

THE STATE-LOCAL FISCAL RELATIONSHIP

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► **Cities, counties, and the state generally provide and fund different services.**

State government generally pays for statewide services such as universities, prisons, parks, and highways. Local governments pay for local needs such as police and fire protection, libraries, and local roads. Counties provide similar services in areas outside of cities. In addition, they run countywide services such as jails and courts, and serve as agents of the state for health and welfare programs for low-income people.

► **However, many key programs are funded through a mix of federal, state, and local dollars.**

Health and welfare, education, public safety, and transportation needs are supported by federal, state, and local funding. There are several reasons for these crossover arrangements. One is that the state can help equalize spending, so that poorer communities, for example, can provide better schools. Similarly, state and federal funding for health and welfare programs ensure minimum service levels statewide and even nationally. However, crossovers add complexity, make it difficult for citizens to know who is really responsible for program performance, and allow meddling by higher levels of government for political or other reasons.

► **Proposition 13 fundamentally changed the relationship between state and local governments.**

Proposition 13, approved by California voters in 1978 and strongly supported today, limits property taxes to 1 percent of property valuation (minimally adjusted each year) until the property is sold. This proposition was passed to protect homeowners during a period of rapidly rising property values and tax bills. It also had two major effects on California governance. It reduced the revenues of local governments (by nearly \$70 billion, for example, in 2010) and, perhaps more fundamentally, removed the authority of cities, counties, and districts to determine the size of their own budgets: Before 1978, local agencies could set property tax rates to raise the revenue they needed to provide a locally determined level of public services. This was arguably the most important reduction in the authority of local governments in the 20th century.

► **Cities deliver more public services than any other level of government.**

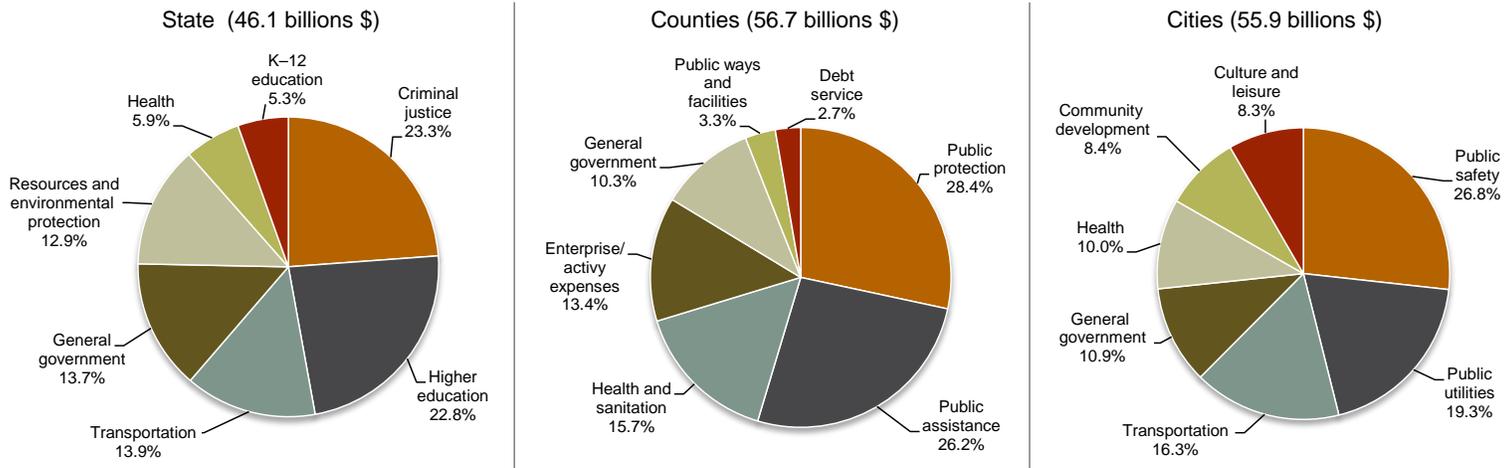
Cities play the largest role in delivering public services to Californians, spending over twice as much per capita as the state. City spending increases more than county or state spending during prosperous economic times. Between 1983 and 2009, city spending increased by \$686 per person, county spending grew by \$381 per person, and state spending increased by \$188 per person. Whether the relative sizes of these spending levels are about right or need adjustment is a core topic of debate in California today.

► **Tensions between California's state and local governments run high.**

California and its local governments have a tense relationship. Difficulties increased after the passage of Proposition 13, which (probably unintentionally) increased state authority over local funding and reduced local revenues and autonomy. In recent years, the state has reallocated local property tax revenue, realigned corrections and other programs, attempted to eliminate redevelopment, and made other changes in local funding arrangements and authority. In response, local governments have successfully proposed initiative measures to restrict state interference with their funding and affairs (Proposition 1A in 2004 and Proposition 22 in 2010, both intended to protect local revenue from state interference). Continuing conflict is nearly certain, and paths to resolution remain unclear.



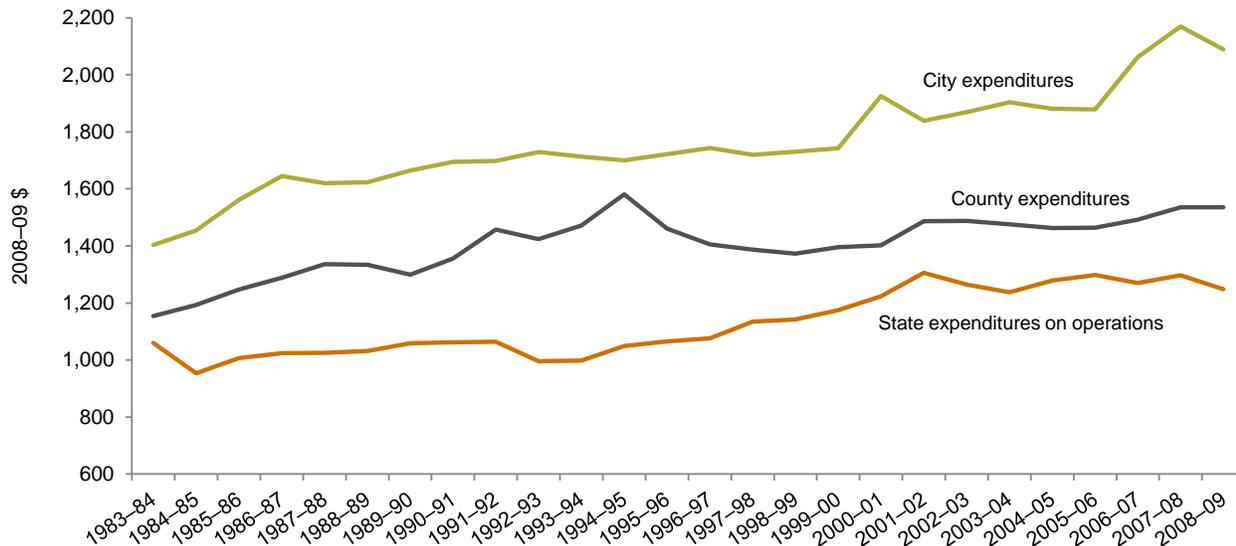
State, county, and city expenditures by function, FY 2008–09



Source: California State Controller's Office.

Notes: State expenditures on operations include federal funds. Likewise, county and city expenditures include services and programs funded with federal and state government dollars. The "General government" in the center pie includes general, education, and recreation, and cultural services expenditures. City expenditures do not include redevelopment agencies' expenditures.

Cities spend more on public services than any other level of government



Sources: California Department of Finance: http://www.dof.ca.gov/budgeting/budget_faqs/information/documents/CHART-F.pdf. County and city expenditures data are from the California State Controller's Office: Local Government Annual Financial Reports.

Notes: The chart shows inflation-adjusted per capita expenditures. State expenditures on operations only (exclude bond funds), do not include local assistance, capital outlay, and unclassified fund expenditures. County expenditures include enterprise/activity expenses. City expenditures include city-owned enterprises. It counts redevelopment spending as city spending, and counts most health and welfare spending as county spending. Others might present these numbers differently. County and city expenditures correspond to statewide totals. The City and County of San Francisco is excluded from both city and county expenditures. Expenditures were adjusted for inflation using California Consumer Price Index for Urban Consumers (CPI-U) from the California Department of Finance.

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