehood. The recent shift in control of the property tax threw the established relationship off balance. Both cities and counties have protested this alteration in the terms of the relationship, but the practical effects have been most destabilizing for counties, as they continued to rely on property taxes for discretionary revenue.

Current Issues for Cities: Implications of the New Entrepreneurship

Cities were far better prepared to respond to the new fiscal constraints. Because they have access to a variety of discretionary revenue sources, cities have maintained average per capita revenue levels that are nearly as high as before Proposition 13. Therefore, the major shift in city finance in the current period has been in the *composition* of revenue rather than its overall level.

Although city per capita revenue has not suffered a significant decline, many observers have argued that the new system of city finance

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Highway Uniform Carriers subvention and the FALA subvention were repealed; in 1993, the cigarette tax subvention was repealed.

has certain negative consequences. For example, it is often argued that city land-use decisionmaking has become increasingly "fiscalized," and as a result, retail development is favored over housing and industry.[3] It is also argued that the current system of finance has become so arcane that citizens are no longer able to understand the relationship between their taxes and the government services they pay for.[4] These observers tend to focus on the increasingly complex provisions for the allocation of property tax revenue, noting that as residents lose local control over this communitywide revenue source, local governments inevitably become less responsive and accountable to local needs and preferences. Finally, observers note that the constraints placed on cities in the current fiscal environment make it harder for them to respond to the needs of an expanding economy.

Current Issues for Counties: Destabilization of Counties' General-Purpose Government Function

County finance has been affected more fundamentally in the recent period. The key to understanding the growing crisis of counties is their dependence on property taxes for discretionary revenue. When property taxes were cut, and control passed to the state, the general-purpose government role of counties was endangered. Especially since the tax shift in the early 1990s, county discretionary revenue has suffered.

Although the general-purpose role of county government has been undermined, expectations regarding county functions have remained largely unchanged since the 1930s. Counties are still expected to

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[3]Lewis and Barbour (1999).

[4]Chapman (1998), California Legislative Analyst's Office (1993a, b), Sokolow (1998).

maintain libraries, run transportation services, and supply the myriad other general-purpose government services they are currently responsible for. As it stands, however, there is a growing mismatch between counties' traditional responsibilities and their ability to fulfill them. The role of county government is being redefined on an ad hoc basis as counties cut back services to stay afloat.

Although counties are increasingly unable to meet their existing general-purpose government responsibilities, some observers argue that their general-purpose role should actually be expanded. Problems such as transportation, urban sprawl, affordable housing, and health care are now regional concerns. The state has established categorical funding mechanisms and single-purpose planning bodies to address many of these concerns, but no planning bodies have emerged at the regional level capable of integrating these responsibilities. Although urban regions don't always coincide with county boundaries, counties could help fill the current regional planning vacuum.

Review of Contemporary Thinking: Proposals for Reform Meet Resistance

Every California governor since Edmund G. "Pat" Brown has reviewed the status of state-local relations and attempted reforms, but with limited success. Local governments' frustration increased with the state's property tax shift of the early 1990s, and since then pressure for reform has mounted. Some recent reform proposals—all made between 1993 to 1997—are outlined below.[5]

[5]Full citations are included in the bibliography.

California Constitution Revision Commission: Recommended increasing home rule power by amending Proposition 13 to give local governments control over the allocation of the property tax.

California Legislative Analyst's Office: Recommended a sorting out of state-local programmatic responsibilities and an increase in local control by amending Proposition 13 to allow greater local control of the property tax.

Business Higher Education Forum: Recommended strengthening local government by revising Proposition 13 to provide more local control of the property tax.

California Business Roundtable: Recommended revising Proposition 13 to allow for more power to raise and spend local taxes.

California Planning Roundtable: Recommended providing a stable share of the property tax for local services and permitting local governments to work together to allocate tax revenue.

California Council on an Economic and Environmental Balance—CPR Project: Recommended providing greater control of local taxes to local governments.

These groups concur that control over the financing of local services has gravitated from the local to the state level and that this trend should be reversed. However, the state government has been slow to address major reforms of the distribution of fiscal and programmatic power. The standard argument made against proposed reforms at the state level, aside from concerns about a loss of state power, is that the effects of the proposed reforms are uncertain. In opting for the evils of a current condition to prevent an uncertain future, state policymakers are confirming Machiavelli's admonition to the Prince—that there is nothing more difficult to undertake than to change the order of things.

Reforms are especially slow to arrive when the groups or interests whose power would be curtailed have the ability to slow or stop the reform process, as is true in the case at hand. Given that any redistribution will necessarily harm some agency, it has been difficult to build a statewide coalition in favor of change.

The state-local relationship is now at a juncture as tense as at the turn of the last century, when state-level reformers restructured the relationship by establishing home rule powers and the separation of sources. However, the constellation of forces and policy priorities has shifted since then. Home rule reforms at the turn of the century represented a victory by Progressive activists seeking to counteract the power of big business in the state legislature. Since the 1960s, however, the state policy agenda has been dominated by urban activists who have increased the role of the state in health, social services, and environmental protection. The state government views itself as the arbiter of an ever-expanding list of statewide interests. Today, the agenda of state activists seeking to expand state power coincides with efforts by voters to limit local government spending. As a result, the local finance system has been returned to the condition in which it operated before 1910.

A variety of groups, some created by statute and some by proclamation, have set about the task of figuring out where the state-local balance of power should be set. These efforts include the State Assembly Speaker's Commission on State and Local Government Finance, the Local Finance Forum of the Senate Budget and Fiscal Review Committee, the Commission on Local Governance for the 21st Century, the Controller's State Municipal Advisory Reform Team (SMART), and the Commission on Building for the 21st Century. In the following sections, we evaluate the main policy choices that these groups must face.

Policy Choices

Current reform proposals focus on two areas: the need to restore accountability by delineating the responsibilities of different levels of government more clearly, and the need to restore local fiscal authority, or the ability of local governments to finance services from locally levied taxes. The first issue is especially important in relation to the state-county relationship, and the second applies to both cities and counties.

Rethinking the Role of County Government

If counties are to maintain their traditional general-purpose government functions, let alone provide any new services, some type of fiscal and governance reform will be necessary. The task of defining county responsibilities is closely tied to the issue of fiscal authority. As counties find it harder to fund their current general-purpose responsibilities, policymakers must evaluate the need for those services and determine which level of government should be responsible for providing them. To determine how this is to be accomplished, it will be necessary to reconsider counties' proper role. As their primary role is increasingly one of administering state programs, the time has come to re-evaluate the need for counties as a component of local general-purpose government.

Reform efforts can take two basic approaches to address the current mismatch between county responsibility and financing authority. One would be to change county finance so as to make it match county obligations as currently configured. This essentially means restoring the status quo ante for counties by restoring the level of local fiscal control counties experienced before the passage of Proposition 13. This reform would enable counties to maintain their dual role as agents of the state and local general-purpose governments. Various options exist to make this possible. For example, the state could allocate a larger portion of the property tax to counties. Or, the current 1 percent local sales tax could be converted from a tax levied by each city to one levied by counties and used to fund countywide services. In exchange, cities might receive a larger share of the property tax to replace the lost sales tax.

This option does not require a fundamental reformulation of governmental responsibility. If citizens want local governments to control the financing of local services, then a restoration of the status quo ante for county governments may be a relatively easy way to resolve the current dilemma. However, the ever-increasing agency role of counties has progressed to the stage where this may be difficult. We have reached a point where it would be useful to reevaluate the role of county government altogether.

Another option is to redistribute countywide responsibilities to the state or to cities. For example, the state could assume responsibility for such countywide functions as property tax assessment and prosecutorial functions. This type of reform is especially persuasive in relation to countywide functions where equity considerations are salient. For example, it is unclear why local preferences should hold sway over such functions as administering justice. Functions that are countywide but considered local in nature could be administered through cooperative agreements among cities. This entails just the opposite solution to the first option described above by calling for a reconfiguration of governmental responsibilities to more closely match the current county fiscal reality.

This second option does little to increase governmental capacity to organize, finance, and govern services and programs that have a scope that exceeds the territory of cities. At a time when many observers point to a growing gap in government's ability to conduct adequate regional planning and development, it would be a mistake to leave all decisions to the state or to rely on voluntary agreements between cities.

The best solution to the problem of countywide government may be to evaluate all general-purpose functions separately to devise the most appropriate solution for each case. In such a thorough reevaluation, even the efficacy of current county boundaries should be reexamined. In urban areas, the boundaries of counties have little to do with the geography of modern urban development. Reforms should be considered to designate regional agencies to administer state programs and undertake general-purpose functions for urban regions in the state. Such designations would have to be accomplished in consultation with current general-purpose governments. In some cases the territory of a county may have sufficient scope to cover the responsibility. Fiscal powers of such regional agencies would have to be assigned in a manner that coincides with their designated level of responsibility.

Rethinking Fiscal Authority

The question at the heart of the continuing debate about the state-local fiscal relationship is this: What is the proper balance between the state's interest in achieving consistency in statewide policy and a local community's interest in establishing a level of services and activity that meets its needs? There is an inherent tension between the goals of increasing accountability at the local level and maximizing equity in the allocation of resources for the state as a whole. A strong state role in local finance makes sense if the primary objective of California's citizens is to maximize equity in the allocation of public resources at the state level. However, if the citizens of the state also value local accountability, flexibility, and innovation, then it is useful for local governments to control the financing of local services. In this section we consider the advantages and disadvantages of moving in either of these directions.

There are several advantages to maintaining state control over local fiscal affairs. First, the state is able to act as an arbiter, equalizing resources to ensure that no community is left without a tax base sufficient to provide an adequate level of services. For example, a residential community with a limited retail or industrial base can be assisted with state subventions that are allocated on a population basis. Second, the state can also play a role in equalizing resources on the basis of "tax effort," so that a group of citizens in one community does not bear a larger burden than another group to achieve the same level of services. The state has played such an equalizing function when it comes to many state taxes, such as the vehicle license fee, which is collected based on the value of cars and trucks but is distributed based on population.[6]

The state could perform this type of equalizing role in relation to the property tax. It could devise a new allocation system using a standard of need as a baseline for local finance. Such a system might be based on a standardized measure of fiscal health, taking into account factors such as

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[6]As of 1998, the state had concluded that it was time to phase out the tax, leaving the local government subvention to be financed out of the state general fund.

local residents' income, exported tax burdens, public service costs, service responsibilities, and intergovernmental aid.[7]

The state could use its redistributive power to allocate property taxes based on a standard of fiscal need, but it has not done so. Furthermore, the current allocation system, based on local tax liability before the enactment of Proposition 13, increasingly fails to reflect local preferences. Rather than using its power to devise a new system to match local needs or preferences, or some combination of the two, the state in recent years has exerted its power over the tax primarily for the purpose of maintaining its own fiscal health in a time of economic stress. In relation to the property tax, the state in recent years has acted more like a competitor with local governments than an impartial arbiter.

Reflecting concern that the state government has used the property tax primarily as a fiscal shock absorber, many current reform proposals would separate local property tax revenue from the state budget. Local governments could be provided a certain amount of "room" within the 1 percent property tax cap that now limits the property tax rate. To return control over the property tax to the local level, a constitutional amendment would be required to allow the property tax to be allocated by local agreement. If such a change were accomplished only by statute, it would run the risk that the legislature could change it at will.

To give local governments the ability to determine the allocation of the property tax, the following two elements would be necessary.

- The amount of local government property tax revenue required for K–12 education funding would have to be determined by the state. Through a combination of long-held state policy, court

[7] See Ladd and Yinger (1989) for an example of such a method.

decisions, and constitutional standards, the financing of K–12 education is a shared responsibility with the state setting the parameters. The state share of school funding could be determined only at the state level, thereby determining what portion of local property tax revenue would be required for education.

- Within each county, a process would be required to determine the amount of property tax revenue that would be made available for community and areawide (countywide) services. Then general purpose government tax rates within the current Proposition 13 limits would be set for each community by mutual agreement. Voters could participate in such a process by approving tax allocation plans within each county. This is not an uncommon practice in other states. The model for this process would be similar to that used for joint powers agreements currently undertaken by cities, counties, and special districts.

Restoring the old doctrine of separating sources of revenue would reestablish a stronger connection between the level of government that levies a tax and the level of government providing services funded by the tax revenue. Under a scenario such as the one described above, it would be easier for taxpayers to understand how property taxes are divided between education, community, and areawide services. This awareness could help increase accountability in local government. Before Proposition 13, the property tax was the principal community-controlled source of discretionary revenue, and as such it was the subject of a certain amount of debate at the local level. It has been argued that this level of civic engagement served to hold local elected officials more accountable to their constituencies.[8] Efficiency and innovation in local service provision were also enhanced, since local governments could respond more easily to local preferences. However, critics of this perspective argue that local accountability and innovation can be enhanced, even if fiscal authority is limited. Efforts along those lines are currently being implemented in relation to local education expenditures, for example.

The current state of local finance is in need of repair. It reflects neither the potential benefits of a state-run system based on a set of commonly defined principles, nor the benefits of a more decentralized system with a clear separation of sources. Rather, it reflects efforts to cope with fiscal stress through cost-shifting and competition between levels of government. The last major constitutional overhaul of our governance and finance system was made at the turn of the last century. It may be necessary to begin the next century with a similar civic debate about how the governance and finance system should work.

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[8] Sokolow (1998).

Appendix A

Notes on Data and Methodology

This appendix discusses the data used in this report and provides more detailed descriptions of our analytical definitions and measures than were provided in the introductory chapter.

Revenue and Expenditure Data

Revenue and expenditure data used in this study come from the *Annual Financial Transactions* series issued by the State Controller's Office.[1] Revenue data for cities and counties aggregated at the state level were available for each fiscal year from 1915–16 to 1994–95.

Certain revenue line items in the city revenue data were moved from the categories in which they appear in the Controller's Office reports to

[1]The data were organized according to the revenue categories outlined in Appendix B, Table B.1, and in greater detail in Appendix C, Tables C.1 and C.2.

other revenue categories when that was considered appropriate to achieve consistency between time periods.[2]

The State Controller's Office did not maintain a consistent method for recording data on public service enterprise revenue over the century. For purposes of this report, values for public service enterprise revenue were calculated in different ways for different time periods. For the time period from 1916 to 1958, the data used in this report for public service enterprise revenue were taken from two sources: the line item for "public service enterprises" in the State Controller's revenue reports, and "sanitation" fees moved from the service charge category. Between 1959 and 1981, data on public service enterprise revenue are not available in the general operating budgets in the State Controller's Office reports. We calculated this revenue as the sum of the following components: (1) public service enterprise operating and nonoperating revenue as recorded by the State Controller's Office in separate reports for public utilities, (2) "sewer charges," "refuse collection," and "sale of refuse" recorded during the period under current service charges, (3) "sewer connection fees" and "city-owned enterprises," recorded as "other" revenue, and (4) revenue from "parking" included in the licenses and permits category. During the period from 1982 to 1995, public service enterprise revenue was calculated as the sum of the following service charges, which were subtracted from the service charge category: sewer service charges and connection fees, parking facilities, water service charges and connection fees, and electric, gas, airport, cemetery, housing, port and harbor, hospital, and transit revenue.

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[2]When budget line items have been moved to categories other than those in which they appear in the original Controller's Office data, it has been noted in Appendix C Tables C.1 and C.2 after the line item.

A number of revenue line items that appear in the Controller's Office reports were not included in our analysis. For cities, the items not included were receipts from debt obligations for the years 1916 to 1958 and sale of bonds between 1982 and 1995. For counties, the revenue line items not included in our analysis were more extensive, and they pertain in many cases to district revenue. The items not included were school district subventions from 1916 to 1934, sale of bonds from 1916 to 1957 and 1985 to 1995, agency transactions from 1916 to 1957, trust funds and accounts from 1935 to 1957, and district taxes from 1935 to 1957.

Adjusting for Inflation and Population

Revenue values were adjusted for inflation based on the California Consumer Price Index. This index is a variant of the Consumer Price Index for Urban Consumers (CPI-U) produced by the U.S. Bureau of Labor Statistics (BLS). BLS calculates the CPI-U for three metropolitan areas in California—the Los Angeles, San Francisco, and San Diego Consolidated Metropolitan Statistical Areas. The California Department of Industrial Relations, Division of Labor Statistics and Research, publishes a version for the state based on a population-weighted sum of the CPI-U for San Francisco, Los Angeles, and San Diego.

The California CPI-U is available for the years from 1955 to 1995. For the years from 1916 to 1954, we employed an average of the CPI-U for Oakland and Anaheim.

Per capita revenue values were calculated using data from the California Department of Finance as well as the U.S. Census. The population of cities and counties in the state from 1970 to 1995 is based on data for each of those years from the Demographic Research Unit of the California Department of Finance, Reports 84-E4, 90-E4, and 97-E4. The population of counties in the state from 1940 to 1970 is based on yearly data from the Department of Finance, Report E-7A. The population of cities before 1970 and counties before 1940 is based on the decennial U.S. Census, with values interpolated.

Analytical Definitions Used in This Report

Subvention Funding

Subventions are funds received by local governments from other governments. We categorize subventions into four types, which entail different amounts of external control over the way the funds may be expended.[3] We also break subventions down by their government of origin, either the state or federal government (we include county subventions to cities under state subventions).

"Agency" subventions entail strict restrictions on the way the money may be spent and include funding for state and federal health and welfare programs. "Categorical" subventions are earmarked by the sending government for a certain type of function, but decisions on specific projects are left up to the receiving government. An example of a categorical subvention is gas tax revenue, which is sent to local governments to be spent for transportation purposes to be defined by local governments. "General-purpose" subventions, such as vehicle license fee revenue, may be spent in any manner by receiving governments. Finally, some subventions are labeled as "other" subventions by the State Controller. These tend to be categorical, with

[3]In Appendix C, Tables C.1 and C.2, we have organized the particular subvention line items recorded by the State Controller's Office over time into these four categories.

the exception of "other in-lieu tax revenue," which is provided for general purposes.

Restricted and Discretionary Revenue

It is difficult to arrive at a precise definition of local discretion over the expenditure of revenue. Any revenue that local governments elect to raise and spend could be called discretionary. However, the expenditure of some locally levied revenue is restricted to specific functions. For example, some cities operate quasi-independent public service enterprises such as hospitals and utilities. Although those cities originally made the decision to build and operate the ventures, the expenditure of the revenue they generate, generally on a fee-for-service basis, is restricted primarily to covering the costs of ongoing operation and maintenance of the ventures themselves. Certain transfers are made between public service enterprises and city and county general operating funds, but these amounts have not been tracked consistently over time by the State Controller.

Benefit assessments are another source of revenue whose expenditure is restricted for certain purposes, usually construction of infrastructure or public facilities. To the degree that local governments are compelled to maintain current service levels, the majority of local revenue could be considered nondiscretionary. If discretion over local revenue is a matter of degree, the question becomes where to draw the line.

In measuring discretion, we seek to define the share of revenue that best measures local governments' ability to choose between competing priorities. We exclude public service enterprise revenue, since it is reserved for ongoing maintenance of quasi-independent functions and therefore reflects minimal discretion in the local budgeting process.

However, we include almost all other main sources of own-source revenue. We include revenue from benefit assessments, although it is also earmarked for specific purposes, because it reflects local decisions to improve infrastructure whose cost is often generalized over the entire population and which represents a one-time cost rather than ongoing fees for specific services.

We define *discretionary revenue* as the share of local revenue whose expenditure is not earmarked for purposes strictly mandated by another level of government or for ongoing maintenance of quasi-independent enterprises. For cities, this is all revenue from locally levied sources except public service enterprises and all general-purpose subventions. The components of county discretionary revenue are slightly different. Counties do not operate public service enterprises within their general operating budgets, so that revenue plays no part in the county analysis. However, unlike cities, counties are required to provide a portion of their general-purpose revenue to fund state-mandated programs. We describe this county role in more detail in the next section. County discretionary revenue is composed of all locally levied revenue except the portion devoted to state-mandated programs, and, in addition, general-purpose subvention funding.

Restricted revenue comprises two components: restricted subventions and restricted own-source revenue. Restricted subventions comprise agency and categorical subventions, and "other" subventions with the exception of "other in-lieu taxes." For cities, restricted own-source revenue comprises revenue from public service enterprises, the transportation tax (levied from 1982 to 1995), and contributions from nongovernmental sources. For counties, restricted own-source revenue comprises transportation tax revenue and the local contribution of general-purpose revenue used to fund state-mandated agency functions (described in the next section).

County Contribution of General-Purpose Funds for Agency Programs

The state and federal governments require that counties provide certain health and welfare services in strict accordance with explicit guidelines. However, the state and federal governments do not provide all of the funding that counties need to carry out these programs. Counties are obligated to commit a certain portion of their general-purpose revenue toward these "state-mandated local programs." The constitution was amended in 1979 to require that the state reimburse local governments for costs of carrying out state programs (California State Constitution, Article XIII B, Section 5). However, this provision included an exemption for programs enacted before 1975 and in effect created a blanket exemption for the health and welfare agency functions established over the prior 75 years.

We estimate the local county contribution for agency functions as the difference between the total for agency subvention revenue received from the state and federal governments for public assistance and health programs and the total for county expenditures for health and public assistance functions, as detailed in the State Controller's Office county expenditure reports.[4] Certain county agency functions, such as running the court system, are not included in our analysis because the data are not sufficiently detailed over time.

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[4]See Appendix C, Table C.3, for a list of the county expenditure categories we include in this measure.

Unfortunately, expenditure data from the State Controller's Office do not distinguish between agency functions that counties must fund to comply with state law and the same counties' discretionary spending for similar health and welfare programs. Counties may exceed the minimum levels of service required by state law, and many do. As a result, we cannot determine the exact share of county general-purpose revenue that should properly be included as part of restricted revenue in our analysis. Although the bulk of the local contribution from general-purpose revenue for health and welfare programs is properly regarded as agency revenue, the category also includes some discretionary spending.

Appendix B

Supplementary Data

This appendix provides tabular data on the revenue trends described in this report. Table B.1 lists the components of own-source revenue to cities and counties. Tables B.2 through B.7 list amounts and percentages for the main revenue sources to cities and counties for critical years during the century. Table B.8 does the same but only for the components of restricted revenue to counties. Table B.9 lists results from our measure of revenue variability over time. Finally, Table B.10 lists detailed components of city own-source revenue in 1980 and 1995 and identifies which components increased most significantly over that period.

Table B.1

Components of Own-Source Revenue for California Cities and Counties

Revenue Categories in This Report	Items Included
General property taxes	Single line item for cities and counties. Not considered own-source revenue in our analysis after 1978
Sales and use taxes	Single line item for cities and counties
Public service enterprises	Applies only to cities. Includes sewer service charges and connection fees, sanitation (solid waste revenues, refuse collection), parking facilities, water service charges and connection fees, electric revenues, gas revenues, airport revenues, cemetery revenues, public housing revenues, ports and harbor revenues, hospital revenues, transit and transportation revenues
Licenses, fees, and assessments	
Other taxes	For cities: franchise, lodging taxes, utility users tax, property transfers, other taxes For counties: franchises, transportation and lodging taxes, property transfers, voter approved indebtedness, other
Special assessments	For cities: fire, paramedics, police, lighting, other For counties: operations, capital outlays
Licenses and permits	For cities: liquor, business, animal, construction, streets and curbs, other For counties: liquor, business, construction, road, zoning, other

Table B.1 (continued)

Revenue Categories in This Report	Items Included
Fees	For cities: general government, protection, health conservation, highways, sanitation, education, recreation For counties: clerk, recorder, law library, treasurer, jury fees, courts, sheriff, tax collection
Current service charges	For cities: zoning, subdivision, maps and plan preparation, special police and fire service, animal shelter, weed and lot cleaning, vital statistics, first aid, health inspection, library fines, parks and recreation, golf course fees, quasi-external transactions For counties: tax assessment and collection, auditing, communication, elections, legal, planning, civil process, courts, estate fees, recording fees, road and street service, health, sanitation, institutional care, libraries, parks and recreation, care of inmates and prisoners
Fines and penalties	For cities: vehicle code fines, other For counties: vehicle code fines, court fines, forfeiture and penalties
Other revenue	For cities: interest, rents and concessions, royalties, sale of property For counties: interest, rents and concessions, royalties, premium and accrued interest on bonds, sales of fixed assets, receipts to correct errors, canceled warrants
Excluded	For cities: debt (bond issuance, receipts from debt obligations, proceeds from bond sales) For counties: debt (receipt from debt obligations, bond sales, deposits), agency transactions, trust funds

Table B.2

Revenue by Source for California Cities, 1916–1995

	1916	1919	1932	1934	1940	1945	1973	1978	1979	1992	1995
Revenue in millions of 1995 dollars											
Total own-source revenue	775	553	2,335	2,083	2,531	2,610	12,325	14,665	13,729	23,143	23,817
General property taxes	501	356	1,221	1,015	1,115	1,024	3,081	3,117	1,381	3,130	2,580
Sales taxes	—	—	—	—	—	—	1,711	2,188	2,247	2,540	2,607
Public service enterprises	127	108	692	708	1,081	1,230	4,736	6,012	6,344	8,857	9,916
Licenses, fees, assessments, and other revenue	147	89	422	360	335	356	2,797	3,348	3,757	8,617	8,714
Other taxes and special assessments	10	22	154	106	58	32	771	1,159	1,236	2,774	3,121
Licenses, permits, fees, service charges	90	46	118	129	157	148	1,199	1,261	1,335	2,749	3,120
Other[a]	47	21	150	125	120	176	827	929	1,186	3,094	2,473
Subventions	23	15	80	185	342	246	3,342	4,729	4,808	3,545	4,761
Total revenue	798	569	2,415	2,268	2,873	2,856	15,667	19,394	18,537	26,688	28,577
Percentage change in revenue since previous year listed in the table											
Total own-source revenue		–29	322	–11	21	3	372	19	–6	69	3
General property taxes		–29	243	–17	10	–8	201	1	–56	127	–18
Sales taxes		na	na	na	na	na	na	28	3	13	3
Public service enterprises		–15	540	2	53	14	285	27	6	40	12
Licenses, fees, assessments, and other revenue		–40	375	–15	–7	6	685	20	12	129	1
Other taxes and special assessments		109	606	–31	–45	–45	2,320	50	7	124	13
Licenses, permits, fees, service charges		–48	154	9	21	–5	710	5	6	106	13
Other[a]		–56	630	–17	–4	47	369	12	28	161	–20
Subventions		–34	418	132	85	–28	1,257	41	2	–26	34
Total revenue		–29	325	–6	27	–1	448	24	–4	44	7

SOURCE: California State Controller's Office, *Annual Financial Transactions* series.

[a]"Other" revenue includes fines and penalties, use of money and property, and other revenue.

Table B.3

Per Capital Revenue by Source for California Cities, 1916–1995

	1916	1919	1932	1934	1940	1945	1973	1978	1979	1992	1995
Per capita revenue in 1995 dollars											
Total own-source revenue	364	232	532	458	505	429	822	852	788	936	929
General property taxes	235	149	278	223	223	168	205	181	79	127	101
Sales taxes	0	0	0	0	0	0	114	127	129	103	102
Public service enterprises	60	45	158	156	216	202	316	349	364	358	38
Licenses, fees, assessments, and other revenue	69	37	96	79	67	58	186	194	216	349	340
Other taxes and special assessments	5	9	35	23	12	5	51	67	71	112	12
Licenses, permits, fees, service charges	42	19	27	28	31	24	80	73	77	111	122
Other[a]	22	9	34	28	24	29	55	54	68	125	9
Subventions	11	6	18	41	68	40	223	275	276	143	186
Total revenue	375	238	550	499	574	469	1,045	1,126	1,064	1,080	1,114
Percentage change in per capita revenue since previous year listed in the table											
Total own-source revenue		–36	130	–14	10	–15	92	4	–7	19	–1
General property taxes		–37	86	–20	0	–24	22	–12	–56	60	–21
Sales taxes		na	na	na	na	na	na	11	1	–20	–1
Public service enterprises		–24	248	–1	39	–6	56	11	4	–2	8
Licenses, fees, assessments, and other revenue		–46	159	–18	–16	–13	219	4	11	62	–3
Other taxes and special assessments		86	284	–34	–50	–55	883	31	5	58	8
Licenses, permits, fees, service charges		–54	38	6	10	–22	229	–8	5	45	9
Other[a]		–61	297	–19	–13	20	91	–2	26	84	–23
Subventions		–41	182	124	67	–41	451	23	0	–48	29
Total revenue		–37	131	–9	15	–18	123	8	–6	1	3

SOURCE: California State Controller's Office, *Annual Financial Transactions* series.

[a]"Other" revenue includes fines and penalties, use of money and property, and other revenue.

Table B.4

Revenue by Source as a Percentage of Total Revenue for California Cities, 1916–1995

	1916	1919	1932	1934	1940	1945	1973	1978	1979	1991	1995
Total own-source revenue	97	97	97	92	88	91	79	76	74	87	83
General property taxes	63	63	51	45	39	36	20	16	7	12	9
Sales taxes	0	0	0	0	0	0	11	11	12	10	9
Public service enterprises	16	19	29	31	38	43	30	31	34	33	35
Licenses, fees, assessments, and other revenue	18	16	17	16	12	12	18	17	20	32	30
Other taxes and special assessments	1	4	6	5	2	1	5	6	7	10	11
Licenses, permits, fees, service charges	11	8	5	6	5	5	8	6	7	10	11
Other[a]	6	4	6	6	4	6	5	5	6	12	9
Subventions	3	3	3	8	12	9	21	24	26	13	17

SOURCE: California State Controller's Office, *Annual Financial Transactions* series.

[a]"Other" revenue includes fines and penalties, use of money and property, and other revenue.

Table B.5

Revenue by Source for California Counties, 1916–1995

	1916	1919	1932	1934	1940	1945	1973	1978	1979	1992	1995
Revenue in millions of 1995 dollars											
Total own-source revenue	379	296	1,047	1,003	1,241	1,009	9,787	9,878	6,069	10,946	9,209
General property taxes	320	249	878	842	1,112	847	6,899	6,607	2,847	5,837	3,349
Sales taxes	—	—	—	—	—	—	288	487	438	341	313
Licenses, fees, assessments, and other revenue	59	47	169	160	129	162	2,600	2,783	2,784	4,768	5,547
Other taxes and special assessments	—	—	—	—	—	—	115	159	164	383	396
Licenses, permits, fees, service charges	25	17	66	70	73	102	1,809	1,888	1,636	2,675	2,630
Other[a]	34	30	103	90	55	60	676	736	984	1,710	2,521
Subventions	24	19	237	276	865	961	10,214	10,056	10,811	14,957	17,399
Total revenue	403	314	1,284	1,278	2,106	1,970	20,002	19,934	16,880	25,903	26,607
Percentage change in revenue since previous year listed in the table											
Total own-source revenue		–22	254	–4	24	–19	870	1	–39	80	–16
General property taxes		–22	253	–4	32	–24	715	–4	–57	105	–43
Sales taxes		na	na	na	na	na	na	69	–10	–22	–8
Licenses, fees, assessments, and other revenue		–20	261	–5	–20	26	1,506	7	0	71	16
Other taxes and special assessments		na	na	na	na	na	na	38	3	134	3
Licenses, permits, fees, service charges		–32	286	7	4	39	1,674	4	–13	63	–2
Other[a]		–11	246	–13	–38	8	1,028	9	34	74	47
Subventions		–21	1,153	16	214	11	963	–2	8	38	1
Total revenue		–22	308	0	65	–6	915	0	–15	53	3

SOURCE: California State Controller's Office, *Annual Financial Transactions* series.

[a]"Other" revenue includes fines and penalties, use of money and property, and other revenue.

Table B.6

Per Capita Revenue by Source for California Counties, 1916–1995

	1916	1919	1932	1934	1940	1945	1973	1978	1979	1991	1995
Per capita revenue in 1995 dollars											
Total own-source revenue	126	89	177	163	180	108	473	438	264	355	289
General property taxes	107	75	148	137	161	91	333	293	124	189	105
Sales taxes	0	0	0	0	0	0	14	22	19	11	10
Licenses, fees, assessments, and other revenue	19	14	29	26	19	17	126	123	121	155	174
Other taxes and special assessments	0	0	0	0	0	0	6	7	7	12	12
Licenses, permits, fees, service charges	8	5	11	11	11	11	87	84	71	87	82
Other[a]	11	9	17	15	8	6	33	33	43	55	79
Subventions	8	6	40	45	125	103	493	445	469	485	545
Total revenue	134	95	217	207	305	211	966	883	733	840	834
Percentage change in per capita revenue since previous year listed in table											
Total own-source revenue		–29	99	–8	11	–40	338	–7	–40	35	–19
General property taxes		–30	98	–8	18	–44	268	–12	–58	53	–45
Sales taxes		na	na	na	na	na	na	55	–12	–42	–11
Licenses, fees, assessments, and other revenue		–27	102	–9	–28	–7	625	–2	–2	28	12
Other taxes and special assessments		na	na	na	na	na	na	26	1	74	0
Licenses, permits, fees, service charges		–38	117	3	–7	3	700	–4	–15	22	–5
Other[a]		–19	94	–16	–45	–20	409	0	31	30	42
Subventions		–28	603	12	180	–18	380	–10	5	3	12
Total revenue		–29	129	–4	47	–31	358	–9	–17	15	–1

SOURCE: California State Controller's Office, *Annual Financial Transactions* series.

[a]"Other" revenue includes fines and penalties, use of money and property, and other revenue.

Table B.7

Revenue by Source as a Percentage of Total Revenue for California Counties, 1916–1995

	1916	1919	1932	1934	1940	1945	1973	1978	1979	1992	1995
Total own-source revenue	94	94	82	78	59	51	49	50	36	42	35
General property taxes	80	79	68	66	53	43	34	33	17	23	13
Sales taxes	0	0	0	0	0	0	1	2	3	1	1
Licenses, fees, assessments, and other revenue	15	15	13	13	6	8	13	14	16	18	21
Other taxes and special assessments	0	0	0	0	0	0	1	1	1	1	1
Licenses, permits, fees, service charges	6	5	5	6	3	5	9	9	10	10	10
Other[a]	8	10	8	7	3	3	3	4	6	7	9
Subventions	6	6	18	22	41	49	51	50	64	58	65

SOURCE: California State Controller's Office, *Annual Financial Transactions* series.

[a]"Other" revenue includes fines and penalties, use of money and property, and other revenue.

Table B.8

Components of Restricted Revenue for California Counties, 1916–1995

	1916	1932	1934	1940	1945	1973	1978	1979	1984	1992	1995
Revenue in millions of 1995 dollars											
Agency revenue	64	440	727	1,191	1,215	11,602	10,392	8,862	8,651	13,860	15,008
Agency subventions	5	17	52	556	743	7,053	5,568	5,610	7,240	10,214	11,171
Local contribution of general-purpose revenue	59	423	675	634	472	4,550	4,823	3,252	1,411	3,647	3,838
Categorical subventions and other restricted state funds	18	220	224	300	210	1,243	2,349	3,546	1,371	2,725	4,231
Total restricted revenue	82	659	951	1,491	1,424	12,845	12,741	12,408	10,023	16,586	19,239
Percentage change in revenue since previous year listed in the table											
Agency revenue											
Agency subventions		222	199	977	33	850	–21	1	29	41	9
Local contribution of general-purpose revenue		622	60	–6	–26	863	6	–33	–57	158	5
Categorical subventions and other restricted state funds		1,090	2	34	–30	493	89	51	–61	99	55
Total restricted revenue		700	44	57	–4	802	–1	–3	–19	65	16
Per capita revenue in 1995 dollars											
Agency revenue	21	74	118	172	130	560	460	385	338	449	470
Agency subventions	2	3	8	81	79	341	247	244	283	331	350
Local contribution of general-purpose revenue	19	71	109	92	51	220	214	141	55	118	120

Table B.8 (continued)

	1916	1932	1934	1940	1945	1973	1978	1979	1984	1992	1995
Categorical subventions and other restricted state funds	6	37	36	43	22	60	104	154	54	88	133
Total restricted revenue	27	111	154	216	152	620	564	539	392	538	603
Percentage change in per capita revenue since previous year listed in the table											
Agency revenue		249	59	46	–25	331	–18	–16	–12	33	5
Agency subventions		63	187	862	–1	329	–28	–1	16	17	6
Local contribution of general-purpose revenue		266	53	–16	–45	335	–3	–34	–61	114	2
Categorical subventions and other restricted state funds		504	–2	20	–48	167	73	48	–65	65	50
Total restricted revenue		306	38	40	–29	307	–9	–5	–27	37	12
Revenue by source as a percentage of total revenue											
Agency revenue	16	34	57	57	62	58	52	53	50	54	56
Agency subventions	1	1	4	26	38	35	28	33	42	39	42
Local contribution of general-purpose revenue	15	33	53	30	24	23	24	19	8	14	14
Categorical subventions and other restricted state funds	5	17	18	14	11	6	12	21	8	11	16
Total restricted revenue	20	51	74	71	72	64	64	74	58	64	72

SOURCE: Authors' calculations based on data from the State Controller's Office, *Annual Financial Transactions* series.

NOTE: Transportation tax revenue is included as "other restricted state funds."

Table B.9

Variability of Revenue Sources over Time for California Cities and Counties

Variation in the growth rate[a] in local revenue streams during different time periods

	1917–1995			1917–1932			1933–1995			1956–1995, Excluding 1979		
Revenue Source	Counties	Cities	Both	Counties	Cities	Both	Counties	Cities	Both	Counties	Cities	Both
Own-source revenue	1.9	1.4	1.5	1.4	1.5	1.4	2.2	1.1	1.4	1.1	0.5	0.7
Property tax	2.9	3.5	3.1	1.3	1.6	1.4	3.9	5.2	4.3	2.2	1.4	1.8
Sales tax	4.0	1.6	1.6	na	na	na	4.0	1.6	1.6	3.2	1.8	1.8
Public service enterprises	na	1.4	na	na	1.2	na	na	1.1	na	na	0.8	na
Licenses, fees, assessments, and other	1.8	2.3	1.8	2.2	2.7	2.1	1.6	1.7	1.5	1.4	0.9	0.9
Subventions	1.7	2.3	1.6	1.3	2.3	1.4	1.8	2.3	1.7	1.4	1.8	1.4
Total revenue	1.3	1.4	1.3	1.2	1.5	1.3	1.4	1.1	1.2	1.1	0.6	0.8

Variation in the growth rate[a] of subventions to local governments, 1959–1995

Subventions by Type	To Counties	To Cities
Agency	1.6	na
Categorical	2.8	2.0
General purpose	4.6	3.9

SOURCE: Authors' calculations based on date from the State Controller's Office, *Annual Financial Transactions* series.

[a]The table lists the coefficient of variation (the standard deviation divided by the mean) of the growth rate (the percentage change in revenue since the prior year) in inflation-adjusted revenue for each revenue source during the time period designated.

Table B.10

Components of City per Capita Own-Source Revenue for California, 1980 and 1995

	1980		1995		1980–1995	1980–1995
Category	Per Capita Revenue (1995 dollars)	% of Own-Source Revenue	Per Capita Revenue (1995 dollars)	% of Own-Source Revenue	% Change	Percentage Point Change
Property taxes	96.0	12.0	100.6	10.8	5	–1.1
Sales taxes	125.2	15.6	101.6	10.9	–19	–4.7
Public service enterprises	369.5	46.1	386.7	41.6	5	–4.4
Taxes (not property or sales)						
Transient lodging	12.2	1.5	22.2	2.4	82	**0.9**
Franchises	9.3	1.2	15.7	1.7	69	0.5
Property transfers	5.7	0.7	5.6	0.6	–1	–0.1
Utility users tax	0.0	0.0	46.0	4.9	100	**4.9**
Other	39.6	4.9	19.1	2.1	–52	–2.9
Total	66.8	8.3	108.6	11.7	198	3.4
Special benefit assessments	3.4	0.4	13.1	1.4	285	**1.0**
Use of money and property						
Interest income/investments	35.8	4.5	41.2	4.4	15	0.0
Rents and concessions	4.8	0.6	6.3	0.7	33	0.1
Royalties	2.2	0.3	0.4	0.0	–82	–0.2
Other	0.4	0.1	0.6	0.1	38	0.0
Total	43.3	5.4	48.6	5.2	12	–0.2
Licenses, permits, and fees						
Construction	8.8	1.1	8.0	0.9	–9	–0.2
Business licenses	22.1	2.8	25.2	2.7	14	0.0
Other	2.4	0.3	3.9	0.4	64	0.1
Total	33.2	4.1	37.1	4.0	69	–0.2

Table B.10 (continued)

Category	1980 Per Capita Revenue (1995 dollars)	1980 % of Own-Source Revenue	1995 Per Capita Revenue (1995 dollars)	1995 % of Own-Source Revenue	1980–1995 % Change	1980–1995 Percentage Point Change
Current service charges						
Zoning and subdivision fees	2.2	0.3	2.3	0.2	4	0.0
Special police services	1.2	0.1	3.0	0.3	155	0.2
Special fire services	1.0	0.1	2.6	0.3	153	0.2
Plan checking fees	2.6	0.3	3.3	0.4	26	0.0
Animal shelter fees	0.2	0.0	0.2	0.0	–4	0.0
Engineering fees	3.4	0.4	4.9	0.5	47	0.1
Street and curb repair	1.3	0.2	0.9	0.1	–28	–0.1
Lot cleaning	0.3	0.0	0.4	0.0	12	0.0
First aid and ambulance	0.6	0.1	1.9	0.2	216	0.1
Library fines and fees	0.9	0.1	0.9	0.1	–8	0.0
Parks and recreation	10.0	1.2	8.7	0.9	–12	–0.3
Quasi-external transactions	0.0	0.0	24.5	2.6	100	**2.6**
Other current service charges	14.1	1.8	31.1	3.3	121	**1.6**
Total	37.7	4.7	84.6	9.1	124	4.4
Fines and penalties						
Vehicle code fines	10.0	1.2	5.0	0.5	–50	–0.7
Other	3.7	0.5	7.7	0.8	107	0.4
Total	13.7	1.7	12.6	1.4	–7	–0.3

Table B.10 (continued)

Category	1980 Per Capita Revenue (1995 dollars)	1980 % of Own-Source Revenue	1995 Per Capita Revenue (1995 dollars)	1995 % of Own-Source Revenue	1980–1995 % Change	1980–1995 Percentage Point Change
Other						
Sale of property	3.7	0.5	5.2	0.6	41	0.1
Nongovernmental sources	1.9	0.2	5.4	0.6	182	0.3
Other	7.4	0.9	24.6	2.6	231	1.
Total	13.0	1.6	35.2	3.8	170	2.

SOURCE: State Controller's Office *Annual Financial Transactions* series.

NOTE: Categories that increased the most as a share of total revenue from 1980 to 1995 appear in boldface.

Appendix C

Data Organization

Table C.1 lists all categories of revenue for cities in the *Annual Report on Financial Transactions Concerning Cities of California* series published yearly by the California State Controller's Office from 1916–1995. The State Controller's Office reports listed different revenue sources during different time periods and these are distinguished below. Boldface denotes broad categories for which data were aggregated in the original report. The first column in the table lists the revenue categories used in this report. Each section of the list includes all the Controller's Office revenue line items that were aggregated from the revenue categories analyzed in this report.

Table C.2 lists the same information for counties.

Table C.3 lists the revenue line items that we consider to be components of county expenditures for health and welfare functions, as detailed in the *Annual Report on Financial Transactions Concerning Cities of California* series during different time periods.

Table C.1

Revenue Line Items Listed in the *Annual Financial Transactions* Series for Cities in California, Organized into Revenue Categories Used in This Report

PPIC	State Controller's Office				
All Years	1916–1934	1935–1958	1959–1969	1970–1981	1982–1995
Property taxes	**General property taxes**	**General property taxes**	**Property taxes**	**Property taxes**	**Property taxes**
		Current-year taxes	Current year—secured	Current year—secured	Secured and unsecured
		Delinquent taxes	Current year—unsecured	Current year—unsecured	Voter approved indebtedness
		Intangibles	Prior years	Prior years	Prior years
				Other property taxes	Other property taxes
			Interest and penalties	Interest and penalties	Interest and penalties
			Solvent credits		
Sales taxes		**Sales and use taxes** (from 1949—moved from miscellaneous)	**Sales and use taxes**	**Sales and use taxes**	**Sales and use taxes**
Subventions	**Subventions and grants**	**Subventions and grants**	**From other agencies**	**From other agencies**	**From other agencies/ intergovernmental**
Categorical					
State	(Not detailed)	(Not detailed)	Gas tax	Gas taxes	State gas tax
			Other state grants	Other state grants	Other state grants
					Transportation tax (moved from other taxes)
County			County grants of gas tax	County grants of gas tax	County grants of state gas tax
			Other county grants	Other county grants	County grants
Federal			Federal grants	Federal grants	Other federal grants

Table C.1 (continued)

PPIC	State Controller's Office				
All Years	1916–1934	1935–1958	1959–1969	1970–1981	1982–1995
General purpose					
State			Alcoholic beverage fees	Alcoholic beverage fees	
			Trailer coach license	Trailer in-lieu taxes	State trailer coach in-lieu tax
			Vehicle in-lieu tax	Vehicle in-lieu taxes	State motor vehicle in-lieu tax
			Other in-lieu tax	Other taxes in-lieu	Other taxes in-lieu
				Homeowner tax relief	State homeowner property tax relief
				Business inventory tax relief	State business inventory property tax relief
				Cigarette taxes	State cigarette tax
Federal				Federal revenue sharing (1972)	Federal revenue sharing
Public service enterprises	**Public service enterprises** (single line item) Sanitation (moved from service charges)	**Public service enterprises** (single line item) Sanitation (moved from service charges) Parking lots and parking meters (moved from "other revenue")	Public service enterprise revenue data were not included in the State Controller's Office reports during these two time periods. For purposes of this report, public service enterprise revenue was based on the sum of five components: (1) public service enterprise operating and nonoperating revenue taken from separate tables for public service enterprises in the Controller's books, (2) three service charges, namely, sewer charges, refuse collection, and sale of refuse, which were subtracted from the total for service charges, (3) "city-owned enterprises," which was moved from the "other revenue" category, (4)		Public service enterprise revenue is calculated as the sum of the following service charges, which are subtracted from the total for that category: Sewer service charges and connection fees Parking facilities Water service charges and connection fees Electric revenues Gas revenues

Table C.1 (continued)

PPIC All Years	State Controller's Office 1916–1934	1935–1958	1959–1969	1970–1981	1982–1995
			sewer connections fees, moved from the "other revenue" category, and (5) revenue from parking permits, moved from licenses and permits.		Airport revenue Cemetery revenue Housing revenue Ports and harbor revenue Hospital revenue Transit revenue Solid waste revenues
Licenses, fees, and assessments					
Other taxes			**Other taxes** Franchises Other	**Other taxes** Franchises Transient lodging Property transfers Other	**Other taxes** Franchises Transient lodging Property transfers Utility users tax Other
Assessments	**Special assessments**	**Special assessments**	**Local assessments** (moved from service charges)	**Local assessments** (moved from service charges)	**Special benefit assessment** Fire Paramedics Police Lighting Other
Licenses and permits	**Licenses and permits** Liquor Other business	**Licenses and permits** Liquor Other business	**Licenses and permits** Business	**Licenses and permits** Business license (moved from other taxes)	**Licenses and permits** Business license (moved from other taxes)

Table C.1 (continued)

PPIC	State Controller's Office				
All Years	1916–1934	1935–1958	1959–1969	1970–1981	1982–1995
	Dog	Dog	Animal	Animal	
	Departmental receipts	Departmental receipts	Bicycle	Bicycle	
			Building	Construction	Construction
			Plumbing		
			Electrical		
			Sewer		
			Street and curbs	Street and curbs	
			Sales tax		
			Other	Other	Other
Fees and service charges	**Fees, charges for services and minor sales**	**Fees, charges for services and minor sales**	**Current service charges**	**Current service charges**	**Current service charges**
	General government	General government	Zoning and subdivision	Zoning fees	Zoning fees and subdivision fees
				Subdivision fees	
	Protection to person and property	Protection to person and property			
	Conservation of health	Conservation of health	Sale of maps	Sale of maps	
	Highways	Highways	Other filing fees	Other filing fees	
	Charities and corrections	Charities and corrections	Special police services	Special police services	Special police services
	Education	Education	Special fire services	Special fire services	Special fire services
	Recreation	Recreation	Plan checking fees	Plan checking fees	Plan checking fees
			Animal shelter fees	Animal shelter fees	Animal shelter fees
			Engineering fees	Engineering fees	Engineering fees
			Street and curb repairs	Street and curb repairs	Street and curb repairs
			Vital statistics	Vital statistics	
			First aid and ambulance	First aid and ambulance	First aid and ambulance
			Health inspection	Health inspection fees	
			Library fines and fees	Library fines and fees	Library fines and fees
			Parks and recreation	Parks and recreation	Parks and recreation
				Lot cleaning	Weed and lot cleaning

Table C.1 (continued)

PPIC	State Controller's Office				
All Years	1916–1934	1935–1958	1959–1969	1970–1981	1982–1995
			Other	Other	Golf course fees Quasi-external transactions Other
Fines and penalties	**Fines and penalties**	**Fines and penalties**	**Fines and penalties** Vehicle code fines Other court fines	**Fines and penalties** Vehicle code fines Other fines Other penalties	**Fines and penalties** Vehicle code fines Other fines, forfeiture, and penalties
Use of money and property	**Use of money and property** Receipts in error and interest on bonds Privileges Rent of properties Interest receipts	**Use of money and property** Receipts in error and interest on bonds Privileges Rent of properties Interest receipts	**Use of money and property** Interest income Rents and concessions Royalties Other	**Use of money and property** Interest income/investment earnings Rents and concessions Royalties Other	**Use of money and property** Interest income/investment earnings Rents and concessions Royalties Other
Other revenue	**Other revenue** Sale of real property Gifts, donations, pension duties Miscellaneous	**Other revenue** Sale of real property Gifts, donations, pension duties Miscellaneous	**Other revenue** Sale of property Nongovernmental sources Other revenue	**Other revenue** Sale of property Nongovernmental sources Other	**Other revenue** Sale of property Contributions from nongovernmental sources Other
Excluded	**Receipts from debt obligations** (**bond issuance**), deposits	**Receipts from debt obligations** (**bond issuance**), deposits			**Other financing sources** Sale of bonds Notes and others

Table C.2

Revenue Line Items Listed in the *Annual Financial Transactions* Series for Counties in California, Organized into Revenue Categories Used in This Report

PPIC	State Controller's Office					
All Years	1916–1934	1935–1957	1958–1961	1962–1966	1967–1984	1985–1995
Property taxes	**General county taxes** A portion is subtracted that was allocated for schools, based on data from *The Tax Digest* (1946), p. 298	**General county taxes**	**Property taxes** Current year—secured Current year—unsecured Prior years and penalties Solvent credits	**Property taxes** Current year—secured Current year—unsecured Prior year—secured Prior year—unsecured Solvent credits Penalties and costs on delinquent taxes	**Property taxes** Current year—secured Current year—unsecured Prior year—secured Prior year—unsecured Solvent credits Penalties and costs on delinquent taxes	**Property taxes** Countywide—secured Countywide—unsecured Prior year—secured Prior year—unsecured Penalties and costs on delinquent taxes Less than countywide funds
Sales tax			**Sales and use taxes**	**Sales and use taxes**	**Sales and use taxes**	**Sales and use taxes**
Subventions	**Subventions and grants**	**Subventions and grants**	**Subventions and grants**	**Subventions and grants**	**Subventions and grants**	**Subventions and grants**
Agency						
State	Relief funds[a]	Relief funds[a]				
				State—welfare administration	State—welfare administration	
					State public assistance administration	State—public assistance administration
	Support of orphans[a]	Support of orphans[a]			State aid—public assistance programs	State—public assistance programs
			Aid to children—state	State aid for children	State aid for children	
		Relief of blind[a]	Aid to blind—state	State aid for blind	State aid for blind	

Table C.2 (continued)

PPIC	State Controller's Office					
All Years	1916–1934	1935–1957	1958–1961	1962–1966	1967–1984	1985–1995
		Relief of needy aged[a]	Aid to aged—state	State aid for aged	State aid for aged	
			Aid to needy disabled	State aid for disabled	State aid for disabled	
			Administration of adoption program—state			
			Aid to partially self-supporting blind—state			
			Aid to children in boarding homes			
				State aid—crippled children	State aid for crippled children	
				State aid for medical assistance to aged		
			Public health—state	State aid for medical care		
				State health administration	State health administration	
		TB subsidies		State aid for TB	State aid for TB	
				State aid for cerebral palsy	State aid for cerebral palsy	
				State aid for mental health	State aid for mental health	State—aid for mental health
				Other state aid for health	Other state aid for health	State—other aid for health

Table C.2 (continued)

PPIC	State Controller's Office					
All Years	1916–1934	1935–1957	1958–1961	1962–1966	1967–1984	1985–1995
						Health—AB 8
						Health—MIA
						Alcohol and drug abuse
				State aid for agriculture	State aid for agriculture	State—aid for agriculture
Federal			Welfare administration—federal	Federal welfare administration	Federal welfare administration	
					Federal—public assistance administration	Federal—public assistance administration
					Federal aid—public assistance programs	Federal—public assistance programs
			Aid to needy disabled—federal	Federal aid for disabled	Federal aid for disabled	
			Aid to children—federal	Federal aid for children	Federal aid for children	
			Aid to blind—federal	Federal aid for blind	Federal aid for blind	
			Aid to aged—federal	Federal aid for aged	Federal aid for aged	
			Public health—federal			
				Federal aid for medical assistance	State/federal aid for medical assistance	
				Federal aid for medical care		
				Federal health administration	Federal health administration	Federal health administration
Categorical						
State	Motor vehicle $ apportioned	Motor vehicle license fees, gas tax and truck/bus tax	Motor vehicle license fees, gas tax and truck/bus tax			

Table C.2 (continued)

PPIC	State Controller's Office					
All Years	1916–1934	1935–1957	1958–1961	1962–1966	1967–1984	1985–1995
		Unrefunded taxes on aviation gasoline—state	State—aviation fuel tax	State—aviation fuel tax		
			Civil defense—state	State aid for civil defense	State aid for civil defense	
			Inspection of boarding homes—state			
				State aid for construction	State aid for construction	State—aid for construction
				State aid for corrections	State aid for corrections	State—aid for corrections
				State aid for county fairs	State aid for county fairs	State—aid for county fairs
				State aid for disaster	State aid for disaster	State—aid for disaster
				State aid for veterans affairs	State aid for veterans affairs	
			Highway user tax—state	State—highway users tax	State—highway users tax	State—highway users tax
						SB 90 mandated costs
						Trial court funding
						Public Safety Fund
Federal		Federal grants for buildings, etc.				
			Civil defense—federal			
				Federal aid for construction	Federal aid for construction	Federal—aid for construction
				Federal aid for disaster	Federal aid for disaster	Federal—aid for disaster

Table C.2 (continued)

PPIC	State Controller's Office					
All Years	1916–1934	1935–1957	1958–1961	1962–1966	1967–1984	1985–1995
General purpose						
State		Liquor tax apportionment	Liquor license fees	State—alcoholic beverage license	State—alcoholic beverage license	
			Trailer coach license fees—state	State—trailer coach in-lieu	State—trailer coach in-lieu	State—trailer coach in-lieu tax
				State—motor vehicle in-lieu tax	State—motor vehicle in-lieu tax	State—motor vehicle in-lieu tax
				Other state in-lieu tax	Other state in-lieu tax	Other state in-lieu taxes
					State homeowners tax relief	State homeowners tax relief
					State business inventory property tax relief	
						Highway property rentals
						Cigarette tax
						Open space tax relief
Federal		Forest reserve apportionment	Forest reserve—federal	Federal forest reserve revenue	Federal forest reserve revenue	Federal forest reserve revenue
				Federal grazing fees	Federal grazing fees	
				Federal in-lieu taxes	Federal in-lieu taxes	Federal—in-lieu taxes
					Federal revenue sharing	Federal—revenue sharing
Other						
State			Other state funds	State other	State other	State other
Federal			Other federal funds	Federal other	Federal other	Federal other

Table C.2 (continued)

PPIC	State Controller's Office					
All Years	1916–1934	1935–1957	1958–1961	1962–1966	1967–1984	1985–1995
Both or undetermined	Others	Others		Other governmental agencies	Other governmental agencies	Other governmental agencies
Other in-lieu				Other in-lieu taxes	Other in-lieu taxes	Other in-lieu taxes
Licenses, fees, and assessments						
Licenses and permits	**Licenses and permits** Liquor Other Permits	**Licenses and permits (county only)**	**Licenses and permits** Licenses Permits	**Licenses and permits** Animal licenses Business licenses Construction permits Road and privileges and permits Zoning permits Other	**Licenses and permits** Animal licenses Business licenses Construction permits Road and privileges and permits Zoning permits Franchises Other	**Licenses and permits** Animal licenses Business licenses Construction permits Road and privileges and permits Zoning permits Franchises Other
Fees and commissions	**Fees** Auditor Clerk Recorder Sheriff Justice of the peace Tax collector	**Fees and commissions**[b] Clerk Law library Recorder Sheriff Constables Jury fees Justices of the peace/Judicial	**Fees and commissions** Clerk Law library Recorder Sheriff, marshals, constables Jury fees Courts Tax collection service			

Table C.2 (continued)

PPIC	State Controller's Office					
All Years	1916–1934	1935–1957	1958–1961	1962–1966	1967–1984	1985–1995
	Superintendent of schools	Superintendent				
	Others	Others	Other fees and commissions			
		Candidates' filing fees				
			Treasurer			
Fines and penalties	**Fines and penalties**	**Fines and penalties (county only)**	**Fines and penalties**	**Fines, forfeits, and penalties**	**Fines, forfeits, and penalties**	**Fines, forfeits, and penalties**
			Fish and game fines			Municipal court fines
	Superior courts	Superior courts	Superior courts	Other court fines	Other court fines	Superior court fines
	Justice courts	Justice courts	Justice courts			Justice court fines
	Probation courts	Traffic fines	Traffic fines	Vehicle code fines	Vehicle code fines	Vehicle code fines
	Others	Others	Others	Forfeitures and penalties	Forfeitures and penalties	Forfeitures and penalties
Current service charges	**Special services**	**Special services rendered**	**Special services rendered**	**Charges for current services**	**Charges for current services**	**Charges for current services**
	Care in county hospital	Care in county institutions	Care in county institutions	Institutional care and services	Institutional care and services	Institutional care and services
	Care of insane	Care in state institutions	Care in state and private institutions	Assessment and tax collection	Assessment and tax collection	Assessment and tax collection
	Care of minors	Care of juvenile court wards	Care of juvenile court wards	Auditing and accounting fees	Auditing and accounting fees	Auditing and accounting fees
	Care in reform schools	Care of indigents		Communication services	Communication services	Communication services
				Election services	Election services	Election services

Table C.2 (continued)

PPIC	State Controller's Office					
All Years	1916–1934	1935–1957	1958–1961	1962–1966	1967–1984	1985–1995
		Care of prisoners	Care of prisoners	Inheritance tax fees	Inheritance tax fees	
	Transport of pupils and tuition—other counties	Schools, cafeterias, and day nurseries		Legal services	Legal services	Legal services
				Personnel services	Personnel services	
	Others	Others	Others	Planning and engineering	Planning and engineering	Planning and engineering
				Purchasing fees	Purchasing fees	
				Agricultural services	Agricultural services	Agricultural services
				Civil process services	Civil process services	Civil process services
				Court fees and costs	Court fees and costs	Court fees and costs
				Estate fees	Estate fees	Estate fees
				Humane services	Humane services	Humane services
				Law enforcement fees	Law enforcement fees	Law enforcement fees
				Recording fees	Recording fees	Recording fees
				Road and street services	Road and street services	Road and street services
				Health fees	Health fees	Health fees
				Mental health services	Mental health services	Mental health services
				Sanitation services	Sanitation services	Sanitation services
				Adoption fees	Adoption fees	
				Crippled children's services	Crippled children's services	CA children's services
				Educational services	Educational services	
				Library services	Library services	Library services
				Park and recreation fees	Park and recreation fees	Park and recreation fees
				Other charges	Other charges	Other charges

Table C.2 (continued)

PPIC	State Controller's Office					
All Years	1916–1934	1935–1957	1958–1961	1962–1966	1967–1984	1985–1995
Other taxes			**Other taxes**	**Other taxes**	**Other taxes**	**Other taxes**
	Road poll, hospital poll, etc.		Other	Other Franchises	Other Franchises	Transportation tax Property transfer Transient lodging Timber yield Aircraft Other Voter approved indebtedness **Special benefit assessments** Operations Capital outlays
Other revenue	Privileges	Privileges (county only)	Privileges Franchises Other privileges			
				From use of money and property	From use of money and property	From use of money and property
	Interest receipts From miscellaneous real property Others	Interest From current deposits From other sources (general county)	Interest From current deposits From other sources	Interest	Interest	Interest
	Rents	Rent of property (general county)	Rent of property Land and building Equipment	Rents and concessions Royalties	Rents and concessions Royalties	Rents and concessions Royalties Miscellaneous

Table C.2 (continued)

PPIC	State Controller's Office					
All Years	1916–1934	1935–1957	1958–1961	1962–1966	1967–1984	1985–1995
				Other revenue Premium and accrued interest on bond issued Revenue from discontinued districts	Other revenue Premium and accrued interest on bond issued Revenue from discontinued districts	
				Revenue applicable to prior years	Revenue applicable to prior years	
						From other financing sources
	Sale of real property	Sale of property (general county)	Sale of property Land and buildings Equipment Produce from county operations Other sales	Sale of fixed assets Other sales	Sale of fixed assets Other sales	Sale of fixed assets
	Gifts and donations From current deposits From invested funds					Total transfers in
	Receipts to correct errors					
	Candelled warrants					
	Miscellaneous For expenses For outlays	Miscellaneous (general county)	Miscellaneous Cancellations, rebates, and refunds Other miscellaneous	Other	Other	Miscellaneous revenue Other sales

Table C.2 (continued)

PPIC	State Controller's Office					
All Years	1916–1934	1935–1957	1958–1961	1962–1966	1967–1984	1985–1995
	Receipts to correct errors Cancelled warrants					
Excluded	**School district subventions** Refund on bonds HS $ apportioned Elementary school $ apportioned	**School district subventions** Elementary school apportionment HS apportionment Junior college apportionment County school service funds apportionment Other educational money				
	Sale of bonds County District	**Sale of bonds** Receipts from debt obligations	(Sale of bonds not included in general operating budget)	(Sale of bonds not included in general operating budget)	(Sale of bonds not included in general operating budget)	Proceeds from sale of bonds Other long-term debt proceeds
	Agency transactions *For state* Inheritance taxes	**Agency transactions** *For state* Inheritance taxes				

Table C.2 (continued)

PPIC	State Controller's Office					
All Years	1916–1934	1935–1957	1958–1961	1962–1966	1967–1984	1985–1995
	Poll taxes	Teachers' retirement fund				
	State land sales	Funds for administration and disbursement of blind and aged program				
	State taxes	Fish and game licenses				
	State's portion of redemption and sales	Others				
	Interest on state highways	*For cities, other counties, and districts*				
	Others	(single line item)				
	For districts (district special taxes)					
	Roads					
	Schools					
	High schools					
	Reclamation					
	Others					
	For municipalities (single line item)					

Table C.2 (continued)

PPIC	State Controller's Office					
All Years	1916–1934	1935–1957	1958–1961	1962–1966	1967–1984	1985–1995
		Trust funds and accounts				
		Public administrators fund				
		Overpaid taxes subject to refund				
		Others				
		District taxes				
		Elementary schools				
		High schools				
		Junior colleges				
		School taxes				
		Parks and recreation				
		Lighting				
		Cemetery				
		Reclamation				
		Sanitary, sanitation, and sewer				
		Fire				
		Hospitals				
		Roads				
		Mosquito				

[a]State and federal combined.

[b]Fees are allocated between the county and districts. Only the general county line item is included.

Table C.3

Components of County Agency Expenditures for Health and Welfare

1916–1934	1935–1957	1958–1962
Conservation of health	Health and sanitation except: Sanitary services Other expenses and outlays	Health and sanitation except: Current expenses Capital outlays
Charities and corrections except: Probation officers and courts Care of inmates, reform school	Charities and corrections (county only) except: Probation expenses Reform schools	Charities and corrections except: Probation department Juvenile hall

1963–1984	1985–1995
Health and sanitation except: Sanitation	Health
Public assistance	Public assistance

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