Patterns in California Government Revenues Since Proposition 13

Michael A. Shires

1999

Foreword

In response to an unexpected surplus of revenues in the fall of 1998, Governor Pete Wilson's last budget proposed a reduction in the vehicle license fee—a state-levied charge. Because a significant portion of this revenue had been committed to local governments, the reduction touched a raw nerve in city and county halls, despite assurances from the state that local governments would be held harmless under the proposal.

This sensitivity of local government finance to state policy actions is the subject of this report by research fellow Michael Shires. The study examines how the fiscal relationship between state and local governments has changed since 1978, when Proposition 13 was overwhelmingly approved by the voters.

Consistent with PPIC's agenda of presenting the facts underlying public policy issues in California, the author documents the shifting sands of local finance for five fiscal years between 1978 and 1995. The message is clear. All units of local government in California, including counties, cities, special districts, school districts, and higher education,

have seen their share of self-controlled revenues drop precipitously. For example, the share of county revenues that counties are authorized to raise themselves has dropped from 50 percent to 20 percent; for cities, the share has dropped from 66 percent to 43 percent.

The study also examines a second element of fiscal flexibility—the discretion each level of government has in determining how to spend the money it receives. It finds that even as local governments have become increasingly dependent on state funds, those funds have come with more and more strings attached. Counties and cities are free to allocate only about 30 to 40 percent of their revenues. All other revenues are earmarked by higher levels of government for some specific set of services. By any measure, counties have taken the biggest hit of any local unit of government: The share of their revenues they can use however they wish fell from 57 percent in 1978 to only 31 percent in 1995. And it is for this reason that counties are frequently observed to be vulnerable to fiscal crises during statewide downturns in the economy.

The author concludes that the tight fit between determining the level of revenues to be raised and deciding how they will be spent, once a hallmark of local government, is a policy of the past in California. No judgments are made about whether the changes in public finance since 1978 represent a better way to operate government, but the author does conclude that state government and the vicissitudes of its budgetary process play a fundamentally more powerful role in local government than ever before in California's history.

This volume is one of a series that PPIC is publishing on the status of public finance in California as part of an overall program of research in governance and public finance. The policy issues involved in understanding public finance issues today, including the question of

equity, the fiscal relationship between state and local governments, and the level and quality of government services, are large and important concerns that need to be analyzed with an objective and independent eye. They are exactly the kinds of issues that the Public Policy Institute of California was founded to study. We trust that this growing body of research and findings on local government finance will reduce the level of disagreement and set the stage for a more informed public dialogue.

David W. Lyon
President and CEO
Public Policy Institute of California

Summary

In June 1978, California voters passed Proposition 13, an initiative that significantly altered the state's fiscal landscape. This initiative rocked the dynamic fiscal relationship between the state and all levels of local government and was the first salvo in a long series of voter-approved initiatives that have constrained state and local governments' ability to raise, allocate, and spend public monies. Some of the most significant of these initiatives include Proposition 4 in 1979, which limited the growth of state and local spending; Proposition 62 in 1986, which revised the vote requirements for local taxes; Proposition 98 in 1988, which set minimum spending levels for K–14 education; and Proposition 218 in 1996, which expanded to local fees, assessments, and taxes many of the limitations assigned by Proposition 13 to special taxes.

Local governments, especially cities and counties, frequently argue that the plethora of voter initiatives dealing with local finance has significantly hampered both their ability to raise revenues to pay for desired local services and their discretion over how to spend the monies

they do obtain. This report looks in some detail at how the state and local fiscal relationship has changed over the past 20 years. The companion report to this study, *Has Proposition 13 Delivered? The Changing Tax Burden in California*, found that public revenues have risen significantly since the early 1980s. However, when adjusted for inflation, overall public revenues stood at about 85 percent of their pre-Proposition 13 levels in 1995 (the most recent year for which data were available).

In this report, we find that the character of state and local finance has changed considerably during this post-Proposition 13 era. Some of these changes are directly attributable to Proposition 13, such as the effective shift of control of the property tax from local government to the state. Many of the other changes cannot be as narrowly assigned to a specific event. The state has passed through two complete business cycles, has seen the passage of numerous additional budget-related ballot propositions, and has undergone major changes in its demographic and economic character. This report looks at the overall effects of the state's changing fiscal environment on the revenue streams for state and local governments, focusing on the three questions:

1. How has the share of locally controlled revenues changed?
2. How has the spending flexibility of state and local government revenues changed?
3. How has the structure of state and local government revenues changed?

This study answers these questions with respect to each level of state and local government in California, including the state, counties, cities,

independent special districts, school districts, and public institutions of postsecondary education.

Cities, Counties, and Schools Have Lost Control over Their Revenues

Local governments have become increasingly reliant on revenue streams that are not directly under their control. Proposition 13 transferred effective control of one of the largest local revenue streams—the property tax—to the state government. As a result, the proportion of revenues controlled by many local governments declined significantly, as we see in Table S.1. Generally, as self-controlled revenues have declined for these local governments, they have been replaced by transfers from other levels of government (especially the state). This renders local governments increasingly vulnerable to fluctuations in the budget cycles of these other governments.

Table S.1

Percentage Share of Public Revenues in California for All Levels of Government, by Level Controlling the Revenue

Level Controlling Revenue	1978	1981	1988	1992	1995
Federal	22.9	22.3	17.3	20.2	22.3
State	41.6	57.9	60.0	57.8	54.9
Counties	8.3	3.8	4.2	4.8	5.0
Cities	11.0	8.4	9.2	9.0	9.2
Independent special districts	4.8	4.6	5.7	4.4	4.4
School districts	8.4	1.0	0.8	0.7	0.8
Public postsecondary education	2.7	1.7	1.9	2.0	2.3
Unspecified	0.3	0.3	0.9	1.1	1.1
Total	100.0	100.0	100.0	100.0	100.0

The importance of local control of revenues is debated in the literature. One side points to California's long tradition of "home rule" and its attendant close correspondence between those who raise revenues for given governmental purposes and those who authorize their expenditure. This correspondence, attenuated after Proposition 13, provided an aura of accountability to local government that is often missing at the state and federal levels. This accountability had implications not only in the budgetary process but also at the polls as local citizens paid close attention to the selection of those who could reach into their pocketbooks. Others argue that the distance between most city halls and Sacramento is not too great and that the source of a given revenue is not as important to accountability as how local officials spend it. Although this analysis does not settle this debate, it is clear that the changes in state and local finance since 1978 *have* led to a world where local government leaders are much more reliant on Sacramento and not on local sources when trying to generate monies for new or expanded local services and programs.

Spending Discretion Has Declined, Especially for Counties

The second question we look at is how "spending discretion" has changed for local governments, keeping in mind an important caveat: *Revenues are not the best measure to assess the true discretion of local governments in their spending*. Expenditures are in fact the best measure of this discretion. We can, however, gain important insights into the spending discretion of local government by examining the discretion associated with their revenue streams. The character of a revenue and

any constraints assigned to it represent the first point in the public finance process where constraints on local spending can be introduced.

We find that revenue discretion has generally declined over the nearly two decades in our study, but the experience has been extremely mixed, as seen in Table S.2.

Counties clearly have experienced the greatest decline in discretionary revenues, which fell from 57 percent to 31 percent of total county revenues. In contrast, independent special districts retain discretion over a large proportion of their revenues, largely explained by the dramatic increases in the enterprise-related operating revenues of the enterprise-oriented special districts that constitute the bulk of this category. Because of an on-going debate over the true meaning of the flexibility accorded "categorical revenues" in K–12 school finance, care should be exercised when noting the changes in their discretion. At the same time, school districts have clearly shown a marked decline in the overall level of discretion they have in how their revenues are spent.

Table S.2

Percentage Share of Overall Revenues That Are Discretionary, by Level of Government and Year

Level of Government	1978	1981	1988	1992	1995
State	60	61	63	56	52
Counties	57	42	42	41	31
Cities	49	46	49	47	44
Independent special districts	65	66	67	71	69
School districts	92	88	74	73	71
Public postsecondary education	68	66	63	63	62
Overall	64	61	60	56	52

Local Governments Increasingly Rely on Transfers from Other Governments, Fees, and Enterprise Revenues

The third research topic we address is how the structure of local government has changed since 1978, or, more specifically, how the relative importance of taxes, fees, intergovernmental transfers, and assessments has changed over time. It should come as no surprise that, since Proposition 13 resulted in a reduction in the quantity of property taxes per capita collected in the state, both state and local governments have become proportionately less reliant on tax revenues, as seen in Table S.3.

At the same time, enterprise revenues, intergovernmental transfers, and service charges have increased in relative importance. The overall increase in the importance of enterprise revenues is fueled by both a general increase in utility charges in public and private sector utilities and a reduction in the quantity of property taxes provided to public sector utilities because of Proposition 13. The increase in intergovernmental transfers is fueled by both an increased federal role in funding state-managed government activities and the state's dramatically increased importance as a source of local government revenues. The increase in service charge and fee revenues represents an across-the-board effort by local governments to place the burden of paying for many services on consumers rather than taxpayers in general.

Overall Patterns in State and Local Revenues and Their Implications

As shown by the preceding discussion, the locus of decisionmaking about revenues has generally shifted from local governments to the state

Table S.3

Public Revenues in California for All Levels of Government, and Their Percentage Share, by Revenue Type

Revenue Type	1978	1981	1988	1992	1995
Taxes	26,409,666,294	28,392,188,943	52,504,319,843	72,070,935,103	75,540,377,001
	45.5	36.6	39.5	38.4	37.0
Assessments	32,850,839	162,711,104	422,836,209	560,079,307	634,712,424
	0.1	0.2	0.3	0.3	0.3
Regulatory fees and charges	1,390,237,527	1,338,110,598	3,228,228,698	4,101,351,362	5,497,714,659
	2.4	1.7	2.4	2.2	2.7
Fines and penalties	252,254,534	362,918,091	953,171,700	988,966,277	1,080,762,038
	0.4	0.5	0.7	0.5	0.5
Interest	856,891,141	1,838,620,532	3,366,566,608	3,871,848,963	3,751,894,129
	1.5	2.4	2.5	2.1	1.8
Intergovernmental	21,694,128,405	32,456,331,967	49,489,137,169	73,373,444,285	81,478,340,742
	37.3	41.9	37.1	39.1	39.8
Enterprise revenues	4,476,246,475	7,733,753,254	13,714,929,929	18,857,594,195	22,061,142,572
	7.7	10.0	10.3	10.0	10.8
Exclusively provided service revenues	201,040,942	287,272,242	1,095,613,493	1,182,836,525	1,468,815,789
	0.3	0.4	0.8	0.6	0.7
General service revenues	1,683,879,855	3,133,030,720	5,567,580,382	7,179,561,943	8,152,364,018
	2.9	4.0	4.2	3.8	4.0
Other revenues	1,133,295,632	1,769,296,927	2,906,771,649	5,661,550,731	4,918,470,192
	1.9	2.3	2.2	3.0	2.4
Total	58,130,491,644	77,474,234,378	133,249,155,680	187,848,168,691	204,584,593,564
	100.0	100.0	100.0	100.0	100.0

government. This is exhibited not only by the transfer of control of the property tax from local governments to the state but also by an increase in state transfers to many local governments to fund specific programs. The overall share of state and local revenues controlled by the state government has risen from 42 percent to 55 percent, whereas revenues controlled by counties, cities, independent special districts, school districts, and public postsecondary institutions has declined from 35 percent to 23 percent. This shift has been especially strong in school districts and counties, where locally controlled revenues have declined from 17 percent to 6 percent. The net result of this shift has been to deemphasize the role of local governing bodies with respect to control and, some would argue, accountability for public revenues.

More broadly, however, the issue is really one of local self-control and the ability of local governments to respond to local preferences. The declining ability to generate revenue streams for local purposes will become increasingly problematic in the future as local governments seek to provide services to the growing and changing populations that are emerging as a result of the massive demographic shifts sweeping the state. It will be increasingly common for local governments to turn to the state to address local issues instead of creating solutions that target the particular needs and demographics of the local community. And when unfunded mandates and "maintenance of effort" requirements are added to the equation, the level of state and local government discretionary revenues is even more sharply reduced, further hampering local governments' ability to respond to local needs and preferences.

The quest for more revenues and more budget flexibility has altered the composition of local revenues. For example, local governments are increasingly transferring the costs of services that in the past were paid for

under the auspices of general government to users of those services and to visitors, such as hotel guests.

The loss of local discretion on both the revenue-raising and expenditure sides, coupled with the increased visibility of the costs of providing services through the imposition of user fees, has generally increased the overall political tensions in the state between different levels of government and between voters and their governments as well, as voters have demonstrated through the initiative process.

At the same time, it is important to place Proposition 13 in context and to remember that many other events affected state and local government in California over this same period. The state passed through two complete business cycles, saw the passage of numerous ballot propositions, and underwent major changes in its demographic and economic character. The intent of this report is to document some of the important changes in the relationship between state and local government since the passage of Proposition 13—not to definitively identify the effects of that proposition.

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Acknowledgments

Since this report was prepared in conjunction with another PPIC report—*Has Proposition 13 Delivered*? *The Changing Tax Burden in California*—the author is doubly indebted to the many individuals who contributed to the success of that report, including Mark Baldassare, PPIC; Jeff Chapman, USC School of Public Administration; Stephen Kroes, California Taxpayers' Association; Paul Lewis, PPIC; Marianne O'Malley, California Legislative Analyst's Office; and Fred Silva, PPIC. We would like to further recognize the efforts of Stephen Kroes, Paul Lewis, Peter Schaafsma (California Debt and Investment Advisory Commission), and Joanne Spetz (PPIC) who served as technical reviewers on this report and whose comments and suggestions significantly enhanced its quality. Although this report reflects the contributions of many people, the author is solely responsible for its content.

1. Introduction

In June 1978, California voters passed Proposition 13, an initiative that significantly altered the state's fiscal landscape. This initiative rocked the dynamic fiscal relationship between the state and all levels of local government and was the first salvo in a long series of voter-approved initiatives that constrained state and local governments' ability to raise, allocate, and spend public monies. Some of the most significant of these initiatives include Proposition 4 in 1979, which limited the growth of state and local spending; Proposition 62 in 1986, which revised the vote requirements for local taxes; Proposition 98 in 1988, which set minimum spending levels for K–14 education; and Proposition 218 in 1996, which expanded to local fees, assessments, and taxes many of the limitations assigned by Proposition 13 to special taxes.

A whole range of questions has emerged from the confusion over public finance wrought by these and other voter interventions, fueling an ongoing debate over public finance in California. The questions range from whether it was the voters' intent to realign the distribution of power

between state and local governments to whether the resulting property tax rolls are fair to taxpayers and local governments to whether local governments have found creative ways around voter-imposed constraints, just to name a few. Moreover, local governments, especially cities and counties, frequently argue that the plethora of voter initiatives dealing with local finance has significantly hampered both their ability to raise revenues to pay for desired local services and their discretion over how to spend the monies they do obtain.

This study does not intend to answer all of these questions. Some, such as voters' intentions in passing so many initiatives directly involving local finance, will probably never be fully answered. The issue of whether local governments have found ways to circumvent the fiscal limits imposed by Proposition 13 and its progeny is addressed in a companion report, *Has Proposition 13 Delivered? The Changing Tax Burden in California* (Shires, 1998). In that study, we find that although overall public revenues today total only about 85 percent of their pre-Proposition 13 levels, they have risen significantly since the early 1980s.

In this report, we will document many of the changes that have occurred in the 20 years since Proposition 13 was passed in 1978. Even though this study will examine, in some detail, the ways that Proposition 13 may have affected state and local revenue patterns, it is important to remember that Proposition 13 was not the only event over this interval that changed the level and character of these revenues. The state has passed through two complete business cycles, has seen the passage of numerous additional budget-related ballot propositions, and has undergone major changes in its demographic and economic character. The purpose of this report is to document the magnitude and direction of state and local finance trends since Proposition 13 and not to provide

a definitive answer to the question of which trends can be attributed solely to Proposition 13.

Although changes in the overall size and scale of the state and local sector (as measured by revenues) are important, the ways these fiscal initiatives have influenced the structure and character of the public sector are also of consequence. It is argued by many, especially at the local level, that the flexibility of local governments both to raise and to spend revenues has been dramatically reduced over the past 20 years. This study addresses these issues, focusing on three questions about the patterns in state and local revenues since 1978:

1. How has the share of locally controlled revenues changed?
2. How has the spending flexibility of state and local governments changed?
3. How has the structure of state and local government revenues changed?

This study answers these questions with respect to each level of state and local government in California, including the state, counties, cities, independent special districts, school districts, and public institutions of postsecondary education.[1]

Study Data

To conduct this analysis, it was necessary to collect data from several sources and to organize them into a single, consistent format. A previous PPIC report that examined quality of the state's revenue data found that

[1]California's public postsecondary institutions include the University of California (nine campuses), the California State University (22 campuses), and the California Community Colleges (106 campuses).

there was little consistency in the formats used by the California State Controller's office to report revenue data.[2] In addition, the data provided by the State Controller's office did not include complete information on school districts or public postsecondary education institutions and thus had to be supplemented with information from the California Department of Education and the California Department of Finance, further complicating our ability to organize the information in a useful manner. How we handled this methodological issue is discussed below.

Sources

The data used in this analysis were obtained from several sources. The largest contributor was the California State Controller's Office. Revenue data for counties, cities, special districts, redevelopment agencies, and transportation planning agencies were derived from the State Controller's publication series *Annual Report on Financial Transactions* for each level of government. The state revenue data were the "actual" amounts reported in the *California Governor's Budget Summary* for the budget year two years after the study year (thus, the information for 1980–81 was from the *1982–83 Governor's Budget*). Data on public postsecondary education were obtained from the detailed schedules in the education section of the *Governor's Budget* in the same years. Supplemental information was drawn from the California Postsecondary Education Commission publication, *Fiscal Profiles 1996*. The data for K–12 school districts were drawn from the California State Controller, *Annual Report on Financial Transactions Concerning School*

[2]See Shires and Glenn Haber (1997).

Districts and supplemental information was obtained directly from the California Department of Education data system.

Methodological Issues

Because of the inconsistencies in reporting format identified by an earlier PPIC analysis of local government data in California and the need to combine data from diverse sources, we developed our own "generic" taxonomy for the types of revenues reported by each governmental entity. This taxonomy is used extensively in our discussion of the structure of local governments in Chapter 4. Details of the taxonomy are provided in Appendix A.

For our other analyses (those presented in Chapters 2 and 3), we developed a database that includes the original description and detail of each individual revenue stream. Each revenue stream was characterized in terms of its level of self-control and spending discretion. This database, which includes revenue streams for each year and for each level of government, is too long to be included in this publication. It is available in electronic form on the PPIC website at www.ppic.org on the Publications page, under the title of this document.

In most cases, the preparation of the classifications used in this report was straightforward. Special districts, however, required additional attention. This is because the California State Controller's *Annual Report on Financial Transactions Concerning Special Districts* includes detailed revenue data for both independent and dependent special districts—those governed by other levels of government, such as city councils and county boards of supervisors. Because issues of control and discretion for these districts truly reside with the governing body, revenues associated with dependent special districts were included with

the revenues of the governing body. As an example, the revenues from a county service area, which are listed in the Controller's *Annual Report on Financial Transactions Concerning Special Districts*, were included with county revenues to reflect the fact that these are largely administrative subentities within county government and wholly controlled by the board of supervisors. This approach allows for a better accounting of control and discretion than the standard reporting structure would allow. The revenue amounts from the special districts are reported in Appendix E.

Unfortunately, this reclassification process was very labor-intensive and, as a result of this costly constraint, we were forced to limit to five the number of years we could address in our study. We have chosen the years 1978,[3] 1981, 1988, 1992 ,and 1995. For a detailed discussion of why we chose these years, see Appendix F.

Organization of This Report

This report is organized around the three questions identified above. Chapters 2 and 3 examine the flexibility of local governments revenues in the post-Proposition 13 era. Chapter 2 focuses on how much of a local government's revenues are locally determined and controlled, and Chapter 3 looks at one measure of the level of spending discretion that local governments enjoy with the revenues they receive. Chapter 4 then looks at changes in the structure and composition of local government revenue streams since Proposition 13. Chapter 5 discusses some of the implications of the patterns identified in our study.

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[3]Our convention in this report is to refer to each fiscal year as the second of the two years. For example, the fiscal year ending June 30, 1978, often written as 1977–78, will be listed as 1978 in this report.

2. Changes in the Level of Control over the Raising of State and Local Revenues

One major consequence of Proposition 13 was that it effectively transferred control of the property tax from local governments to the state government. Although the property tax still continues to be levied, assessed, collected, and distributed at the local level, Proposition 13 required that the state become the final arbiter in deciding who receives local property tax revenues and how much they receive. In a broad sense, this one-time intrusion of Proposition 13 could have led to an environment where the property tax was similar to the sales tax—that is, a state-allocated tax whose local shares were predominantly determined by local activities and property values. However, the interaction between this state control and other constitutionally mandated spending

requirements at the state level, most notably Proposition 98,[1] has led to an environment where the state manipulates the allocation of local property taxes to suit its needs.[2] Thus, although the property tax is generated locally, it is increasingly treated like a state-controlled revenue stream.

The Issue of Local Control

Before we discuss the change in alignment between who controls local revenues and who actually spends them, it is important to recognize a contextual caveat. All revenues received at the state and local levels are in fact under some form of state control. Although it is true that some of the powers afforded cities today were grandfathered into the state constitution through charter and home rule provisions, all these privileges and principles are now based exclusively on the state constitution. Furthermore, whether through specific constitutional reference or statute, all local revenues, with the exception of federal transfers, are collected by authority of the State of California and the amounts can be changed at the state level through either constitutional amendments or legislative action.

The state, however, has assigned the power to impose and generate revenues to subordinate or local governments, including counties, cities, special districts, public K–12 school districts, and public postsecondary education institutions. In this chapter, when we talk about who controls

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[1]Proposition 98, passed in June 1988, sets minimum funding levels for the support of K–14 education in California.

[2]One example of this control was the revision of the property tax allocation formula in fiscal years 1993 and 1994. The revised formula transferred significant portions of the property tax from counties, cities, and special districts to school districts, thereby relieving some of the fiscal pressures on the state brought on by the recession and Proposition 98.

and who uses a particular revenue stream, we refer to the level of government that has been assigned control of a given revenue by the state, either through statute or by the constitution.

There are two common arguments as to why the issue of local control may be important, although they are difficult to evaluate and have yet to be conclusively documented in the analytic literature: (1) Reducing local control reduces the accountability of local governments, and (2) reducing local control significantly decreases the ability of local governments to raise revenues for locally desired services.

The first argument is rooted in California tradition—namely, the loss of local control reduces the accountability of locally elected officials. Before Proposition 13, the property tax rate was determined exclusively by locally elected bodies to provide funding for local government activities. This resulted in significant debate at the local level, both at the ballot box, in terms of who was elected to those bodies, and at public budget hearings about the local service preferences of the electorate, which, in turn, rendered elected individuals closely accountable to their constituencies.[3] Proposition 13 changed this scenario. By setting a statewide property tax rate of 1 percent, it removed the debate over local property tax rates from council chambers and board rooms and replaced it with a discussion about how to allocate portions of a fixed budget pie. Instead of a debate that directly affected many members of the local community (through their property tax bills), the debate turned into a competition for resources for specific programs, and the participants

[3]It is ironic that, in a system that was considered to hold local officials more accountable to the electorate, it was the elected officials' failure to respond to their constituencies' concerns over escalating property tax bills that led to the passage of Proposition 13 and the accompanying reduction in local accountability.

became those who would be affected by a particular program's continuation or termination. It has been argued that this has resulted in a disengagement of voters from the electoral and policymaking process and has provided a screen behind which elected officials can hide (namely, that they cannot provide programs because Sacramento is "calling the shots").[4]

Critics of this argument point out that although Californians have experienced a high degree of connection between community interest and revenue, there is no reason why government officials cannot be held fully accountable for the expenditures they do control. They point to school districts as examples, where the state government provides significant monies to local districts, which, in turn, are able to experiment and respond to local community interests.

This example points to the second argument for local control—namely, the ability of local communities to establish new revenues for locally desired purposes. Before Proposition 13, local communities could impose incremental increases in the tax rate to fund new programs. With the advent of Proposition 13, they could no longer do so. Furthermore, the artifice of Proposition 13's implementation in AB 8[5]

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[4]The larger argument also claims that local governments are more responsive to local preferences because people are more likely to know their city councilmembers and are better able to assess their behaviors and successes at election time than they are with their more distantly connected county, state, or federal representatives. Furthermore, because there are more local officials and more jurisdictions, as those individuals make choices to raise revenues to spend on programs, they can be held more directly accountable for their actions. The theoretical argument says that people will include factors such as their preference for the level of taxes in their voting decision and will vote out local representatives if they become dissatisfied with increases in their local taxes.

[5]AB 8 was a key part of the implementation of Proposition 13. The bill allocates the much-reduced property tax pie largely on the basis of what proportion of overall property taxes a community received in the year before Proposition 13.

produced a world where the relative community preferences from the pre-Proposition 13 era were locked into place in perpetuity.[6]

The restriction imposed by Proposition 13, however, may be offset if local governments can replace the loss of flexibility in the property tax by increasing other revenue streams. In this chapter, we explore the experiences of local governments that have been attempting to do this for the past 20 years. We start with an overview of the revenues received by each level of government and the revenues under the control of each level of government within the state. We then discuss the proportion of self-controlled revenues within each level of government as a measure of this important aspect of local government flexibility.

The Distribution of Public Revenues Across Levels of Government

The first step in exploring the alignment between the receipt and control of revenues is to consider who receives public revenues at the state and local level in California. Table 2.1 provides an overview of the revenues reported by each level of government.[7] Because these

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[6]Some minor adjustments in the mid-1980s expanded the property tax share going to communities that had no or low property taxes before Proposition 13. However, except for this adjustment and the state-driven adjustments of the early 1990s, the relative preferences of communities, special districts, and school districts are locked at their pre-Proposition 13 levels.

[7]Note that only independent special districts are included under the special districts heading. Dependent special districts' revenues (including redevelopment agencies) are included with the revenues of the level of government that actually controls each district, almost always cities and counties. For this reason, the totals provided for cities and counties do not directly correspond to the totals listed in the State Controller's *Annual Report on Financial Transactions Concerning Cities* and *Annual Report on Financial Transactions Concerning Counties*. See Appendix E for a more detailed description of the amounts included as a result of this process.

Table 2.1

Public Revenues in California for All Levels of Government, and Their Percentage Share, by Level Receiving the Revenue

Level Receiving Revenue	1978	1981	1988	1992	1995
State	23,202,407,119	32,386,866,000	52,915,676,000	79,313,651,000	85,622,226,000
	39.9	41.8	39.8	42.3	41.8
Counties	9,182,173,418	11,002,462,589	19,629,130,409	29,873,677,459	31,858,760,981
	15.8	14.2	14.7	15.9	15.6
Cities	8,472,134,749	11,329,778,338	20,248,790,547	27,325,541,671	30,796,774,219
	14.6	14.6	15.2	14.5	15.1
Independent special	3,665,344,143	5,282,467,621	10,274,183,865	11,724,148,380	12,726,996,423
districts	6.3	6.8	7.7	6.2	6.2
School districts	8,978,391,928	10,963,606,830	18,805,199,859	24,915,087,181	27,674,571,941
		14.2	14.1	13.3	13.5
Public postsecondary	4,630,040,287	6,509,053,000	11,376,175,000	14,696,063,000	15,905,264,000
education[a]	8.0	8.4	8.5	7.8	7.8
Total	58,130,491,644	77,474,234,378	133,249,155,680	187,848,168,691	204,584,593,564
	100.0	100.0	100.0	100.0	100.0

[a]In 1978, the California Community Colleges revenues totalled $1.2 billion (27 percent of public postsecondary education revenues), the California State University revenues totalled $0.9 billion (20 percent), and the University of California totalled $2.5 billion (53 percent). In 1995, these amounts had grown to $2.8 billion (18 percent), $3.1 billion (20 percent), and $9.9 billion (62 percent), respectively.

revenues include intergovernmental revenues, there is some double-counting (see Shires et al., 1998, for a discussion of this issue).

The table highlights two facts. First, there has been significant growth in the reported revenues of all levels of government in California. Revenues at nearly every level averaged an annual growth rate of just under 8 percent and cumulatively rose some 252 percent over the entire 17-year period.

The second and more remarkable aspect of the state and local fiscal structure described in this table is its stability. The share of revenues received at each level of government is amazingly stable, given all the shocks and disruptions that have occurred over this period of time. This would indicate that, at the grossest level, the revenues of all state and local governments were equally affected by these shocks, although, as we will discuss below, the shocks did change the character of the revenues and the distribution of power between state and local governments.

In the companion report to this study, Shires et al. found that when one adjusts for the changes in the state's wealth, income, and cost of doing business, the overall revenues available to state and local governments have declined. Thus, although the distribution has remained relatively constant, the overall level of revenues received by each level of government fell by about 25 percent after Proposition 13 and then had returned to about 85 percent of pre-Proposition 13 levels by 1995.

Who Controls Revenues at the State and Local Government Levels in California?

To shed light on the issue of flexibility and self-determination, we now turn to the issue of who controls the level of revenues raised by

government. As we indicated at the beginning of this chapter, all revenue-generating power at the state and local levels comes from the California Constitution and state statute. The state is vested with this power by the U.S. Constitution: All powers and authorities not assigned to the federal government are reserved for states.[8]

The state, however, has assigned certain powers to local governments over the course of its history. For example, it has accorded counties, cities, and local districts specific rights and privileges when it comes to raising revenues to fund their activities. In some cases, the state obtains the revenues and then transfers them to these local governments to provide specific services or to provide general support.

We will use this historical structure to define who controls the raising of a revenue. For example, when a city imposes a transient lodging tax, it is doing so because the state has granted it that authority. We would deem the city as the level of government controlling the revenue from the transient lodging tax. Our definition of "controlling" revenues focuses on what level of government must take the specific action to generate the revenue—in our example above, the action was imposing the tax.

In other cases, the issue is more complex. The property tax, for example, is imposed, assessed, and collected locally. And before Proposition 13, it was clearly controlled by local governments. Proposition 13, however, moved control of the allocation to the state, by establishing in the state constitution a statewide tax rate and leaving it to

[8]As in the case of the California Constitution, this division of authority resulted from a careful vetting process, based in significant part on history and culture, that incorporated many preexisting relationships and power arrangements into the U.S. Constitution. Upon its adoption by the member states, the U.S. Constitution's by-laws and provisions became binding on all the member states.

the state to determine a fair allocation mechanism. If the state had simply established an allocation structure and allowed it to operate without significant interference, control would and could still largely be attributed to local government—much like the 1 percent sales tax received by cities and counties. The property tax, however, has become an active policy instrument of the state inasmuch as it is periodically manipulated to serve state interests. As a result, we categorize the property tax as a state-controlled revenue.

Table 2.2 presents the overall distribution of revenue control in California. As we see in this table, public revenues grew dramatically from $58 billion in 1978 to $205 billion in 1995, an increase of some 252 percent. The federal share of these total revenues declined from 23 percent in 1978 to 17 percent to the late 1980s and then returned to pre-Proposition 13 levels by 1995. This pattern reflects two phenomena that we will see throughout this study, a significant portion of which can be attributed to the business cycle. The first is a general increase in programmatic monies over time, an occurrence that accelerates during recessions as demand for federally subsidized programs, such as AFDC, increases. The second is the simultaneous reduction in state and local revenues generally associated with recessions.

Revenues controlled by the state rose dramatically as a result of the power shift associated with Proposition 13 and then declined slightly from their peak in the late 1980s. Overall, the growth in state-controlled revenues has been significant, with revenues increasing some 360 percent between 1978 and 1995 and almost doubling between 1978 and 1981 alone.

Table 2.2

Public Revenues in California for All Levels of Government, and Their Percentage Share, by Level Controlling the Revenue

Level Controlling Revenue	1978	1981	1988	1992	1995
Federal	13,330,434,507	17,292,629,455	23,088,797,213	38,034,203,966	45,675,769,771
	22.9	22.3	17.3	20.2	22.3
State	24,227,929,706	44,795,549,367	80,009,882,974	108,543,952,956	112,131,400,939
	41.6	57.9	60.0	57.8	54.9
Counties	4,826,003,244	2,956,672,722	5,565,664,702	9,068,927,890	10,292,417,931
	8.3	3.8	4.2	4.8	5.0
Cities	6,367,721,010	6,538,676,868	12,262,762,653	16,846,038,793	18,916,213,236
	11.0	8.4	9.2	9.0	9.2
Independent special districts	2,788,258,683	3,547,648,361	7,576,250,411	8,178,715,852	8,933,480,218
	4.8	4.6	5.7	4.4	4.4
School districts	4,883,221,132	776,242,632	1,031,238,836	1,345,297,935	1,733,385,972
	8.4	1.0	0.8	0.7	0.8
Public postsecondary education	1,542,698,231	1,308,565,000	2,561,946,000	3,803,419,000	4,670,347,000
	2.7	1.7	1.9	2.0	2.3
Unspecified	164,225,131	258,249,973	1,152,612,891	2,027,612,299	2,231,578,497
	0.3	0.3	0.9	1.1	1.1
Total	58,130,491,644	77,474,234,378	133,249,155,680	187,848,168,691	204,584,593,564
	100.0	100.0	100.0	100.0	100.0

County-controlled revenues plunged with the passage of Proposition 13, falling not only in terms of share of the whole but in dollars as well—declining from $4.8 billion in 1978 to $3.0 billion in 1981. Since 1981, however, these revenues have risen progressively. In fact, revenues controlled at the county level have risen nearly 350 percent between 1981 and 1995, compared to 264 percent for all levels of government revenues.

Revenues obtained by cities also declined after the passage of Proposition 13 but not as severely as county-controlled revenues. Cities' overall share has remained flat since 1988 and the rate of growth of their share is only slightly higher than the growth rate for overall revenues. Revenues controlled by independent special districts spiked in the mid-1980s but otherwise remained flat at about 4.5 percent of overall state and local revenues. The revenues of special districts grew at a slower rate than overall revenues.

School districts experienced the most severe changes over this period. School-controlled revenues fell from $4.9 billion in 1978 (8.4 percent of overall revenues) to $0.8 billion in 1981 (1.0 percent of overall revenues). Even though they more than doubled over the next 15 years, they represented less than 1 percent of overall revenues from then on. This major change results from the property tax shift and points to the fact that local school districts are now unable to exert much control over their revenue streams.

Public postsecondary education revenues also exhibited the effect of the property tax shift associated with Proposition 13 between 1978 and 1981, largely through changes in the community college system. However, after the early 1980s, higher education revenues rose gradually, returning to 2.3 percent in 1995.

Alignment Between Controlling and Recipient Governments

Having reviewed the issues surrounding the receipt and control of revenues, we next examine how local governments' flexibility with respect to their control of local revenues has changed over the past 20 years. Table 2.3 presents one measure of each level of government's control over its revenues—the share of its total revenues that are "self-controlled."[9]

This table shows that, in aggregate, Proposition 13 had little effect on the share of the state's revenues that were self-controlled, but that it strongly affected the level of self-controlled revenues for all other levels of local government. K–12 school districts were affected the most, with their self-controlled revenues declining from 54 percent to 7 percent. Independent special districts seemed to experience the least change.

Table 2.3

Self-Controlled Revenues as a Percentage Share of Each Level of Government's Total Reported Revenues

	1978	1981	1988	1992	1995
State	68	68	72	66	63
Counties	52	25	27	29	31
Cities	75	58	61	62	61
Independent special districts	76	67	74	70	70
School districts	54	7	5	5	6
Public postsecondary education	33	20	23	26	29

[9]This corresponds loosely to the Census of Government's definition of own-source revenues but differs significantly both because of the attribution of the property tax as a state-controlled revenue and a careful consideration of each revenue type at a more detailed level. Although this distinction is not generally relevant to other states, the peculiar nature of Proposition 13 and the state's activist role make it an important one when thinking about California. Self-controlled revenues are calculated by dividing revenues controlled by a particular level of government by its total reported revenues.

An interesting aspect of this table is that the shifts appear to be quite persistent after 1981. Counties and public postsecondary education experienced major increases in their self-controlled revenue shares during the 1980s and 1990s.

It is important to remember that we are discussing *shares* of revenues here, not total revenues. The fact is that overall revenues grew dramatically over this period. An increase in share would indicate that self-controlled revenues grew faster than transfers from other governments, whereas a consistent share would indicate that the growth in intergovernmental transfers was approximately the same as the growth in self-controlled revenues.

One significant complication in this story, however, goes a long way toward explaining the relatively minor effect of Proposition 13 on independent special districts and also has important implications for city and county revenues. This is the inclusion of public service enterprise activity revenues in the totals presented in Table 2.3. These revenues are generated by the municipal and county utilities that sell water, electricity, natural gas, waste disposal services, and other services to the public. These enterprise activities are also the reason for the existence of many independent special districts.

The revenues generated by these activities come primarily from the sale of the district's particular product—be it electricity, water, or natural gas. Because these goods and their transportation to the public cost money, these operations are typically operated as "public service enterprises," with their revenues and expenditures reported separately in their annual financial reports. Furthermore, these revenues are typically set at a level to directly fund the operation. Even in the case of dependent enterprise special districts, only a small fraction of the

district's overall reported revenues are actually available for the parent government (a city or a county) to spend.

How then should we count these revenues in our analysis? We believe they should be removed from the totals. In the case of cities and counties, we would ideally like to count whatever transfers there are to the city or county's general fund, but these data are no longer available.[10] In the case of special districts, any surpluses would necessarily be incorporated into the district's next budget, so there is nothing lost here. If we look at self-controlled revenues without these public service revenues, the story changes a bit, as we see in Table 2.4.

Comparing this table to Table 2.3, we see some notable differences. First, in all three types of local government where these revenues play an important role—counties, cities, and special districts—public service enterprise revenues have grown quickly as a share of overall revenues. For example, these revenues accounted for only 2 percent of county

Table 2.4

Self-Controlled Revenues as a Percentage Share of Each Level of Government's Total Reported Revenues, Excluding Public Service Enterprise Revenues

	1978	1981	1988	1992	1995
State	68	68	72	66	63
Counties	50	18	19	19	20
Cities	66	36	43	45	43
Independent special districts	59	37	49	39	38
School districts	54	7	5	5	6
Public postsecondary education	30	15	18	21	24

[10]Changes in reporting on the State Controller's annual survey no longer require this information.

revenues in 1978 (52 percent in Table 2.3 less 50 percent in Table 2.4) but have risen to 11 percent in 1995. Even more dramatic changes are seen in cities (rising from 9 percent in 1978 to 18 percent in 1995) and independent special districts (rising from 17 percent in 1978 to 32 percent in 1995). In all three cases, the largest change in the distribution occurs between 1978 and 1981, corresponding to the period when Proposition 13 was implemented.[11] Overall revenues fell immediately after the passage of Proposition 13 because of the reduction in the property tax rate and the rollback of the property tax base.

In Figure 2.1, we focus on the changes in self-control for the state government and K–12 public school districts. One of the most striking aspects of the series in the table is the lack of significant changes in the self-determination of state revenues, whereas K–12 school districts experienced a dramatic decrease in control over raising their own revenues, as shown in Figure 2.1.

In the figure, we see a slight decline in the state's self-controlled revenues in the late 1980s and early 1990s, largely as the result of a surge in federal intergovernmental revenues. We also see a transfer of control of K–12 school revenues to the state after Proposition 13, with the schools' self-controlled revenues falling from 54 percent of total revenues in 1978 to 7 percent in 1981. Since the revenues provided to the schools by the federal government were relatively flat at about 8 to 10 percent of school district revenues over the entire period of our study, K–12 school

[11]This does not mean that Proposition 13 was exclusively responsible for these changes. The state concurrently adopted significant tax and finance reforms, which clearly contributed to them, and the business cycle also probably influenced them.

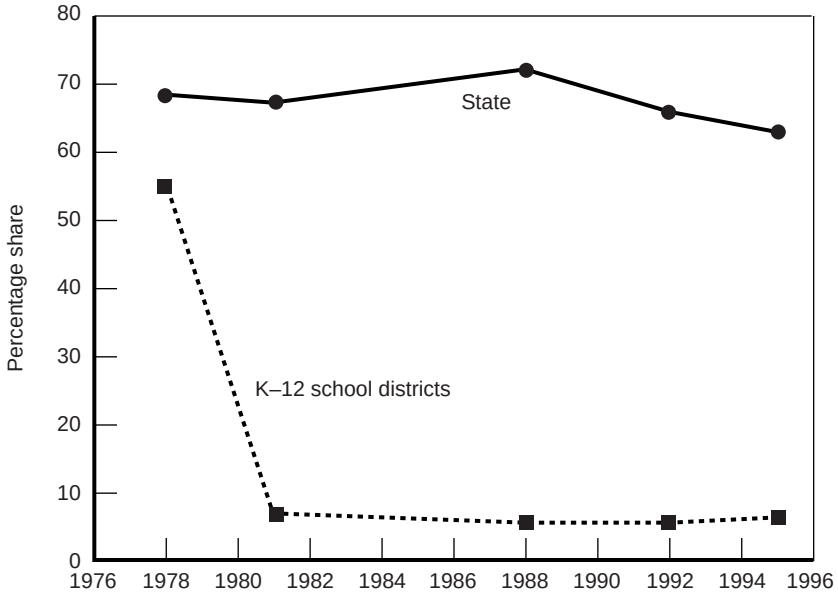

Figure 2.1—State and K–12 School Districts' Self-Controlled Revenues as a Percentage Share of Total Reported Revenues

districts became predominantly dependent on revenues controlled by the state.

The story is quite similar for both cities and counties in terms of their self-controlled revenues, as Figure 2.2 shows. For cities, self-controlled revenues declined by 50 percent, falling from about two-thirds of city revenues in 1978 to about one-third in 1981, before rising to about 43 percent in 1995. Counties also experienced a dramatic decline with the transfer of the property tax to state control under Proposition 13. Their self-controlled revenues declined from 50 percent of their total revenues in 1978 to about one-fifth in 1981 and thereafter.

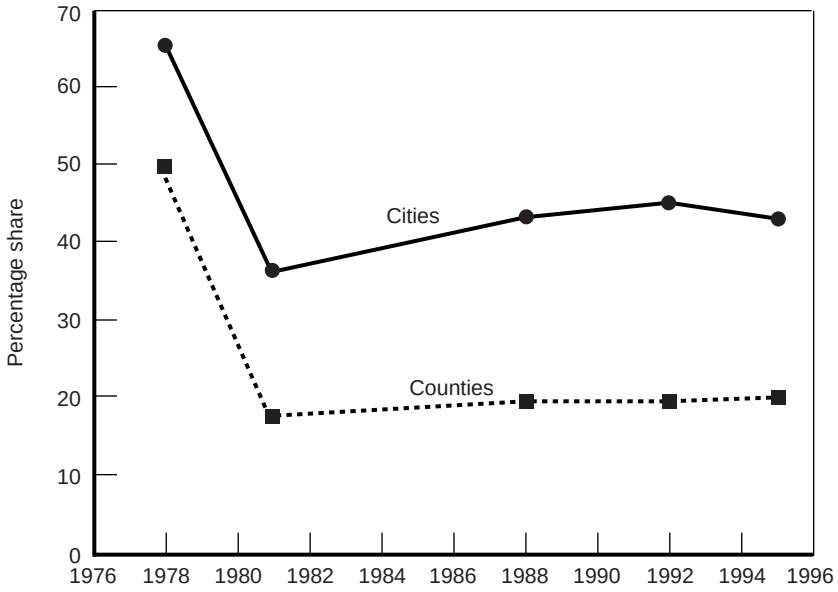

Figure 2.2—City and County Self-Controlled Revenues as a Percentage Share of Total Reported Revenues

The distribution of changes in the non-self-controlled revenue portion of the funding base for cities and counties was quite different, however. In the case of cities, Proposition 13 resulted in a major and immediate increase in the share of revenues that came from the state, more than tripling from 14 to 48 percent between 1978 and 1981. At the same time, revenue sharing was being phased out by the federal government (it officially ended in 1987) and the percentage of city revenues from federal sources declined from 20 percent in 1978 to 15 percent in 1981 and 5 percent in 1988. Counties did not have this experience because they were not significant recipients of federal revenue sharing. Instead, nearly all of the shift in self-controlled revenues was

absorbed by the state government, and counties became increasingly dependent on state government transfers.

Figure 2.2 demonstrates an important finding of this analysis, namely, that cities were able to raise alternative revenues during the 1980s thereby increasing their share of self-controlled revenues. Counties, on the other hand, do not show this resilience. We explore this important difference between the city and county experiences in Chapter 4.

The stories for the remaining two types of local governments are somewhat different from those we have seen so far. As shown in Figure 2.3, independent special districts experienced the characteristic decline in self-controlled revenues that we saw in the other levels of local government in Figures 2.1 and 2.2. The districts' self-controlled revenues declined from 59 percent to 37 percent of revenues—but then they show a spike upward to almost 50 percent in 1988 before returning to lower levels in 1991 and 1995. The 1988 spike is explained not by a major policy initiative but by a one-time reporting variation in the 1988 data. The State Controller's instructions in this year defined royalties in such a way that many financing authorities counted portions of their revenues as bond-related royalties. Although we have left these royalties in the data for the sake of consistent handling and to ensure that our results can be replicated, their inclusion accounts for all of the apparent aberration in 1988. Without this entry, the series for independent special districts would mirror our findings for other local levels of government.

In the case of public postsecondary education, Proposition 13 did immediately reduce the proportion of public higher education revenues that were self-controlled because of the transfer of the property tax

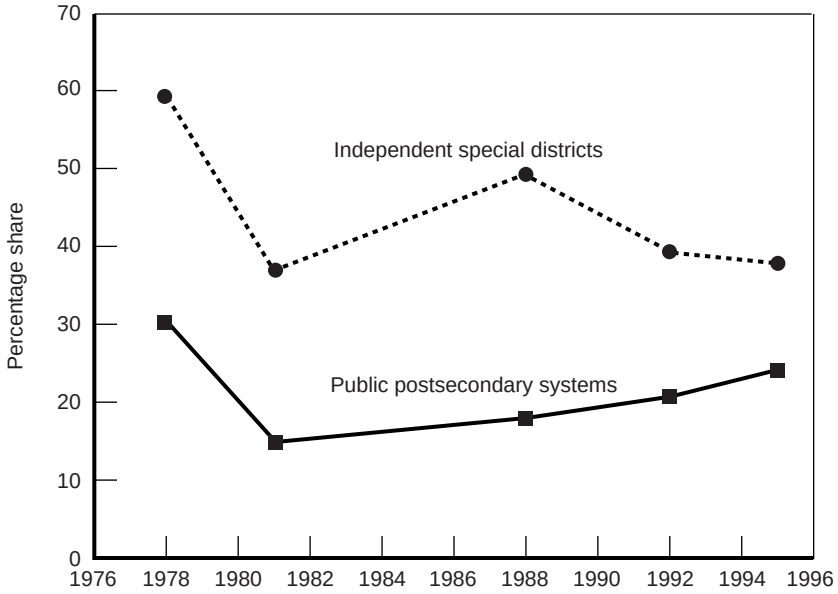

Figure 2.3—Independent Special District and Public Postsecondary Education Self-Controlled Revenues as a Percentage Share of Total Reported Revenues

received by community colleges to state government. In the ensuing years, however, these institutions have raised fees several times and have increased the shares of their revenues derived from research and service activities.

Summary

In general, we see that Proposition 13 significantly affected the proportion of revenues that most local governments controlled. The transfer of control of the property tax to the state eliminated the primary source of self-controlled income for local governments and dramatically altered the correspondence between the level of government responsible

for generating and allocating revenue and the level responsible for spending it. The situation was further exacerbated by the state bailout of local government that followed Proposition 13. The result was an increased dependence on state revenues and a decreased reliance on self-controlled revenues by local governments.

Some local governments, i.e., cities and public postsecondary education institutions, have managed to recapture some control over their overall budgets through the expanded use of selected taxes and fees. The remaining local governments—counties, independent special districts, and school districts—have been unable to generate these independently controlled revenues and, as a consequence, remain highly dependent on state revenues. Even cities and public postsecondary education institutions were significantly more dependent on state support after Proposition 13.

The state government also reflects the trend toward increased dependence on higher levels of government for revenues. Despite the transfer of control of the property tax to the state through Proposition 13, the state's share of self-controlled revenues remained relatively flat between 1978 and 1981. Although growth in state revenues surged during the 1980s and resulted in a higher share of self-controlled revenues for the state in 1988, the combination of the recession of the early 1990s and accompanying increased federal transfers to states has resulted in a decline in the state's self-controlled revenue share since 1988.

3. Changes in the Spending Discretion of State and Local Government Revenues

In this chapter, we explore the second aspect of state and local fiscal flexibility discussed in Chapter 1—the discretion of local governments in spending the revenues they receive. We start this chapter with an important caveat: *expenditures, not revenues, are the best measure of local governments' spending discretion*.

However, we can gain important insights into the spending discretion of local governments by examining the discretion associated with their revenue streams. The character of a revenue and any constraints assigned to it represent the first point in the public finance process where constraints on local spending can be introduced. An analysis of the spending discretion associated with specific revenue streams will enable us to identify the magnitude of the effects of one common tool used by the public sector to constrain the spending of local governments, namely, earmarking funds.

Spending Discretion

Spending discretion is one of the most frequently discussed issues in state, city, and county governments, both within California and throughout the nation. States often protest the burdens placed on them by the federal government, and local governments complain about the constraints placed on them by both federal and state governments. Some programs encompass more than two levels of government. Aid to Families with Dependent Children (AFDC), for example, was a federally funded and operated program in which benefits and programs were established by both the state and federal governments, but which was administered by county governments. Such programs are extremely complex.

If the federal government institutes a program and then passes funding and administration on to the state government, why should the public policy community be concerned? Intrinsically, there is no significant problem, as long as full funding is provided. In fact, these types of transfers and subventions are quite common in the history of state and local finances. However, monies that are earmarked for specific programs mandated by higher levels of government represent resources for programs that are not locally determined and represent control of local activities and staffing by higher levels of government. Furthermore, if the funding provided is inadequate to pay for the mandated services, then additional pressure is placed on the receiving government's discretionary resources to meet the obligations imposed by the mandating government.[1] Additionally, local governments often face

[1] In some cases, requirements are imposed and no funds are provided to pay for the services.

"maintenance of effort" (MOE) requirements as conditions of monies they receive from other levels of government. These MOE requirements specify that the local government *must* provide a certain level of service (say, a given number of hospital beds) to receive the proffered funds. Taken together, these factors often require that governments spend more monies on specific programs than they receive from other governments for funding them.

Unfunded mandates and MOE requirements, combined with inadequately funded programs where subordinate governments serve as agents of another government, consume significant quantities of the limited resources that a local government has to spend. The diversion of revenues into these programs reduces the resources available to the local government, making it increasingly difficult for that government to provide the programs and services desired and paid for by local constituencies.

Revenue-Based Estimates and Expenditure-Based Estimates

This chapter provides a very broad measure of local spending discretion. It is a conservative measure in that it will underestimate the actual level of mandated spending (or equivalently overestimate the size of discretionary revenues) because it does not address the very significant spending-based issues of unfunded mandates and MOE requirements.

Despite the limitations inherent in a revenue-based analysis of spending discretion, this approach has some advantages. First, it includes only those portions of the public finance picture relevant to the year in question. Expenditure-based estimates, which ignore the source of revenues, often include bond-financed activities in their totals, skewing

any estimates that may have been capitalized through bond financing. The revenue-based approach captures only the portion of activities that arise from the service of that debt.[2] For example, if debt is issued to build a new building, the revenue approach incorporates into the estimate only those revenues related to a given year's costs on a 20-year bond—namely, property taxes used to pay the debt service that year. The revenue-based approach may be preferred also because it is much cleaner and easier to identify earmarked funds. Although it is true that the revenues in our analysis are quite aggregated, revenue streams are much purer in character than expenditure streams and much easier to characterize. As a result, we are able to paint a much clearer and more comprehensive picture of spending discretion in state and local government, albeit one that underestimates the true magnitude of the constraints on spending.

Classification of Revenues

The analysis in this chapter is based on an item-by-item review of the discretion afforded each type of government for each public revenue stream. Because of the magnitude of this effort and the interpretation issues that arise in defining discretion, we acknowledge that different choices may be made when evaluating specific revenues. To clarify our assumptions and to assist those who may wish to use alternative definitions and interpretations, we have included our coding of each revenue stream in the revenue database posted on our website at www.ppic.org. The database is located on the Publications page, under the title of this document.

[2]Our analysis explicitly excludes bond proceeds from revenues.

We use three categories of discretion in our analysis: general, specific, and other. General discretion revenues are those received by state and local governments that can be spent for any purpose. Examples include the property tax, the sales tax, and general subventions from the state to local governments.

Specific discretion revenues are those constrained, either by statute or by constitution, for specific purposes. Examples include the cigarette tax, the transportation sales tax, and property tax revenues received by redevelopment agencies. This classification does not necessarily correspond to the state definition of a "special fund," however. Many special funds in the state budget are earmarked at the legislative level, but the legislature has the discretion to change their targeted use. The decision rule we used to distinguish between general and specific discretion was whether a government's governing body was able to change the purpose and use of a particular revenue. In many cases, such as the fees from the California State University (CSU) system, the state can easily retarget the use of the funds. Local governments, however, cannot easily convert state disaster preparedness monies for other purposes. As a result, the CSU fees are considered general discretion revenues for the state and the intergovernmental transfers for disaster preparedness are considered specific discretion revenues.

The third category we use, other discretion revenues, represents those revenue streams for which we did not have adequate detail to assign a category.

Note, however, that for all of the reasons we discussed in Chapter 2 about authority for revenues originating at the state level, either constitutionally or statutorily, the type of discretion associated with a particular revenue is subject to modification at any time. Each revenue

stream was evaluated with respect to the government's spending discretion *in that year*.

How Has Spending Discretion Changed?

Using the methodology described above, we compiled overviews of the share of general discretion revenues for each level of state and local government in California. The results of this overall comparison are provided in Table 3.1; the detailed amounts are reported in Appendix C.

We can see that, overall, there has been a continuous statewide decline in the proportion of state and local revenues that are discretionary. Furthermore, this decline is pervasive across almost all levels of government, although there are some year-to-year variations in specific government types. The broad trend, however, is persistent. To simplify the comparisons, we present the findings for 1978 and 1995 in Figure 3.1.

As we see in this figure, the proportion of overall revenues that are discretionary for most governments declined between 1978 and 1995. The share of state discretionary revenues fell from 60 percent to 52 percent. This is largely explained by the surge in federal categorical

Table 3.1

Percentage Share of Overall Discretionary Revenues, by Level of Government and Year

Level of Government	1978	1981	1988	1992	1995
State	60	61	63	56	52
Counties	57	42	42	41	31
Cities	49	46	49	47	44
Independent special districts	65	66	67	71	69
School districts	92	88	74	73	71
Public postsecondary education	68	66	63	63	62
Overall	64	61	60	56	52

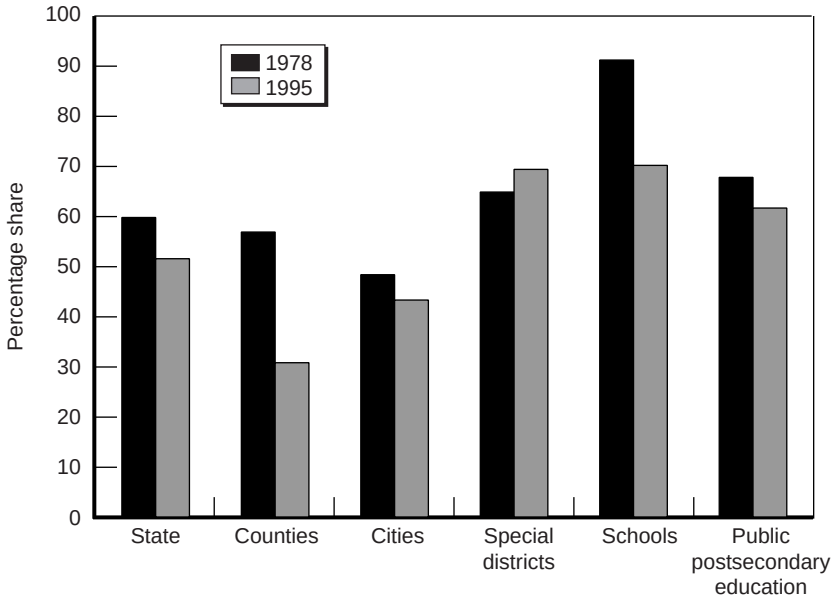

Figure 3.1—Percentage Share of Total Discretionary Revenues, 1978 and 1995

revenue transfers over this period—effectively an expansion of the state's role as an agent of the federal government—as well as slower growth in state discretionary revenues.

In the case of counties, the story is much the same, albeit exacerbated by the dramatic reduction in the county's main source of discretionary revenue—the property tax. The county serves as an agent to both the federal and—predominantly—the state governments. County discretionary revenues declined from 57 percent to 31 percent. This decrease occurred in two stages: (1) between 1978 and 1981 (from 57 to 42 percent) and (2) between 1992 and 1995 (from 41 to 31 percent). The first change is largely attributable to loss of the property tax, whereas the second shift is likely associated with the major shift in property taxes

away from counties to schools during the recession, through the Educational Revenue Augmentation Fund (ERAF).

Cities show strong resilience, especially relative to counties, over these two decades, with discretionary revenues declining only slightly from 49 percent to 44 percent. This resilience is rooted in factors that we discuss in Chapter 4—largely that cities can use numerous tax options to increase discretionary revenues. Even with the transfer of property tax revenues to schools during the recession of the early 1990s, the discretionary portion of city revenues remains relatively flat because cities exercised many of the options available to them to take advantage of alternative revenue streams.

Independent special districts are also quite resilient in terms of their spending discretion. As we see in the figure, they actually experienced a slight increase, from 65 to 69 percent, in the proportion of their revenues that are discretionary. This was driven in large part by the explosive growth in enterprise activities described in Chapter 2. In fact, if enterprise revenues were removed from their totals, special districts would show a 10 percent decline in discretionary revenues.

School districts also experienced a significant decrease in their share of discretionary revenues, declining from 93 percent to 72 percent. This was partially related to the reduction of the property tax associated with Proposition 13. However, the majority of the decline was driven by the expansion of the use of categorical funding[3] in school finance in California.

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[3]Many programs are funded through the categorical mechanism, including special education, bilingual education, and, most recently, class size reduction. These categorical monies are reserved for specific purposes, such as hiring special-skill teachers, and cannot generally be used to fund other operations.

Finally, public postsecondary education, while largely retaining its overall magnitude of discretionary revenues, lost some spending discretion in its overall budgets, with its share of discretionary revenues falling from 68 to 62 percent. This was driven in large part by the surge in earmarked research funds in the University of California's overall budgets and the declining dependence of these institutions on both general state support and the local property tax.[4]

Summary

Overall, we see a slight trend toward declining spending discretion in the combined revenues of all levels of state and local government—from 64 percent in 1978 to 52 percent in 1995. The decline in the state's discretionary revenue share was largely due to disproportionate increases in federal categorical revenues. Counties experienced a similar expansion in the proportion of their budgets that was categorically determined by other levels of government—especially the state—and also lost discretionary property tax dollars through Proposition 13 and ERAF. Cities showed some resiliency in their overall level of discretionary revenues, despite the significant effects of Proposition 13 and ERAF, because they were able to generate alternative discretionary streams.[5]

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[4]Note that the experiences are quite different across the three public institutions. Much of the decline in discretionary revenues is driven by the dramatic growth of nondiscretionary revenues within the University of California's budget—especially with respect to foundation and private research support. The California State University and the California Community Colleges are still heavily dependent on largely discretionary public revenues. In aggregate, however, the result is a decrease in the sector's overall level of discretion.

[5]Also note that, although cities have been able to retain a higher level of property tax revenues through redevelopment agencies, property tax revenues that they obtain through this mechanism are earmarked for specific purposes and, with the exception of serving as resources for expanding sales tax revenues, do not increase city discretionary revenues.

School districts experienced the same downward shift in the discretionary portion of their revenue streams because of the Proposition 13 property tax shift, but were more heavily influenced by the expansion of categorical spending over the same period.[6] Independent special districts experienced mild increases in their spending discretion, whereas public postsecondary education faced decreased overall revenue discretion, primarily attributable to the growing size and importance of non-public research support within the University of California.

Overall, we see a significant decline in discretionary revenues received by local governments. As we discuss at the beginning of this chapter, the results we present here should underestimate the true declines in discretionary revenues available to local lawmakers in the budgetary process. As a result of this decline, local public officials have grown increasingly frustrated at the role of the state in constraining local choices. Further, the expanded imposition of statewide "average" preferences on local communities, coupled with the constraints on new revenues identified in Chapter 2, will make it increasingly difficult for local communities to specify, finance, and exhibit their local preferences for mixes of services and programs.

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[6]Note that because Proposition 98 treats both state and property tax revenues interchangeably, the level of discretion at the district level is not affected by either a shift to or a shift away from property taxes as a revenue source.

4. Changes in Fiscal Structure at the State and Local Levels

Another important aspect of Proposition 13 has been its effect on the composition of revenues at the state and local levels. This proposition changed the composition of state and local revenues in two ways. First, it capped the rate and growth of one of the most important sources of local revenues in the state—the property tax. Second, and perhaps more enduring, it created high hurdles for the imposition of new taxes at the state and local levels by requiring a two-thirds majority vote for passage. These constraints on public revenues have forced state and local governments to turn to other sources as they strive to fund the services and activities that their constituencies expect and demand from them.

In this chapter, we examine in greater detail the types of revenues that state and local governments receive and how their dependence on certain of these revenues has changed over time. In the next several sections we first discuss the aggregate trends across all types of state and local governments and then turn to the effects on each level of

government individually. In this chapter, we present only summaries and overviews of our analysis. Tables detailing the results presented here can be found in Appendix D, and the underlying data can be downloaded from our website at www.ppic.org. The detailed database is located on the Publications page under the title of this document.

Aggregate Patterns of Change in the State and Local Fiscal Structure

The overall fiscal changes in the amounts and types of revenues state and local governments depend upon are many and significant. Revenues have risen dramatically over the past 20 years—by some 252 percent. At the same time, both the income (as measured by personal income in current dollars) and the size of the state's population has grown, increasing by 268 and 41 percent, respectively. When one controls for these two factors and for the value-eroding effects of inflation,[1] however, growth in public revenues is less dramatic, as shown in Figure 4.1.

In this figure, we see the immediate and long-term effects of Proposition 13. Public revenues dropped sharply between 1978 and 1981 and then increased slightly over the following 15 years—never quite making it back to pre-Proposition 13 levels. A more detailed discussion of this figure is found in Shires et al. (1998).

Changes in the types of revenues received by state and local governments are shown in Figure 4.2.[2] In this figure, we disaggregate the total revenues shown in Figure 4.1 into their respective types. Table

[1]The California-specific version of the consumer price index rose 147 percent between 1978 and 1995.

[2]To preserve the relative importance of the different types of revenues through this analysis, we present our results in graphical form. In the discussions, we also draw on the detailed amounts included in Appendix D.

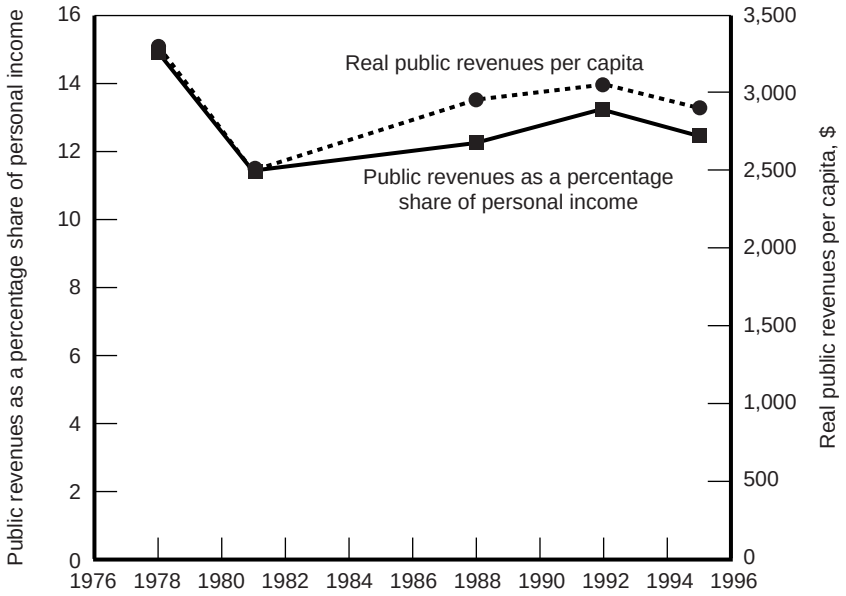

Figure 4.1—Aggregate Public Revenues in California, Selected Years

D.1 of Appendix D presents the corresponding detailed results for the five years in our study. Appendix A presents a detailed description of the revenue types used in this report and their application to the data.

The most striking feature of Figure 4.2 is the relative stability of the aggregate state and local governments' fiscal structure between the two periods. Five categories of revenues have shown some noticeable changes, however: taxes, assessments, intergovernmental transfers, enterprise revenues, and service revenues.

The most dramatic change is in taxes, which declined from 46 percent of state and local revenues in 1978 to only 37 percent in 1995. Note that this does not mean that tax revenues declined in absolute terms

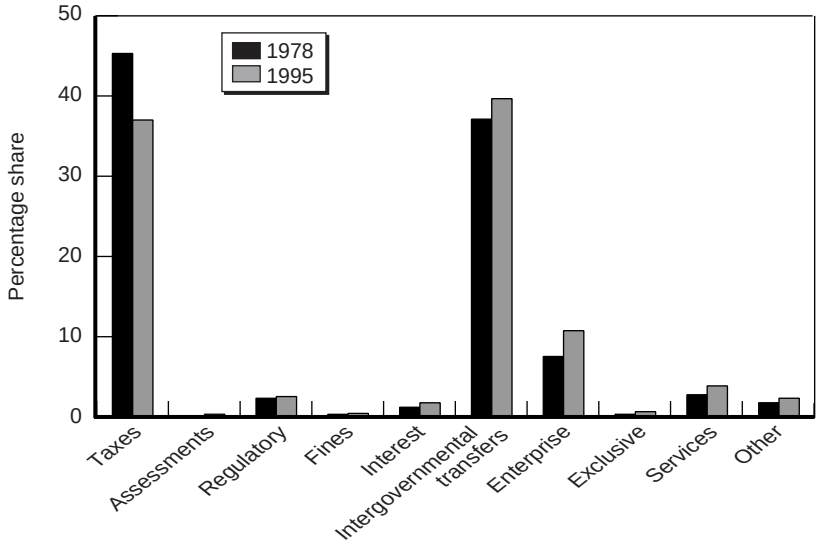

Figure 4.2—Percentage Share of Aggregate State and Local Revenues, by Revenue Type, Fiscal Years 1978 and 1995

over this period. In fact, tax revenues grew 186 percent between 1978 and 1995. Rather, it is a reflection of the fact that other revenue categories grew much faster. In fact, non-tax revenues grew 307 percent over the same period, resulting in an overall growth in public revenues of 252 percent. This slower growth in tax revenues is, at least in part, the result of the rollbacks and limitations imposed by Proposition 13.

Although tax revenues as a share of public revenues declined over this period, the other large category of revenues—intergovernmental transfers—grew, rising from 37 percent in 1978 to 40 percent in 1995. This growth was fueled largely by increases in state revenues to local governments and federal revenues to the state; it was partially offset by the phasing out of federal revenue sharing in the early and mid-1980s. Chapter 2 explores the state and local component of this development in

some detail—looking at the proportion of revenues at each level of government that were locally generated.

Although the scale of the figure is too large to show it, assessments have grown dramatically, from 0.1 percent to 0.3 percent of overall state and local revenues. Although these revenues represent only a very small portion of overall revenues, they rose 1,832 percent between 1978 and 1995. Some have argued that it was largely this explosive growth that led to the 1996 passage of Proposition 218, which placed supermajority voter requirements on many local assessments and charges.

Enterprise and service revenues are the two other areas of relatively significant change in the structure of state and local finance. Enterprise revenues rose nearly 400 percent between 1978 and 1995, jumping 8 percent to 11 percent of overall revenues. General service revenues rose 384 percent, growing from 3 percent to 4 percent of overall state and local revenues. We believe that the growth in these revenues reflects an increasing attempt by state and local entities to pay for public services with user fees.[3]

It is difficult and possibly even misleading, however, to look at these effects at the aggregate state and local level. Offsetting patterns in state and local governments can disguise trends that are often very significant to the individual levels of government. Thus, in the balance of this chapter, we examine the changes in the composition of revenue types at each level of government.

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[3]Some observers further argue that, especially in the case of public enterprise activities, some of the significant increases in fees are creative attempts by local governments to circumvent the constraints on local revenue generation imposed by Proposition 13.

Changes in State Revenue Patterns

Figure 4.3 presents an important part of the public finance picture in California inasmuch as state-reported revenues account for 40 percent of the overall state and local revenue pie. The figure highlights two trends we identified in the overall state and local revenue trends depicted in Figure 4.2—namely, that tax revenues[4] have declined in share, whereas intergovernmental revenues (mostly federal revenues in this case) have risen. The increasing "agency" role that the state assumes regarding transfers from the federal government is roughly comparable to that of

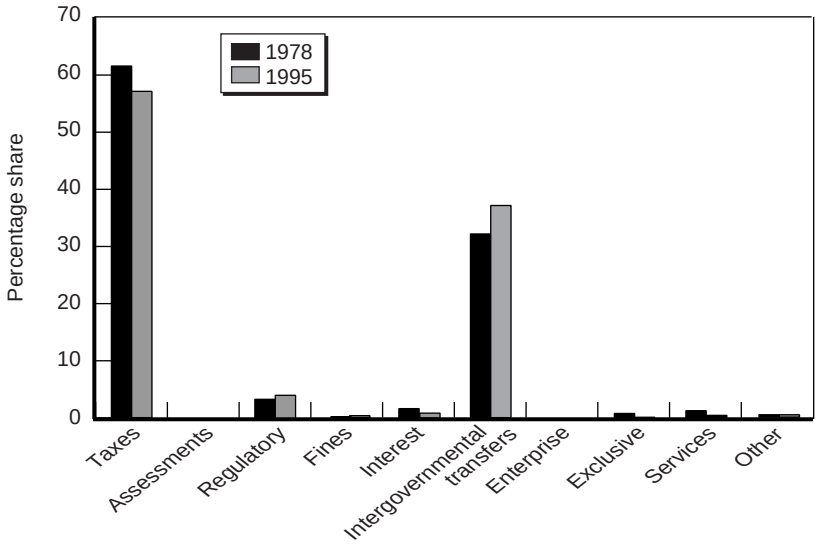

Figure 4.3—Percentage Share of State Revenues, by Revenue Type, Fiscal Years 1978 and 1995

[4]Note that for purposes of this analysis, we include the property tax as a local revenue and not as a state revenue. We include property tax revenues in each local government's fiscal overview. It was only in Chapter 2, when we were discussing which level of government actually controls the revenues, that we include property tax as a state revenue.

the county, discussed below. One must be careful, however, not to overattribute these changes to policy choices. It is clear that the business cycle plays a significant role, not only in increasing federal transfers, but also in suppressing other state revenues and consequently increasing the relative importance of these transfers.

It is interesting to note that in the case of state revenues, the two fastest growing categories were "regulatory fees and charges" and "fines, forfeitures, and penalties," each of which grew just over 400 percent between 1978 and 1995. These two categories represent areas where the state could increasingly transfer a portion of the revenue burden onto subpopulations engaged in specific activities. In the case of regulatory fees and charges, the state could shift the burden of specific programs and services (especially credentialing and licensing) directly onto the users of those services. This dramatic growth represents another instance of the state and local government's increased reliance on user fees. In the case of fines, forfeitures, and penalties, revenues could be raised from individuals who chose to participate in illegal activities.

Changes in County Revenue Patterns

The experience of counties was much more severe than that of the state. Figure 4.4 shows the changes in the relative shares of each revenue type for county governments. The first and most noticeable aspect is the magnitude of the effect of the property tax reduction on county revenues. Fueled by the limitations placed on the property tax by Proposition 13 and exacerbated by subsequent transfers of property tax revenues by the state from county governments to school districts, taxes dropped from 36 percent of county revenues in 1978 to only 15 percent in 1995. Simultaneously, user charges and fee revenues rose dramatically across all

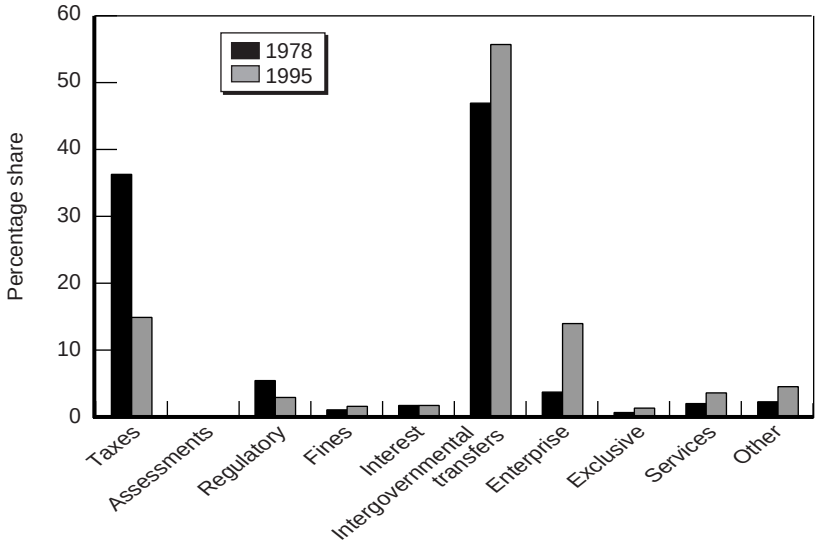

Figure 4.4—Percentage Share of County Revenues, by Revenue Type, Fiscal Years 1978 and 1995

three categories defined in our analysis: enterprise revenues, exclusively provided service revenues, and general service revenues.

Interestingly, regulatory fees and revenues declined in relative importance (from 5 percent to 3 percent). The most noticeable increase was the 1161 percent increase in enterprise revenues between 1978 and 1995, which boosted the enterprise share of county revenues from 4 percent in 1978 to 14 percent in 1995.

In terms of absolute importance to the county revenue stream, intergovernmental revenues also showed significant increases, rising from 47 percent of county revenues to 56 percent and continuing as the single largest county revenue source over the entire period. The most striking aspect of the increase is the size of intergovernmental revenues relative to the size of tax revenues. In 1978, intergovernmental revenues were only

29 percent higher than tax revenues. In 1995, intergovernmental revenues were 278 percent higher than—or nearly four times the size of—tax revenues at the county level. This increased dependence on intergovernmental revenues reinforced the importance of the agency role of counties.[5] It is also important to note that this role did not decline significantly in importance over this entire period and accounted for about half of county revenues for all five years in our study. However, as we discussed in Chapter 3, the agency role of the counties has led to a sharp decrease in their share of discretionary revenues.

Changes in City Revenue Patterns

The story for cities is remarkably different from that for counties. As Figure 4.5 shows, cities experienced neither the tremendous decrease in the overall share of tax revenues nor the surge in the importance of intergovernmental revenues.

In fact, we see the opposite trend in intergovernmental revenues for cities. This resulted largely from the phase-out of federal revenue sharing over this period: The federal share of intergovernmental revenues reported by cities fell from 61 percent in 1978 to 36 percent in 1995. At the same time, the state share of intergovernmental transfers rose from 37 percent to 56 percent. Cities' growing reliance on state intergovernmental transfers is at least partially explained by the decline in their property tax base that resulted from Proposition 13 and the accompanying state bailout.

[5]By "agency role" we refer to the way county governments are used to implement the policies, programs, and initiatives of other levels of government, most notably the state and federal governments.

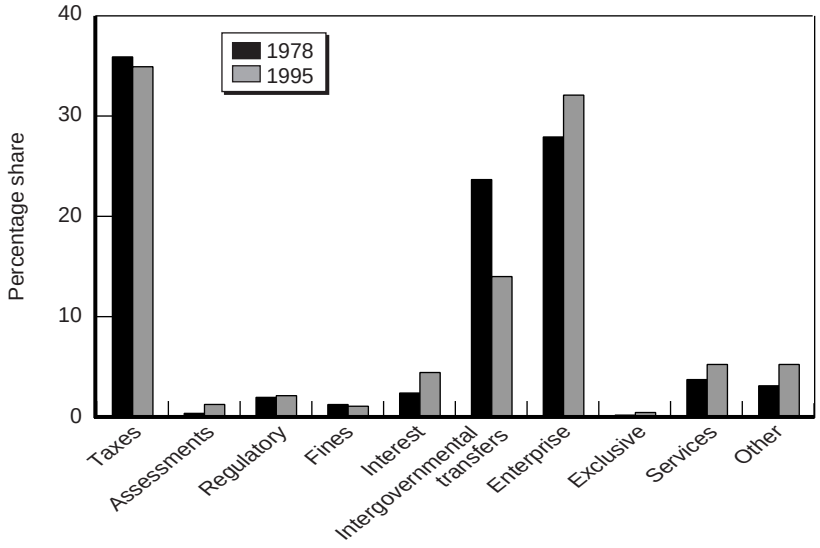

Figure 4.5—Percentage Share of City Revenues, by Revenue Type, Fiscal Years 1978 and 1995

As we look at Figure 4.5, however, it is clear that cities were in fact able to replace some portion of the lost property tax revenues with tax revenues from other sources—a power that cities are granted by the state constitution and statute. The detailed changes are shown in Table 4.1. Business license taxes, franchise taxes, real property transfer taxes, and transient lodging taxes have risen some 454 percent over this time. Furthermore, the utility users' tax became the third-largest source of tax revenues for cities in 1995, accounting for some $1.2 billion dollars.

In this table, we see that the property tax did in fact decline, both in absolute and relative terms between 1978 and 1981. Note also the further decline in both absolute and relative property tax revenues between 1992 and 1995 as the state diverted property tax revenues from cities to schools. From the broadest perspective, property tax revenues to

Table 4.1

City Tax Revenues, and Their Percentage Share, by Type of Tax

Tax Type	1978	1981	1988	1992	1995
Business license	152,341,640	219,331,987	455,902,619	585,466,698	646,043,428
	5.1	6.3	6.1	5.8	6.1
Franchises	61,583,349	124,289,129	223,606,466	336,989,439	402,907,943
	2.0	3.6	3.0	3.4	3.8
Property	1,491,280,412	1,241,884,328	2,893,033,695	4,311,080,919	4,095,613,747
	49.5	35.8	38.6	42.9	38.4
Real property transfer	40,737,026	51,571,558	110,451,649	130,231,460	143,817,160
	1.4	1.5	1.5	1.3	1.3
Sales	914,989,681	1,267,615,375	2,128,651,033	2,417,269,213	2,627,643,133
	30.3	36.5	28.4	24.1	24.7
Transient lodging	63,179,214	135,055,892	361,472,264	481,773,425	569,109,147
	2.1	3.9	4.8	4.8	5.3
Transportation	0	0	210,133,454	380,013,321	499,320,100
			2.8	3.8	4.7
Utility users	0	0	721,831,214	960,419,340	1,178,594,036
			9.6	9.6	11.1
Other	290,853,881	429,047,235	387,980,861	435,373,662	493,799,715
	9.6	12.4	5.2	4.3	4.6
Total	3,014,965,203	3,468,795,504	7,493,063,255	10,038,617,477	10,656,848,409
	100.0	100.0	100.0	100.0	100.0

cities grew by only 175 percent between 1978 and 1995, whereas overall city tax revenues grew by 253 percent.[6]

Changes in Independent Special District Revenue Patterns

Independent special districts, shown in Figure 4.6, experienced a mixture of the results we have seen for both counties and cities. Special districts experienced a significant decline in the importance of tax revenues—from 17 percent of revenues to 11 percent—and a dramatic

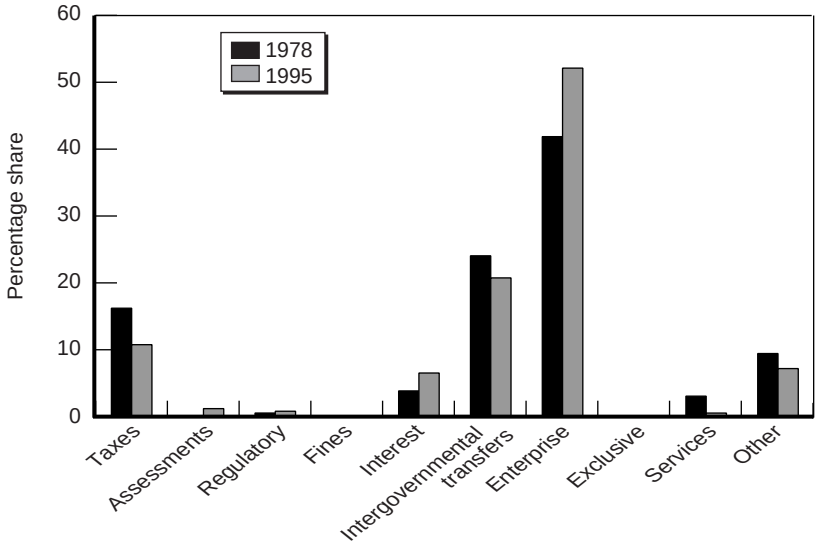

Figure 4.6—Percentage Share of Independent Special District Revenues, by Revenue Type, Fiscal Years 1978 and 1995

[6]This growth rate is slightly higher than that experienced by other local governments. This is both because of city governments' broader powers to increase taxes and because of their ability to capture additional property tax revenues through the California Community Redevelopment Act of 1945.

increase in the importance of public enterprise revenues—from 42 to 52 percent of revenues.

The dominance of public service enterprise revenues reflects, in significant part, the primary role of these independent special districts—to provide utility-type services to specific regions of the state—as well as a shift in the types of independent districts in California, as we discuss below. It also is a reflection of the significant growth in public service revenues across all levels of government, including cities, counties, as well as independent districts. Some would argue that this is an improvement in the fairness of the tax system, because those who use a service are increasingly required to bear a greater share of the costs of providing that service while general public subsidies of specific subgroups of the population decline.

To a considerable degree, the change in independent special district revenues results from an underlying change in the types of independent special districts in California after the implementation of Proposition 13. The number of non-enterprise districts in the state declined after 1978, perhaps because of the loss of property tax revenues to these districts under AB 8, whereas the number of enterprise districts increased significantly (see Lewis, 1998, and Morgan and Chapman, 1994).

It is also interesting to note that during these 17 years, the share of revenues that these governments obtain from the state and other levels of government has declined, whereas assessments have increased. In the three years immediately following Proposition 13, assessment revenues increased fifteenfold. Although assessments represent only a small share of overall revenues—less than 2 percent—this remarkable growth in a single revenue category is noteworthy.

Overall, independent special districts have come to depend heavily on enterprise revenues, whereas taxes, intergovernmental transfers, and certain service revenues have declined as a share of their revenues.

Changes in School District Revenue Patterns

The story behind the changes in the composition of school district revenues is the most dramatic of all, as shown in Figure 4.7. In the wake of the bailout measures enacted by the legislature after Proposition 13, and after the implementation of Proposition 98 in 1988, school district tax revenues (nearly all of which are property tax revenues) fell from 50 percent of their revenues to less than one-third. Simultaneously, intergovernmental revenues' share rose from 46 percent of school district revenues to 60 percent. This surge in the state role is even more telling

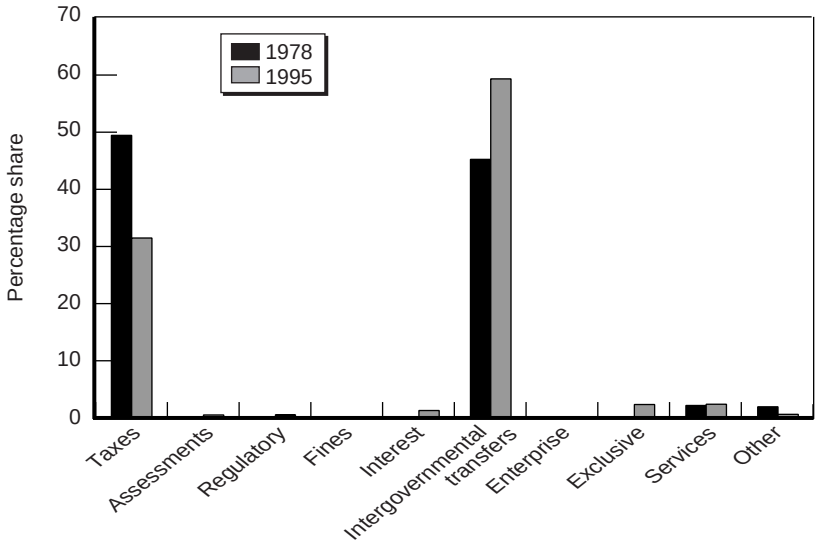

Figure 4.7—Percentage Share of School District Revenues, by Revenue Type, Fiscal Years 1978 and 1995

when we consider, as discussed in Chapter 2, that the state is now largely responsible for allocating the property tax among local governments.

The story portrayed in Figure 4.7, however, omits some important aspects of the changes in K–12 school district finance over the past 20 years. Figure 4.8 plots the two main revenue categories for each of the five years in our study and shows two additional facts.

First, the changes in Figure 4.7 are actually the result of two major changes in school finance in California. First, we see that share of school district revenues coming from taxes actually fell much further than we initially saw in Figure 4.7—almost wholly attributable to Proposition 13.

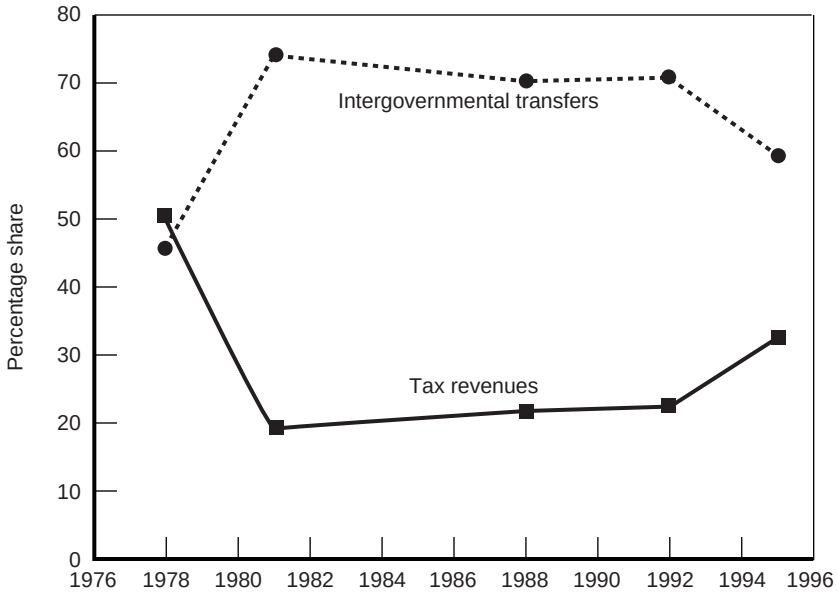

Figure 4.8—Percentage Share of Total Revenues in Principal School District Revenue Streams, by Selected Revenue Types, Selected Years

Second, we see an offsetting increase in the importance of tax revenues between 1992 and 1995, attributable to the state's use of the ERAF to relieve some of the fiscal pressures placed on the state budget by the recession of the early 1990s. Because of the incentives and constraints placed on the state by Proposition 98, the state chose to divert a significant share of the property tax away from cities, counties, and independent special districts to K–12 school districts. This diversion allowed the state to budget fewer General Fund dollars to K–12 education and transferred the burden of the decline in state revenues caused by the recession to these local governments. It is interesting to note that this effectively reduced the effect of Proposition 13 on school districts while expanding its effects on cities, counties, and special districts—but it did so some 15 years after the passage of Proposition 13.

Changes in Public Postsecondary Education Revenue Patterns

As Figure 4.9 shows, public postsecondary education experienced the same decline in dependence on tax revenues that we have seen in the other local levels of government. This is due almost exclusively to the historical dependence of community colleges on local property tax revenues. We also see an increase in public service enterprise revenues as sales generated by university enterprises, such as student store services, rise.

In the rest of this figure, however, we see a story that is quite unique to higher education. First, we see a decline in the sector's dependence on intergovernmental revenues. This is because the level of state support for its higher education institutions declined significantly during this time. Further, we see a dramatic surge in general service revenues, from 14

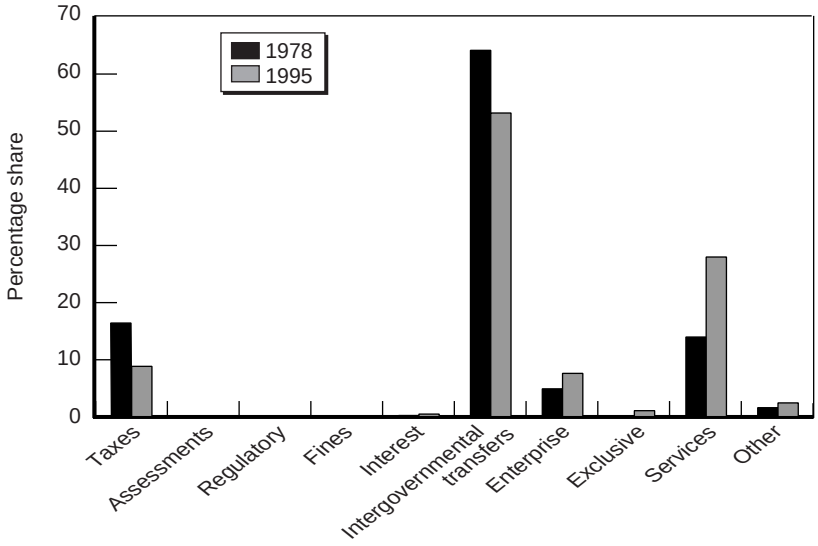

Figure 4.9—Percentage Share of Public Postsecondary Education Revenues, by Revenue Type, Fiscal Years 1978 and 1995

percent to 28 percent. A portion of this increase is explained by increases in university-owned hospital revenues, which are driven by rapidly rising medical costs. The largest portion of the increase, however, is associated with dramatic increases in student fees and tuition-type charges at the state's public postsecondary education institutions. Between 1978 and 1995, student fees for California residents rose 478 percent at the University of California, more than twice the change in the Consumer Price Index (CPI) over the same period.

Summary

We have seen in this chapter that there have indeed been some significant changes in the structure and composition of state and local revenues over the past 17 years. Although we cannot show definitively

that these changes are the sole and direct result of Proposition 13—it is certain that other events, such as state tax changes and recessions, also affected them—they are consistent with what one would have expected. We see an almost across-the-board decline in the relative importance of taxes to state and local governments and, generally, an increasing dependence on revenues from other levels of government. We also see significant and rapid growth in public service enterprise revenues for all levels of government, probably reflecting not only some increases in cost, but also a decrease in general tax subsidization (in some cases even a reverse subsidization) of these consumer-oriented public services. In most cases, we also see an increase in regulatory, assessment, and interest revenues.

In certain cases, we have seen some variation in these themes. For example, cities have been able to offset the lost property tax revenues through increases in other tax revenue streams. We also have seen a marked *decline* in city intergovernmental revenues, largely as a result of the phase-out of federal revenue sharing. Finally, we see in the case of higher education a dramatic increase in "general service" revenues—in the form of increased student fees—to offset a decline in state support.

5. A Review of Revenue Patterns and Their Implications

In this report, we have thus far examined three important aspects of the changes introduced into the state and local finance equation since Proposition 13: (1) changes in the level of self-controlled revenues and hence revenue-generating flexibility at each level of government, (2) changes in the spending discretion of revenues that local governments receive, and (3) changes in the revenue bases and structure of state and local governments. Each issue has been examined discretely. In this chapter, we integrate the separate findings and then discuss their broader policy implications for California.

Patterns in State Revenues

The changes in the control, composition, and spending discretion of public finance over the past 20 years have generally favored the state government. As we saw in Chapter 2, the proportion of state self-controlled revenues has remained relatively flat since 1978, whereas the

proportion of state and local revenues controlled by the state rose dramatically with the implementation of Proposition 13 and then fell slightly as local government-controlled revenues and federal transfers grew. We have also seen that the composition of state revenues has remained relatively constant over the past 20 years, with taxes and intergovernmental transfers accounting for the lion's share of state revenues. Concurrently, there has been a decline in the state's discretion over its revenues—from 60 to 52 percent—explained in large part by surging federally controlled intergovernmental transfers.[1]

Most of the effects of Proposition 13 on state government have been on the expenditure side of the equation—a topic not examined in this report. In fact, the fiscal structure introduced by Proposition 13 has, in some cases, been beneficial for the state fiscal process. Take, for example, the recent recession, when the state was able to divert property tax revenues from cities and counties to schools to reduce fiscal pressures placed on state revenues by Proposition 98. If anything, there has been a significant expansion in the state's role, and hence power, in the local arena as the monies provided to local governments to reduce the effects of the reductions resulting from Proposition 13 became increasingly important to local governments.

Patterns in County Revenues

The profile for counties is quite different than that for the state. Proposition 13 led to a major decline in the proportion of county revenues that were locally determined, both overall and within the county. Overall, county-controlled revenues declined from 8.3 percent

[1]This surge is likely driven by changes in the business cycle.

of total state and local revenues in 1978 to 3.8 percent in 1981, before rising to 5.0 percent in 1995. Simultaneously, the proportion of county revenues that were tax-based declined from 37 percent in 1978 to 15 percent in 1995, whereas intergovernmental (mostly state) transfers and enterprise revenues surged. As one would expect, the combined increase in earmarked programs and revenues and decline in largely discretionary tax revenues has produced a decline in county discretionary revenues from 57 percent in 1978 to 31 percent in 1995.

These changes have led to a general reduction in the ability of county governments to raise and control local revenues. Even though the property tax monies remain at home, control of the distribution of these monies is transferred to a combination of the legislature in Sacramento, where local voices receive only a small voice, and voters in the local community before 1978.[2] These shifts have also resulted in a significant increase in the agency role of county governments[3]—as they administer state-mandated programs—and a decrease in their ability to originate and fund services on their own—as their discretionary revenue base declines. The overall result has been a marginalization of the role of the locally elected county governments and, consequently, of local preferences.

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[2]This is because the statewide allocation formula for property taxes is based on the distribution of property taxes that existed in 1978.

[3]Another contributor to this process is the increasing urbanization of California's counties. As the percentage of the state's population that live in unincorporated areas continues to decline, the proportion of the county budget also decreases, leading to expansions in the shares of other revenues. This effect is believed to be minor, however.

Patterns in City Revenues

The revenue trends of city governments are generally different from the trends of their county counterparts. Although both cities and counties experienced a significant decline in their self-controlled revenues because of the transfer of the property tax to state control, cities did not experience the corresponding decrease in tax revenues that counties reported. This was due in large part to the unique powers assigned to cities to raise other types of tax revenues, including utility, business license, and transient lodging taxes. The persistence of taxes as a major contributor to city revenues also reflects the persistence and expansion of redevelopment agencies as a way for cities to retain more of the property tax.[4] Cities also show a *decline* in the proportion of their public revenues that are transferred from other governments, largely because of the phasing out of federal revenue sharing programs in the late 1970s and early 1980s. Cities also show significant increases in assessment, interest, public enterprise, and service-charge-based revenues over the past 20 years. Because of their ability to backfill the lost property tax with other discretionary revenues, cities also show strong resilience in the share of their revenues that are discretionary, which declined from 49 percent in 1978 to 44 percent in 1995.

This resilience in the discretionary nature of cities' revenue streams has resulted in more discretion for local city councils and, subsequently, the possibility of more local control over programs. Concomitantly, however, the significant increase in city governments' reliance on service charges reflects a possible shift away from the model of a full-service

[4]For a thorough analysis of redevelopment agencies and their effect on city and local finances, see Dardia (1998).

government providing a wide range of services and "public goods" to its citizens from general city revenues to a more targeted service provider where users often pay the cost of the services they use.

Patterns in Independent Special District Revenues

The revenue trends for independent special districts are mostly characterized by the replacement of property tax revenues with increased service charges, generated largely by the district's primary activity. Overall, self-controlled revenues for these entities declined from 76 percent in 1978 to 70 percent in 1995. The relative share of district revenues resulting from taxes declined from 18 percent in 1978 to 11 percent in 1995, whereas assessments, interest, and public enterprise revenues grew. The discretionary proportion of their revenues actually grew from 1978 (65 percent) to 1996 (69 percent).

Beyond reflecting changes in the types of independent special districts in the state, the overall pattern we see for independent special districts largely reflects their nature as single purpose local governments that were able to pass their revenue losses from Proposition 13 on to consumers and constituents in the form of increased fees for their services. The trend of significant increases in public enterprise revenues is consistent with the increases we have seen in both cities and counties. In the case of independent special districts, however, these revenues take center stage, since the changes in them are not masked by the changes in the other revenue streams that accompany the wide range of services and programs offered by the larger, general purpose governments.

Patterns in School District Revenues

School districts present the most dramatic example of the effect of Proposition 13 on a local government. School districts' self-controlled revenues declined from 54 percent in 1978 to 7 percent in 1978 as their primary source of revenues—the property tax—was shifted from local school board control to the state government. The decline in revenues, however, was significantly offset by large increases in state support of education as the state worked to mitigate many of the losses that schools incurred. Interestingly, spending discretion for school districts has remained relatively high over this entire period because local school boards are granted significant control over the revenues they receive.[5] The net result has been a shift in school revenues from local sources to state sources with almost no change in local school spending discretion.

Patterns in Public Postsecondary Education Revenues

The revenue trends for public postsecondary education represent a combination of the experiences of school districts and independent special districts. For example, they reflect the decline in self-controlled revenues seen in almost all local governments because of the implementation of Proposition 13 but show little decrease in the level of discretionary revenues. The revenue trends do not mirror the dramatic increase in intergovernmental transfers to school districts, but show, instead, a decline. They do show a major increase in primary service

[5]The key change in spending discretion for school districts is the increasing flexibility accorded local schools in spending some "categorical" or earmarked funds. In recent years, local school boards have been able to assign portions of categorical monies to other programs as part of "categorical reform" for schools.

revenues—fees for education services. The growing importance of revenues for research services in the University of California reduced overall revenue discretion in the sector because these revenues are typically earmarked for specific research purposes.

This combination of changes in revenue patterns and structure reflects, in large part, the two different experiences of public postsecondary education in California. The revenue patterns for the California Community Colleges very much resemble the revenue patterns for school districts,[6] whereas the two four-year systems—the University of California and the California State University—are more independent and resemble independent special districts. In fact, Proposition 13 did not directly affect the revenue streams of the two four-year systems because they did not receive any of the property tax to begin with. Indirectly, however, Proposition 13 affected these institutions by placing schools, cities, counties, and independent special districts in direct competition with higher education for available dollars in the state budget.

Overall Patterns in State and Local Revenues and Their Implications

As shown in this report, the locus of state and local decisionmaking about revenues has generally shifted from local governments to the state government. This is exhibited not only by the transfer of control of the property tax from local to state governments but also by an increase in state transfers to many local governments to fund specific programs. The

[6]This pattern has been reinforced since 1988 by the passage of Proposition 98, which formalized community college funding as part of the state's K–14 funding obligation.

overall share of state and local revenues controlled by the state government has risen from 42 to 55 percent, whereas revenues controlled by counties, cities, independent special districts, school districts, and public postsecondary education has declined from 35 percent to 23 percent. This shift has been especially strong in school districts and counties, where locally controlled revenues have declined from 17 percent to 6 percent. The net result of this shift has been to deemphasize the role of local governing bodies with respect to control and, some would argue, accountability in the spending of public revenues.

More broadly, however, the issue is really one of local self-control and the ability of local governments to respond to local preferences. As we saw in Chapter 2, with the exceptions of cities and public postsecondary education institutions, the proportions of self-controlled revenues at the local level have declined significantly. And, even in the case of cities and public postsecondary education institutions, self-controlled revenues have declined. This reflects a growing inability of these local governments to initiate new revenue streams to reflect local preferences.[7] This loss of the ability to generate revenue for local purposes will become increasingly problematic in the future for local governments as they seek to provide services to the growing and changing populations that are emerging as a result of the massive demographic shifts sweeping the state. It will be increasingly common for local governments to turn to the state to address local issues instead of creating solutions that target the particular needs and demographics of the local

[7]Some may argue that this behavior does not reflect as much a failure in ability to raise new funds as a failure of will among local officials. Although this is true to some extent, there has been tremendous fiscal pressure on these local governments to expand revenues since Proposition 13.

community. And when unfunded mandates and MOE requirements are added to the equation, the level of state and local government discretionary revenues is even more sharply reduced. This pressure from higher levels of government further hampers local governments' ability to respond to local preferences.

The quest for more revenues and more budget flexibility is directly responsible for many of the structural changes we documented in Chapter 4. Local governments are increasingly transferring the costs of services that in the past were paid for under the auspices of general government to users of those services and to visitors, such as hotel guests. In some cases, local governments even pass on general community costs to new residents, as in the case of development-related fees and exactions.

The loss of local discretion on both the revenue-raising and expenditure sides, coupled with the increased visibility of the costs of providing services through the imposition of user fees, has generally increased the overall political tensions in the state between different levels of government. For example, when the state diverted local property tax from cities and counties to schools through the introduction of the ERAF in the early 1990s, it created tremendous tension between the state and cities and counties—a tension that was most recently exacerbated during the tense debate in the latest budget cycle when the state proposed reducing the motor vehicle license fee.

Concurrently, there has been an escalation of tension between voters and their governments at all levels. Beyond the new limits on government behavior and spending that are imposed through the initiative process, local school boards and city councils have become the flashpoint of local community concerns about declining or "insufficient"

investments in local programs, such as education, while the revenue streams and many important policy choices are determined in Sacramento. Some would also argue that the loss of fiscal autonomy has alienated voters from the electoral process for these local boards, because local political officials are no longer accountable for fiscal decisions.

Overall, we have identified some common themes in terms of the composition of public revenues by the various levels of state and local government in California. The broad trends indicate a decreased reliance on tax revenues and an increased reliance on nearly every other type of public revenue, including assessments, regulatory fees and taxes, fines and penalties, interest, intergovernmental transfers, public enterprise revenues, service charges, and other revenues. For the state, counties, and school districts, we have seen a surge in dependence on earmarked, intergovernmental transfers from the federal and state governments to provide services. Nearly all levels of government that include some public enterprise activity also recorded significant increases in their public enterprise revenues. Most levels of government over these two decades also showed a significant increase in their reliance on end-user charges and less reliance on tax revenues to fund public programs and services.

All in all, we have discussed in this report many changes that could be loosely associated with the passage of Proposition 13 in June 1978. It is important to place this initiative in context, however, and to remember that many other events affected state and local government in California over this same period. The state passed through two complete business cycles, saw the passage of numerous ballot propositions, and underwent major changes in its demographic and economic character. The many changes we document in this report are intended to inform one's

perspective of the changes in some important aspects of the relationship between state and local government over this period and not to definitively identify the effects of Proposition 13.

Appendix A

Revenue Categories Used in This Report

The taxonomy of revenue categories that we have used in this study corresponds directly to those we used in a companion report on the changes in the public revenue burden in California since Proposition 13. Our categories correspond somewhat to those typically used in public finance—such as we find in the California State Controller's reports or the U.S. Bureau of the Census' reports—but we have added some detail and distinctions to facilitate a better understanding of some of the subtleties associated with state and local revenues in California. The revenue categories we use for this study are taxes; assessments; regulatory fees and charges; fines, penalties, and forfeitures; intergovernmental revenues; interest; enterprise revenues; service revenues from activities where the government is the exclusive provider; service revenues from general services; and other revenues. We have reproduced the descriptions of these revenue categories from the companion report for ease of cross-reference.

Taxes

For a tax, payees have no discretion over whether or not to pay it if they chose to participate in an activity. Moreover, ascertaining if one is participating is quite low and generic—such things as property ownership, sales of general goods, earnings income, gasoline or alcoholic beverage purchases, participating in business activity, operating a franchise, staying in a hotel room, or purchasing electricity. These general tax revenues are also used to fund overall government activities and are often not earmarked for specific regulatory purposes.

Assessments

Assessments represent revenues generated as the result of specific voter action to pay for services. They differ from general property taxes because their level is based on an estimate of the benefit they will provide to a specific property and on the actual cost of the improvement, instead of on the overall value of the property. They are most often generated under the auspices of voter-approved ballot measures, and fall, in recent years, under the constraints imposed by Proposition 218. Unfortunately, as prior work by PPIC and others has shown,[1] the amounts reported by local governments under this heading do not reflect the full range of assessment revenues received by local governments.

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[1]Shires and Glenn Haber found that revenues from some types of assessments were commonly missing or were reported by local governments as part of overall property tax revenues. The size of the problem was not found to be large relative to overall state and local revenues, but it is significant if one wishes to focus exclusively on assessments. In general, the current state and local government revenue-reporting structure is not adequate to identify revenues from special assessments. This fact was recently highlighted by the presence of Proposition 218 on the November 1997 ballot. As they tried to estimate the effects of this initiative—which severely constrained assessments by local governments for specific purposes—on local government finance, policy analysts from all agencies and groups discovered that there was very little information available.

The distinction is retained in our taxonomy, however, because these revenues are significantly different from the taxes and revenues included in the tax category above. Historically, these revenues have been imposed at the behest of the voters and are not generally subject to the year-to-year micro-management of elected officials at any level. In recent years, however, concerns about the expanded use of this type of revenue by local government officials resulted in the passage of Proposition 218. This proposition has resulted in assessments being handled much more like general property tax increases than had previously been the case.

Regulatory Fees and Charges

This category is quite similar to the taxes category above, in that it represents a revenue stream where the government charges a fee for permission to undertake some activity. Regulatory fees and charges include two types of revenues: (1) revenues generated to fund specific regulatory activities, such as the Public Utilities Commission and various licensing boards, and (2) revenues generated as the result of permits issued as part of a specific regulatory process, such as construction permits and fish and game licenses. Planning fees and animal licenses also fall in this category.

In some ways these could be looked at as taxes. A construction permit, for example, could be viewed as a tax on the activity of construction much as a business license is a tax on the activity of being in business. They are much less generic, however.[2] One could also argue that the business license and franchise tax could also fall in this category.

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[2]Having a business is much more generic than building structures. We do recognize, however, that this category and the tax category represent a continuum and that some fees could be classified as either a tax or a regulatory fee under these categories.

Reporting these regulatory fees and revenues in a separate category allows us to consider revenues that are generated by the regulatory power of government. It also has the advantage of allowing us to either make or not make the distinction. By reporting these revenues separately, if one is not comfortable with the distinction used here, one can simply combine these revenues with taxes and ignore the differentiation.

Fines, Penalties, and Forfeitures

These revenues represent payments to government by individuals who have violated provisions of the state and local codes. Included in this category are fines for traffic violations, penalties on late property taxes, and parking fines. These are effectively taxes on socially unacceptable activity and serve a broader social purpose of providing deterrents to these activities.

Intergovernmental Revenues

These revenues represent transfers from other levels of government, either restricted or unrestricted. For example, intergovernmental revenues for school districts include general state appropriations and funding under the Proposition 98 guarantee as well as revenues earmarked for the construction of schools. It also includes federal revenue sharing, state support for a range of local programs including children's centers and mental health, and county support for city programs.

Because of general practice within the policy community and the specificity criteria we raised above, however, business licenses and franchise taxes are *not* included here, but rather are included as taxes.

Intergovernmental revenues also include current service charge revenues that are billed to public clients—such as electrical revenues received by public utilities from other governments. In most cases, this is not easy or even possible to do. There is one major exception, however—self-insurance districts. Over the past 20 years, numerous governments and groups of governments have set up independent special districts to provided self-insurance programs that pool resources to provide insurance. The revenues reported by these independent districts *are* reported as intergovernmental revenues in this analysis, since they are generated exclusively from other public entities. This distinction is important because these revenues are significant, exceeding $1 billion per year in recent years.

Interest

In the case of "revenues from the use of money and property category," we chose to separate out interest revenues and to report the other two common revenues in this category—rents and royalties—as general services. This distinction goes directly to the issue of why governments generate these resources and whether there is private sector provision of those resources.

In general, interest revenues arise from the holding of monies that are usually held for other governmental purposes. State and local governments do not generally pursue the lending of money and the earning of interest as a primary business activity, as a bank would.[3] The revenues generated from interest, therefore, can be considered as a by-product of other activities, and private sector competition probably does

[3]There have been some notable exceptions to this. See Baldassare (1998) for a detailed description and discussion of one such case.

not have too much of an effect on whether those revenues are earned or not.

Rents and royalties, however, almost certainly have strong private sector competition and, in some cases, government activity may actually be "crowding out" private sector activity. This revenue stream, therefore, seems to represent a general service to the community and, except in cases where the government has a monopoly on the type of resource provided—such as an airport—should be categorized as a general service revenue. Where the government has an actual or de facto monopoly, this revenue should be classified as a service revenue associated with the government's exclusive provider status.

Enterprise Revenues

Enterprise revenues are those generated by such services as sewer, water, electric, gas, transportation, and hospital. They arise from local publicly owned monopolies. This distinction is important from a policy perspective when considering the fact that not all provision of goods and services in these categories comes from publicly owned monopolies. In the case of electric power, for example, the City of Los Angeles has a publicly owned enterprise—the Department of Water and Power—whereas much of Northern and Central California is served by a privately owned company—Pacific Gas and Electric. Especially with the full effects of deregulation still not fully known, it is important to distinguish these revenues for policy purposes.

Service Revenues—Exclusive Provider

This category of revenues represents activities for which a government receives revenues, for which it is the sole provider of that

service, and for which the service revenue is not the result of an enterprise activity. This category includes state lottery revenues, charges for the holding of elections, tax collection fees, and the costs of specialized police and fire services.

Service Revenues—General

These revenues are generated by activities that are also commonly provided by nongovernmental entities. Ambulance services, golf course fees, and university fees are major components of this category.

Other Revenues

This category includes all other revenues that do not fall into the above-defined definitions or for which the detail to classify the revenues was unavailable. It also includes donations from private sources and revenues from discontinued special districts.

What Is Not Included

It is important to note that this analysis does not include revenues from bond proceeds. The issuance of debt is important to public policy in California, but it does not conceptually fit into our main research questions. The funds generated by bonds do not reflect a true revenue to the local government—just as an individual is not taxed by the government for funds borrowed to purchase a house.[4] What are included, however, are the revenues that are generated to pay off the

[4]Note that if we were concerned with the expenditure side of government, then these sources of funds would be quite important because they would be used to fund the provision of some assets or services. For revenue purposes, however, the debt assumption and issuance is a nonevent.

debt. In many cases, such as special bonds for schools, new revenues are generated to pay for these debts, usually in the form of property tax revenues and special assessments. As noted above under taxes and assessments, these revenues are captured in our analysis.

Appendix B

State and Local Government Revenues and Who Controls Them

This appendix contains the revenue data supporting our analysis in Chapter 2, where we discuss the alignment between who controls revenues and who receives them. The appendix includes detailed schedules of revenue control for overall state and local revenues and for each level of government receiving the revenues.

Table B.1

Public Revenues in California for All Levels of Government, and Their Percentage Share, by Level Controlling the Revenue

Level Controlling Revenue	1978	1981	1988	1992	1995
Federal	13,330,434,507	17,292,629,455	23,088,797,213	38,034,203,966	45,675,769,771
	22.9	22.3	17.3	20.2	22.3
State	24,227,929,706	44,795,549,367	80,009,882,974	108,543,952,956	112,131,400,939
	41.6	57.9	60.0	57.8	54.9
Counties	4,826,003,244	2,956,672,722	5,565,664,702	9,068,927,890	10,292,417,931
	8.3	3.8	4.2	4.8	5.0
Cities	6,367,721,010	6,538,676,868	12,262,762,653	16,846,038,793	18,916,213,236
	11.0	8.4	9.2	9.0	9.2
Independent special districts	2,788,258,683	3,547,648,361	7,576,250,411	8,178,715,852	8,933,480,218
	4.8	4.6	5.7	4.4	4.4
School districts	4,883,221,132	776,242,632	1,031,238,836	1,345,297,935	1,733,385,972
	8.4	1.0	0.8	0.7	0.8
Public postsecondary education	1,542,698,231	1,308,565,000	2,561,946,000	3,803,419,000	4,670,347,000
	2.7	1.7	1.9	2.0	2.3
Unspecified	164,225,131	258,249,973	1,152,612,891	2,027,612,299	2,231,578,497
	0.3	0.3	0.9	1.1	1.1
Total	58,130,491,644	77,474,234,378	133,249,155,680	187,848,168,691	204,584,593,564
	100.0	100.0	100.0	100.0	100.0

Table B.2

Public Revenues in California State Government, and Their Percentage Share, by Level Controlling the Revenue

Level Controlling Revenue	1978	1981	1988	1992	1995
Federal	7,454,072,119	10,523,816,000	14,950,214,000	26,722,300,000	31,497,271,000
	32.1	32.5	28.3	33.7	36.8
State	15,748,335,000	21,863,050,000	37,919,898,000	52,246,337,000	53,823,523,000
	67.9	67.5	71.7	65.9	62.9
Unspecified	0	0	45,564,000	345,014,000	301,432,000
			0.1	0.4	0.4
Total	23,202,407,119	32,386,866,000	52,915,676,000	79,313,651,000	85,622,226,000
	100.0	100.0	100.0	100.0	100.0

Table B.3

Public Revenues in California County Government, and Their Percentage Share, by Level Controlling the Revenue

Level Controlling Revenue	1978	1981	1988	1992	1995
Federal	2,256,701,858	2,571,411,481	3,114,375,856	4,818,925,058	6,012,844,564
	24.6	23.4	15.9	16.1	18.9
State	2,098,227,667	5,562,584,431	11,052,445,386	16,063,398,201	15,758,437,985
	22.9	50.6	56.3	53.8	49.5
Counties	4,742,394,392	2,764,411,774	5,249,915,184	8,761,533,505	9,853,615,225
	51.6	25.1	26.7	29.3	30.9
Unspecified	84,849,501	104,054,903	212,393,983	229,820,695	233,863,207
	0.9	0.9	1.1	0.8	0.7
Total	9,182,173,418	11,002,462,589	19,629,130,409	29,873,677,459	31,858,760,981
	100.0	100.0	100.0	100.0	100.0

Table B.4

Public Revenues in California City Government, and Their Percentage Share, by Level Controlling the Revenue

Level Controlling Revenue	1978	1981	1988	1992	1995
Federal	1,216,190,780	1,126,021,228	701,287,470	865,309,247	1,574,331,942
	14.4	9.9	3.5	3.2	5.1
State	847,844,202	3,609,857,114	7,099,169,249	9,420,403,205	10,010,536,017
	10.0	31.9	35.1	34.5	32.5
Counties	36,792,711	48,945,799	123,146,960	67,371,123	173,450,558
	0.4	0.4	0.6	0.2	0.6
Cities	6,367,721,010	6,538,676,868	12,262,762,653	16,846,038,793	18,900,206,054
	75.2	57.7	60.5	61.6	61.4
Unspecified	3,586,046	6,277,329	62,424,215	126,419,303	138,249,648
	0.0	0.1	0.3	0.5	0.4
Total	8,472,134,749	11,329,778,338	20,248,790,547	27,325,541,671	30,796,774,219
	100.0	100.0	100.0	100.0	100.0

Table B.5

Public Revenues in California Independent Special Districts, and Their Percentage Share, by Level Controlling the Revenue

Level Controlling Revenue	1978	1981	1988	1992	1995
Federal	557,047,902	590,802,561	238,999,163	140,864,465	191,712,391
	15.2	11.2	2.3	1.2	1.5
State	244,247,974	884,390,843	1,462,532,019	1,843,930,628	1,782,150,821
	6.7	16.7	14.2	15.7	14.0
Counties	0	111,708,115	192,602,558	240,023,262	265,352,148
		2.1	1.9	2.0	2.1
Independent special districts	2,788,258,683	3,547,648,361	7,576,250,411	8,178,715,852	8,933,480,218
	76.0	67.2	73.8	69.8	70.2
Unspecified	75,789,584	147,917,741	803,799,714	1,320,614,173	1,554,300,845
	2.1	2.8	7.8	11.3	12.2
Total	3,665,344,143	5,282,467,621	10,274,183,865	11,724,148,380	12,726,996,423
	100.0	100.0	100.0	100.0	100.0

Table B.6

Public Revenues in California School Districts, and Their Percentage Share, by Level Controlling the Revenue

Level Controlling Revenue	1978	1981	1988	1992	1995
Federal	797,406,758	936,422,185	1,251,283,724	1,955,746,196	2,661,681,874
	8.9	8.5	6.7	7.8	9.6
State	3,250,947,897	9,219,334,979	16,521,160,320	21,608,298,922	23,259,764,116
	36.2	84.1	87.8	86.8	84.0
Counties	46,816,141	31,607,034	0	0	0
	0.5	0.3			
Cities	0	0	0	0	16,007,182
					0.1
School districts	4,883,221,132	776,242,632	1,031,238,836	1,345,297,935	1,733,385,972
	54.4	7.1	5.5	5.4	6.3
Unspecified	0	0	1,516,979	5,744,128	3,732,797
			0.0	0.0	0.0
Total	8,978,391,928	10,963,606,830	18,805,199,859	24,915,087,181	27,674,571,941
	100.0	100.0	100.0	100.0	100.0

Table B.7

Public Revenues in California Public Postsecondary Education Institutions, and Their Percentage Share, by Level Controlling the Revenue

Level Controlling Revenue	1978	1981	1988	1992	1995
Federal	1,049,015,090	1,544,156,000	2,832,637,000	3,531,059,000	3,737,928,000
	22.7	23.7	24.9	24.0	23.5
State	2,038,326,966	3,656,332,000	5,954,678,000	7,361,585,000	7,496,989,000
	44.0	56.2	52.4	50.1	47.1
Public postsecondary education	1,542,698,231	1,308,565,000	2,561,946,000	3,803,419,000	4,670,347,000
	33.3	20.1	22.5	25.9	29.4
Unspecified	0	0	26,914,000	0	0
			0.2		
Total	4,630,040,287	6,509,053,000	11,376,175,000	14,696,063,000	15,905,264,000
	100.0	100.0	100.0	100.0	100.0

Appendix C

State and Local Government Revenues and Associated Spending Discretion

This appendix provides the detail to support the analysis presented in Chapter 3. It provides detailed schedules of the spending discretion associated with overall state and local revenues and with the revenues for each level of government.

Table C.1

Public Revenues in California for All Levels of Government, and Their Percentage Share, by Level of Spending Discretion

Spending Discretion	1978	1981	1988	1992	1995
General	36,994,165,940	46,982,052,651	79,322,015,035	105,441,273,598	106,138,449,551
	63.6	60.6	59.5	56.1	51.9
Specific	17,944,597,198	26,707,593,698	49,439,607,379	75,150,125,747	89,636,654,506
	30.9	34.5	37.1	40.0	43.8
Other	3,191,728,506	3,784,588,029	4,487,533,266	7,256,769,346	8,809,489,507
	5.5	4.9	3.4	3.9	4.3
Total	58,130,491,644	77,474,234,378	133,249,155,680	187,848,168,691	204,584,593,564
	100.0	100.0	100.0	100.0	100.0

Table C.2

Public Revenues in California State Government, and Their Percentage Share, by Level of Spending Discretion

Spending Discretion	1978	1981	1988	1992	1995
General	13,861,967,000	19,646,044,000	33,163,809,000	44,590,257,000	44,552,980,000
	59.7	60.7	62.7	56.2	52.0
Specific	9,340,440,119	12,740,822,000	19,751,867,000	34,723,394,000	41,069,246,000
	40.3	39.3	37.3	43.8	48.0
Total	23,202,407,119	32,386,866,000	52,915,676,000	79,313,651,000	85,622,226,000
	100.0	100.0	100.0	100.0	100.0

Table C.3

Public Revenues in California County Government, and Their Percentage Share, by Level of Spending Discretion

Spending Discretion	1978	1981	1988	1992	1995
General	5,230,760,981	4,669,655,629	8,146,661,058	12,194,457,081	9,902,677,618
	57.0	42.4	41.5	40.8	31.1
Specific	3,034,109,133	5,281,603,937	9,945,615,286	14,726,726,619	18,958,692,269
	33.0	48.0	50.7	49.3	59.5
Other	917,303,304	1,051,203,023	1,536,854,065	2,952,493,759	2,997,391,094
	10.0	9.6	7.8	9.9	9.4
Total	9,182,173,418	11,002,462,589	19,629,130,409	29,873,677,459	31,858,760,981
	100.0	100.0	100.0	100.0	100.0

Table C.4

Public Revenues in California City Government, and Their Percentage Share, by Level of Spending Discretion

Spending Discretion	1978	1981	1988	1992	1995
General	4,129,828,403	5,212,186,753	9,952,272,613	12,900,093,509	13,478,917,213
	48.7	46.0	49.1	47.2	43.8
Specific	2,934,032,239	4,544,955,212	8,408,307,092	11,614,955,123	13,384,009,781
	34.6	40.1	41.5	42.5	43.5
Other	1,408,274,107	1,572,636,373	1,888,210,842	2,810,493,039	3,933,847,225
	16.6	13.9	9.3	10.3	12.8
Total	8,472,134,749	11,329,778,338	20,248,790,547	27,325,541,671	30,796,774,219
	100.0	100.0	100.0	100.0	100.0

Table C.5

Public Revenues in California Independent Special Districts, and Their Percentage Share, by Level of Spending Discretion

Spending Discretion	1978	1981	1988	1992	1995
General	2,392,112,785	3,505,130,819	6,892,015,670	8,341,560,461	8,818,842,448
	65.3	66.4	67.1	71.1	69.3
Specific	592,097,004	1,164,557,052	2,547,160,213	2,386,072,987	2,888,736,693
	16.2	22.0	24.8	20.4	22.7
Other	681,134,354	612,779,750	835,007,982	996,514,932	1,019,417,282
	18.6	11.6	8.1	8.5	8.0
Total	3,665,344,143	5,282,467,621	10,274,183,865	11,724,148,380	12,726,996,423
	100.0	100.0	100.0	100.0	100.0

Table C.6

Public Revenues in California School Districts, and Their Percentage Share, by Level of Spending Discretion

Spending Discretion	1978	1981	1988	1992	1995
General	8,225,313,455	9,669,751,450	13,959,100,694	18,113,164,547	19,542,363,272
	91.6	88.2	74.2	72.7	70.6
Specific	596,263,272	769,544,497	4,650,891,788	6,436,564,018	7,503,201,763
	6.6	7.0	24.7	25.8	27.1
Other	156,815,201	524,310,883	195,207,377	365,358,616	629,006,906
	1.7	4.8	1.0	1.5	2.3
Total	8,978,391,928	10,963,606,830	18,805,199,859	24,915,087,181	27,674,571,941
	100.0	100.0	100.0	100.0	100.0

Table C.7

Public Revenues in California Public Postsecondary Education Institutions, and Their Percentage Share, by Level of Spending Discretion

Spending Discretion	1978	1981	1988	1992	1995
General	3,154,183,316	4,279,284,000	7,208,156,000	9,301,741,000	9,842,669,000
	68.1	65.7	63.4	63.3	61.9
Specific	1,447,655,431	2,206,111,000	4,135,766,000	5,262,413,000	5,832,768,000
	31.3	33.9	36.4	35.8	36.7
Other	28,201,540	23,658,000	32,253,000	131,909,000	229,827,000
	0.6	0.4	0.3	0.9	1.4
Total	4,630,040,287	6,509,053,000	11,376,175,000	14,696,063,000	15,905,264,000
	100.0	100.0	100.0	100.0	100.0

Appendix D

Types of State and Local Government Revenues

This appendix presents details on the revenue amounts presented in Chapter 3. The details underlying these summary totals can be downloaded from our website at www.ppic.org. They are located on the Publications page under the title of this document.

Table D.1

Public Revenues in California for All Levels of Government, and Their Percentage Share, by Revenue Type

Revenue Type	1978	1981	1988	1992	1995
Taxes	26,409,666,294	28,392,188,943	52,504,319,843	72,070,935,103	75,540,377,001
	45.5	36.6	39.5	38.4	37.0
Assessments	32,850,839	162,711,104	422,836,209	560,079,307	634,712,424
	0.1	0.2	0.3	0.3	0.3
Regulatory fees and charges	1,390,237,527	1,338,110,598	3,228,228,698	4,101,351,362	5,497,714,659
	2.4	1.7	2.4	2.2	2.7
Fines and penalties	252,254,534	362,918,091	953,171,700	988,966,277	1,080,762,038
	0.4	0.5	0.7	0.5	0.5
Interest	856,891,141	1,838,620,532	3,366,566,608	3,871,848,963	3,751,894,129
	1.5	2.4	2.5	2.1	1.8
Intergovernmental	21,694,128,405	32,456,331,967	49,489,137,169	73,373,444,285	81,478,340,742
	37.3	41.9	37.1	39.1	39.8
Enterprise revenues	4,476,246,475	7,733,753,254	13,714,929,929	18,857,594,195	22,061,142,572
	7.7	10.0	10.3	10.0	10.8
Exclusively provided service revenues	201,040,942	287,272,242	1,095,613,493	1,182,836,525	1,468,815,789
	0.3	0.4	0.8	0.6	0.7
General service revenues	1,683,879,855	3,133,030,720	5,567,580,382	7,179,561,943	8,152,364,018
	2.9	4.0	4.2	3.8	4.0
Other revenues	1,133,295,632	1,769,296,927	2,906,771,649	5,661,550,731	4,918,470,192
	1.9	2.3	2.2	3.0	2.4
Total	58,130,491,644	77,474,234,378	133,249,155,680	187,848,168,691	204,584,593,564
	100.0	100.0	100.0	100.0	100.0

Table D.2

Public Revenues in California State Government, and Their Percentage Share, by Revenue Type

Revenue Type	1978	1981	1988	1992	1995
Taxes	14,225,858,000	19,341,593,000	34,335,358,000	47,226,903,000	48,676,088,000
	61.3	59.7	64.9	59.5	56.8
Assessments	0	0	0	0	0
Regulatory fees and charges	702,308,000	806,969,000	2,049,387,000	2,531,926,000	3,628,348,000
	3.0	2.5	3.9	3.2	4.2
Fines and penalties	50,487,000	59,581,000	267,907,000	232,447,000	265,075,000
	0.2	0.2	0.5	0.3	0.3
Interest	339,999,000	570,465,000	580,384,000	430,801,000	495,441,000
	1.5	1.8	1.1	0.5	0.6
Intergovernmental	7,454,072,119	10,523,816,000	14,995,778,000	27,067,314,000	31,799,398,000
	32.1	32.5	28.3	34.1	37.1
Enterprise revenues	0	0	0	0	6,343,000
					0.0
Exclusively provided service revenues	123,961,000	159,494,000	37,563,000	50,869,000	104,778,000
	0.5	0.5	0.1	0.1	0.1
General service revenues	220,445,000	788,697,000	506,013,000	566,153,000	292,745,000
	1.0	2.4	1.0	0.7	0.3
Other revenues	85,277,000	136,251,000	143,286,000	1,207,238,000	354,010,000
	0.4	0.4	0.3	1.5	0.4
Total	23,202,407,119	32,386,866,000	52,915,676,000	79,313,651,000	85,622,226,000
	100.0	100.0	100.0	100.0	100.0

Table D.3

Public Revenues in California County Government, and Their Percentage Share, by Revenue Type

Revenue Type	1978	1981	1988	1992	1995
Taxes	3,337,234,643	2,591,851,448	4,996,961,353	7,035,649,030	4,701,950,631
	36.3	23.6	25.5	23.6	14.8
Assessments	527,578	48,940,143	120,368,092	61,385,291	39,349,083
	0.0	0.4	0.6	0.2	0.1
Regulatory fees and charges	498,446,153	271,089,461	555,538,318	826,983,252	911,787,800
	5.4	2.5	2.8	2.8	2.9
Fines and penalties	97,424,569	142,104,330	360,954,414	396,353,483	446,872,828
	1.1	1.3	1.8	1.3	1.4
Interest	152,936,940	357,984,634	471,850,989	615,495,867	564,829,950
	1.7	3.3	2.4	2.1	1.8
Intergovernmental	4,303,140,223	5,869,750,022	9,766,448,689	14,507,351,531	17,797,342,243
	46.9	53.2	49.8	48.5	55.8
Enterprise revenues	351,194,303	978,426,959	1,865,092,664	3,676,588,697	4,427,846,580
	3.8	8.9	9.5	12.3	13.9
Exclusively provided service revenues	66,845,825	99,448,413	246,721,412	428,650,444	378,074,441
	0.7	0.9	1.3	1.4	1.2
General service revenues	186,043,439	250,933,920	492,358,692	994,532,736	1,151,580,744
	2.0	2.3	2.5	3.3	3.6
Other revenues	188,379,745	391,933,259	752,835,786	1,330,687,128	1,439,126,681
	2.1	3.6	3.8	4.5	4.5
Total	9,182,173,418	11,002,462,589	19,629,130,409	29,873,677,459	31,858,760,981
	100.0	100.0	100.0	100.0	100.0

Table D.4

Public Revenues in California City Government, and Their Percentage Share, by Revenue Type

Revenue Type	1978	1981	1988	1992	1995
Taxes	3,014,965,203	3,468,795,504	7,493,063,255	10,038,617,477	10,656,848,409
	35.7	30.6	36.9	36.8	34.5
Assessments	28,259,364	50,794,947	114,890,175	291,184,551	360,010,897
	0.3	0.4	0.6	1.1	1.2
Regulatory fees and charges	172,964,813	232,222,585	560,313,464	639,870,884	634,295,219
	2.0	2.0	2.8	2.3	2.1
Fines and penalties	104,031,533	160,808,445	321,555,862	332,464,212	348,037,818
	1.2	1.4	1.6	1.2	1.1
Interest	196,870,821	537,562,995	1,178,765,154	1,542,051,836	1,342,861,388
	2.3	4.7	5.8	5.6	4.4
Intergovernmental	2,003,499,014	2,114,044,937	2,420,639,475	3,042,978,551	4,324,305,553
	23.6	18.8	12.0	11.1	14.0
Enterprise revenues	2,365,535,483	3,825,029,682	6,231,215,667	8,296,996,496	9,823,447,278
	27.9	33.8	30.8	30.4	31.9
Exclusively provided service revenues	7,817,095	23,709,692	64,883,396	121,710,785	143,002,225
	0.1	0.2	0.3	0.4	0.5
General service revenues	319,203,846	533,208,790	944,089,485	1,253,809,643	1,599,511,143
	3.8	4.7	4.7	4.6	5.2
Other revenues	258,987,577	383,600,761	919,374,614	1,765,857,236	1,564,454,289
	3.1	3.4	4.5	6.5	5.1
Total	8,472,134,749	11,329,778,338	20,248,790,547	27,325,541,671	30,796,774,219
	100.0	100.0	100.0	100.0	100.0

Table D.5

Public Revenues in California Independent Special Districts, and Their Percentage Share, by Revenue Type

Revenue Type	1978	1981	1988	1992	1995
Taxes	599,552,933	610,544,679	1,089,157,631	1,440,438,100	1,392,672,634
	16.4	11.6	10.6	12.3	10.9
Assessments	4,063,897	62,976,014	183,700,647	161,294,118	173,684,870
	0.1	1.2	1.8	1.4	1.4
Regulatory fees and charges	16,518,561	27,829,552	61,124,461	102,389,813	101,868,230
	0.5	0.5	0.6	0.9	0.8
Fines and penalties	311,432	424,316	2,754,424	10,509,262	4,904,175
	0.0	0.0	0.0	0.1	0.0
Interest	149,690,502	349,333,627	773,894,739	818,767,187	803,824,941
	4.1	6.6	7.5	7.0	6.3
Intergovernmental	877,085,460	1,111,798,122	1,545,115,387	2,052,452,945	2,648,925,542
	23.9	21.1	15.0	17.5	20.8
Enterprise revenues	1,540,478,608	2,534,116,613	4,980,329,598	5,898,460,002	6,629,739,714
	42.0	47.9	48.5	50.2	52.2
General service revenues	122,056,319	263,044,887	878,536,862	325,413,254	55,393,121
	3.3	5.0	8.6	2.8	0.4
Other revenues	355,586,431	322,399,811	759,570,116	914,423,699	915,983,196
	9.7	6.1	7.4	7.8	7.2
Total	3,665,344,143	5,282,467,621	10,274,183,865	11,724,148,380	12,726,996,423
	100.0	100.0	100.0	100.0	100.0

Table D.6

Public Revenues in California School Districts, and Their Percentage Share, by Revenue Type

Revenue Type	1978	1981	1988	1992	1995
Taxes	4,486,785,515	2,054,404,312	3,985,900,604	5,495,103,496	8,780,786,327
	50.0	18.7	21.2	22.1	31.7
Assessments	0	0	3,877,295	46,215,347	61,667,574
			0.0	0.2	0.2
Regulatory fees and charges	0	0	1,865,455	181,413	221,415,410
			0.0	0.0	0.8
Fines and penalties	0	0	0	17,192,320	15,872,217
				0.1	0.1
Interest	2,767,960	3,636,276	320,028,726	401,733,073	464,631,850
	0.0	0.0	1.7	1.6	1.7
Intergovernmental	4,095,170,796	8,132,959,886	13,199,370,618	17,624,927,258	16,488,755,404
	45.6	74.3	70.2	70.7	59.6
Enterprise revenues	0	0	0	0	0
Exclusively provided service revenues	2,417,022	4,620,137	609,115,685	464,053,296	698,789,123
	0.0	0.0	3.2	1.9	2.5
General service revenues	202,047,379	288,994,123	463,984,343	605,033,310	658,544,010
	2.3	2.6	2.5	2.4	2.4
Other revenues	189,203,256	478,992,096	221,057,133	260,647,668	284,110,026
	2.1	4.4	1.2	1.0	1.0
Total	8,978,391,928	10,963,606,830	18,805,199,859	24,915,087,181	27,674,571,941
	100.0	100.0	100.0	100.0	100.0

Table D.7

Public Revenues in California Public Postsecondary Education Institutions,
and Their Percentage Share, by Revenue Type

Revenue Type	1978	1981	1988	1992	1995
Taxes	745,270,000	325,000,000	603,879,000	834,224,000	1,332,031,000
	16.1	5.0	5.3	5.7	8.4
Interest	14,625,918	19,638,000	41,643,000	63,000,000	80,305,000
	0.3	0.3	0.4	0.4	0.5
Intergovernmental	2,961,160,793	4,703,963,000	7,561,785,000	9,078,420,000	8,419,614,000
	64.0	72.2	66.4	61.8	52.9
Enterprise revenues	219,038,081	396,180,000	638,292,000	985,549,000	1,180,109,000
	4.7	6.1	5.6	6.7	7.4
Exclusively provided service revenues	0	0	137,330,000	117,553,000	144,172,000
			1.2	0.8	0.9
General service revenues	634,083,872	1,008,152,000	2,282,598,000	3,434,620,000	4,388,247,000
	13.7	15.5	20.1	23.4	27.6
Other revenues	55,861,623	56,120,000	110,648,000	182,697,000	360,786,000
	1.2	0.9	1.0	1.2	2.3
Total	4,630,040,287	6,509,053,000	11,376,175,000	14,696,063,000	15,905,264,000
	100.0	100.0	100.0	100.0	100.0

Appendix E

Identifying Dependent Special District Revenues

In the detail provided in the California State Controller's report, *Annual Report on Financial Transactions Concerning Special Districts*, both dependent and independent special districts are included. Inasmuch as dependent special districts are directly controlled and operated by the governing body of the "parent entity" (the entity on which the district is dependent), the revenues the district receives are really under the control and auspices of the parent entity. To accurately portray the spending discretion and control of state and local governments, therefore, it is necessary to characterize the revenues for these dependent districts as actually belonging to the parent entities. To accomplish this, the revenues reported in the State Controller's reports for these dependent districts were tabulated and included with the parent entity. The tables in this appendix provide a detailed reconciliation of these allocations, by category of special district.

Two groups of revenues are reported for non-enterprise districts in the State Controller's reports. The first constitutes the general-purpose non-enterprise activities, and the second reflects non-enterprise district revenues associated with long-term indebtedness transactions. The amounts associated with each of these groups are presented in Tables E.1 and E.2, respectively.

In the remainder of this appendix, we report the distribution of these revenues by the level of controlling government for the various types of enterprise districts in the state.

Table E.1

Non-Enterprise District General Purpose Revenues, by Level of Controlling Government

Level Receiving Revenue	1978	1981	1988	1992	1995
Cities	6,920,264	14,327,607	45,051,222	67,779,385	70,253,485
Counties	311,400,264	405,166,616	772,247,447	1,194,312,125	1,218,469,582
Independent special districts	662,580,106	804,022,067	1,626,086,387	2,389,638,050	2,722,412,986
Total	980,900,634	1,223,516,290	2,443,385,056	3,651,729,560	4,011,136,053

SOURCE: California State Controller, *Annual Report on Financial Transactions Concerning Special Districts*, Table 12 (except in 1995 when it is Table 13).

Table E.2

Non-Enterprise District Long-Term Indebtedness Revenues, by Level of Controlling Government

Level Receiving Revenue	1978	1981	1988	1992	1995
Cities	12,301,013	21,136,712	30,779,990	11,241,312	4,916,303
Counties	62,036,887	61,177,965	271,186,273	39,455,050	43,053,196
Independent special districts	111,122,692	232,509,600	794,251,837	19,703,394	27,159,991
Total	185,460,592	314,824,277	1,096,218,100	70,399,756	75,129,490

SOURCE: California State Controller, *Annual Report on Financial Transactions Concerning Special Districts*, Table 13 (except in 1995 when it is Table 14).

Table E.3

Airport District Revenues, by Level of Controlling Government

Level Receiving Revenue	1978	1981	1988	1992	1995
Counties	843,511	333,144	640,296	1,228,056	1,203,975
Independent special districts	12,934,928	30,973,670	64,760,774	82,699,461	107,070,000
Total	13,778,439	31,306,814	65,401,070	83,927,517	108,273,975

SOURCE: California State Controller, *Annual Report on Financial Transactions Concerning Special Districts*, Table 18.

Table E.4

Electric Utility District Revenues, by Level of Controlling Government

Level Receiving Revenue	1978	1981	1988	1992	1995
Counties	8,560,753	9,667,598	11,544,327	14,336,784	16,874,181
Independent special districts	242,899,704	340,335,351	1,432,357,297	1,730,932,829	1,966,727,720
Total	251,460,457	350,002,949	1,443,901,624	1,745,269,613	1,983,601,901

SOURCE: California State Controller, *Annual Report on Financial Transactions Concerning Special Districts*, Table 19.

Table E.5

Harbor and Port District Revenues, by Level of Controlling Government

Level Receiving Revenue	1978	1981	1988	1992	1995
Counties	14,721,303	7,954,720	43,172		
Independent special districts	45,736,275	76,214,935	101,871,684	115,292,192	128,722,527
Total	60,457,578	84,169,655	101,914,856	115,292,192	128,722,527

SOURCE: California State Controller, *Annual Report on Financial Transactions Concerning Special Districts*, Table 20.

Table E.6

Transit District Revenues, by Level of Controlling Government

Level Receiving Revenue	1978	1981	1988	1992	1995
Counties	23,957	4,895	83,824	14,857,543	16,944,920
Independent special districts	714,192,199	925,825,599	1,430,396,657	1,788,729,863	2,002,474,531
Total	714,216,156	925,830,494	1,430,480,481	1,803,587,406	2,019,419,451

SOURCE: California State Controller, *Annual Report on Financial Transactions Concerning Special Districts*, Table 21.

Table E.7

Waste Disposal District Revenues, by Level of Controlling Government

Level Receiving Revenue	1978	1981	1988	1992	1995
Cities	14,714,759	16,262,512	29,206,257	42,004,316	44,084,056
Counties	61,094,295	61,631,670	121,084,447	146,749,041	185,308,834
Independent special districts	503,872,571	716,253,794	1,264,309,469	1,677,314,322	1,794,435,941
Total	579,681,625	794,147,976	1,414,600,173	1,866,067,679	2,023,828,831

SOURCE: California State Controller, *Annual Report on Financial Transactions Concerning Special Districts*, Table 22.

Table E.8

Water Utility District Revenues, by Level of Controlling Government

Level Receiving Revenue	1978	1981	1988	1992	1995
Cities	5,804,135	9,757,806	20,267,401	20,580,233	23,201,498
Counties	30,324,250	43,867,525	110,241,080	135,385,144	129,349,131
Independent special districts	876,281,662	1,325,350,372	2,678,453,638	3,369,302,232	3,848,082,580
Total	912,410,047	1,378,975,703	2,808,962,119	3,525,267,609	4,000,633,209

SOURCE: California State Controller, *Annual Report on Financial Transactions Concerning Special Districts*, Table 23.

Table E.9

Hospital District Revenues, by Level of Controlling Government

Level Receiving Revenue	1978	1981	1988	1992	1995
Independent special districts	495,724,006	830,982,233	881,696,122	550,536,037	129,910,147
Total	495,724,006	830,982,233	881,696,122	550,536,037	129,910,147

SOURCE: California State Controller, *Annual Report on Financial Transactions Concerning Special Districts,* Table 18.

Appendix F

Selection of Study Years

Because of the complications associated with the way special district revenues are reported in California, it was necessary to keypunch a considerable amount of data from the State Controller's *Annual Report on Financial Transactions Concerning Special Districts* for each of the years we wished to study. As a result of this significant cost, we selected only five years for analysis: 1977–78, 1980–81, 1987–88, 1991–92, and 1994–95. The first year was chosen because it was the year that Proposition 13 passed. 1991–92 was chosen because several other studies reported revenue burdens for this year. 1994–95 was chosen because it was the most recent year for which the data were available. The two remaining years, 1980–81 and 1987–88, were selected because they represented points in the business cycle that corresponded to 1991–92 and 1977–78, respectively, as shown in Figure F.1.

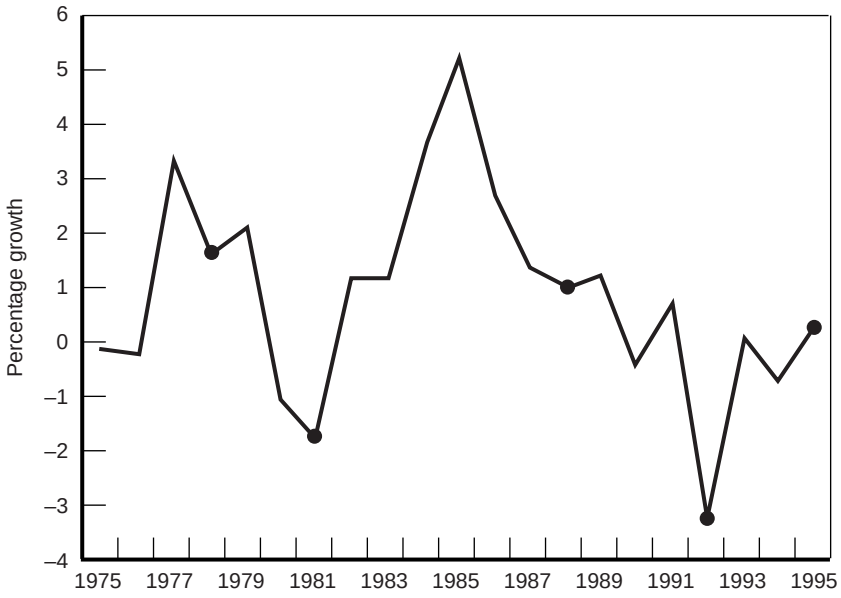

Figure F.1—Annual Growth in California Real Per Capita Personal Income

As this figure shows, the state was in the depths of recession in both 1981 and 1992, whereas 1988 and 1978 represented comparable points in periods of economic growth. This aspect of comparison may be particularly important when reviewing the structure of intergovernmental revenues, some of which are closely tied in with changes in the business cycle. The year 1981 has the additional benefit of falling soon after Proposition 13 was fully implemented[1] and before a series of accounting changes were instituted by state and local governments.[2]

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[1]The three-year delay after 1978, when Proposition 13 was passed by the voters, is actually ideal timing. Proposition 13 was initially implemented in fiscal year 1979, but significant revisions were subsequently instituted in fiscal year 1980. As a result, 1981 actually represents the first year after the full transition to the post-Proposition 13 world.

[2]Fiscal year 1981 also falls before a series of accounting changes that were implemented in 1982 and 1983. These changes will not affect the longer term because

Although the most recent year available was 1995, the changes in the public revenue burden from 1992 to 1995 may provide some insights into the state of the world when Proposition 218 was passed by the voters in November 1996.

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the year-to-year variation largely nets out, but there were noticable effects on reported revenues during the transition years.

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Michael A. Shires is a research fellow at the Public Policy Institute of California. Before joining PPIC, he was a doctoral fellow at RAND's Graduate School of Policy Studies, concentrating on domestic education policy, California fiscal policy, and international trade policy. He is the author of several publications on U.S. trade relations, higher education, school finance, and state and local governance. He has also been active as a consultant to private companies on strategic planning, marketing research, and tax planning and preparation. He holds a B.A. in economics from the University of California, Los Angeles, an M.B.A. from UCLA's Anderson Graduate School of Management, and a Ph.D. in public policy analysis from the RAND Graduate School.