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Perceptions of Local Fiscal Stress During a State Budget Crisis

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Supported with funding from the California State Association of Counties

December 2009

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Contents

Summary 4

Acknowledgments 5

INTRODUCTION 6

1. LOCAL FISCAL DYNAMICS IN CALIFORNIA 7
  The 2008–2009 Budget Crisis 8
  Local Linkages in the State Budget 9

2. LOCAL FISCAL ADAPTATIONS, 2008–2009 10
  The 2008–2009 Local Surveys 10
  Local Revenue Sources and Spending Categories 11
  Deteriorating Local Property Tax Bases 17

3. LOCAL REACTIONS TO FISCAL STRESS 18
  Drivers of Expenditures 20
  County and City Responses to Fiscal Stress 22
    Perceived Fiscal Stress Score 24
  Local Effects on People and Services 25
  Respondents' Open-ended Comments 26
    Counties 26
    Cities 27

CONCLUSION 29
  Adversarial Positions 30

References 31

About the Authors 35

Technical appendices to this paper are available on the PPIC website:
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Summary

City and county governments in California have been hit hard by the state's recent budgetary and economic difficulties. Although local governments suffer from the same economic downturns that affect the state, they face unique problems caused by the state itself. These include managing the results of service cuts and implementing new mandates the state has devolved down to them. Moreover, they must manage these challenges with less revenue, because to meet its own obligations, the state borrows or appropriates local funds through a variety of mechanisms.

This report details how budget troubles in Sacramento have affected local governments, using data from a survey of local officials conducted in early 2009—in the midst of one difficult budget year (2008-2009) that was followed by an even more difficult one. The goal of the survey was to reveal how local governments and officials were managing the budgetary challenges of 2008-2009 and how they planned to deal with fiscal stress that was likely to persist for some time.

Among our findings:

- Seventy-five percent of city and county survey respondents said they used hiring freezes and layoffs to cut expenditures during 2008–2009.
- Counties cut their planning and zoning department budgets by an average of about 7 percent, with the next-highest cuts in the categories of general expenditures and fire services. County coroners' offices sustained the smallest cuts in percentage terms.
- Cities cut their reserve fund contributions by almost half on average, and some cities cut their contributions entirely. Cuts in senior services were next highest, followed by streets and roads. Transit services were cut the least among cities.
- Although respondents generally did not report property tax revenue declines in the first year of the recession, these revenues began to fall in 2009–2010 as a result of the housing crisis that has lowered property values. Los Angeles County, for example, lost about $6 billion in assessed property value from 2008–2009 to 2009–2010, a 0.6% decline, according to the state's Board of Equalization.[1]

We see little light at the end of the tunnel for local governments in the short term, since cutbacks in state services are likely to continue or get worse.

[1] Los Angeles County, Office of the Assessor, *2009 Annual Report* (http://assessor.lacounty.gov/extranet/News/rollrls2009.pdf, p. 5).

Acknowledgments

This project benefited greatly from the support, advice, and encouragement of many individuals, from both the state and local levels, although the content and interpretation of survey results here is solely the responsibility of the authors. We mention foremost the staff and leadership of the California State Association of Counties (CSAC), particularly Executive Director Paul McIntosh and Legislative Representative Jean Kinney Hurst. Additionally, the League of California Cities provided staff assistance, including that of Executive Director Chris McKenzie and many others, among them Michael Coleman, principal fiscal policy advisor; Dan Carrig, legislative director; Dwight Steinbakken, deputy executive director; Ben Wong, executive director, Los Angeles County; David Willmon, Riverside County regional manager; and Amy O'Gorman, director of regional public affairs.

At the state level we benefited tremendously from the insights and advice of Peter Detwiler, chief of staff of the Senate Local Government Committee, who also provided excellent and constructive critical review of the study. Also helpful were Katie Kolitsas, consultant to the Assembly Local Government Committee, Marianne O'Malley of the Legislative Analyst's Office, and Nancy Patton, assistant executive director of the California State Mandates Commission. Our research greatly benefited from the experience and advice of Chris Hoene, manager and director of the Cities in Transition Project of the National League of Cities. We also want to thank Mayor Ronald O. Loveridge of Riverside, recently elected president of the National League of Cities, for his encouragement and help in eliciting responses from our study's localities.

Tracy Gordon, Dean Misczynski, and Lynette Ubois provided excellent and constructive critical reviews. Previous local government surveys by Chris Hoene and Mark Baldassare have informed our work. Jed Kolko served as the supervising director of this project and contributed enormously through his editorial and substantive reviews, as did Ellen Hanak, PPIC research director, in her final perusal of this manuscript. We also thank Richard Greene for editorial support.

Introduction

To understand the magnitude and importance of spending cuts in California's public sector requires a look at city and county efforts to balance their budgets. This report provides a broader-than-usual look at the local perspective to provide a more comprehensive and detailed understanding of how the state's fiscal difficulties are being managed. It seeks to uncover local fiscal details in the context of the 2008–2009 budget year, when the state was in budgetary crisis, and with the hope that such detailed understanding will contribute to finding better policy solutions.

We begin with an overview of local fiscal dynamics and include a brief review of the evolution of the constraints that now structure the state/local fiscal relationship, which is a tight one: no other state has a greater level of intergovernmental transfers from state to local governments as California has (Reschovsky, 2003).

We follow with a description of two surveys of local officials we conducted in the first half of 2009 to explore the details of local responses to the state budget crisis. We present some basic survey results—perceptions and conditions in local jurisdictions during the period before the final 2009–2010 budget was passed. We continue with a description of local revenue differences between the 2007–08 and 2008–09 fiscal years, along with a list of local budget cuts made during the latter. We introduce our composite measure of Perception of Fiscal Stress, and explore the impacts that are likely to follow from declining property assessments in the state.

Finally, we present a detailed description of local reactions to the 2009–2010 budget crisis. We conclude with an assessment of the survey findings and what they suggest for managing future state budget crises.

1. Local Fiscal Dynamics in California

Cities and counties in California continue to depend significantly on state fiscal support, but while local service demands are fixed or growing, the state's fiscal support is increasingly unstable. During economic downturns, this support diminishes at the very time local service demands increase.

California has had increasing difficulty balancing its budget in recent years. Even under relatively benign economic conditions, the process has become difficult and contentious, beset by structural constraints, increased partisan polarization, growing special interest influence, and term-limited legislators. In a weak economy, the task for state legislators has become even more difficult.

But as intractable as public finance puzzles are in Sacramento, the entire extent of the state's fiscal challenges cannot be fully appreciated without also considering the eroding revenues of California's local governments and the subsequent discordant state-local relationship. As long ago as 2001, the Senate Local Government Committee issued a report that described a state-local relationship as "out of balance" and presented a comprehensive overview of problems and proposed solutions (Carpenter, 2001).

Local jurisdictions in California have a number of long-term dependencies on state fiscal and economic policy. Some of these are tied to the general level of economic activity in the state, particularly the housing market. The recent collapse of the housing market was particularly damaging because housing development has played a critical role in the state economy's boom. One result: a very high proportion of the nation's foreclosures are in California. The state budget may affect all localities. In contrast, foreclosures and housing price declines have varied considerably across the state (Kolko, 2009). During the same period, the slowing economy was manifested partly in declining local taxable sales, which in turn led to shrinking local budgets.[2]

Counties, which deliver a host of standard municipal services such as public safety, planning, parks and recreation, and road and street maintenance, also are responsible for some state functions such as elections and tax collection, and for delivering mandated social services, including foster care, public health, and courts, jails, and probation. Among the difficulties counties face is having these responsibilities during an economic downturn, when demand for social services rises. In a typical example, caseloads in Sacramento County increased between September 2007 and September 2008—8.8 percent for CalWorks, 4.3 percent for Medi-Cal, 26.4 percent for general assistance, 19.5 percent for food stamps, and 5.8 percent for foster care

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[2] California's counties experienced a trend of reduced taxable transactions from the beginning of the current recession in late 2007. According to the most recent data from the California Board of Equalization, comparing the first quarter of 2008 to the first quarter of 2007, the per capita value of taxable transactions dropped by 5 percent. Indeed, in the first quarter of 2008, out of the state's 58 counties, 45 experienced a decline in the value of taxable transactions. The previous year, only 11 of the state's counties had declines, and in the year before that (first quarter, 2006) only four counties had declines. For some counties the plummeting economic conditions were dramatic. Riverside County, one of the hot spots in the housing meltdown, experienced a 10 percent downturn in the value of its taxable transactions, and for San Bernardino County the figure was 8 percent.

(Hubert, 2008). Among the findings of a survey of county administrators conducted by the California State Association of Counties in late 2008 were: [3]

- Rapidly escalating case numbers with fewer workers or hours.
- Greater numbers of families and individuals applying for an array of benefits who had never been in the welfare or assistance system previously who require more attention, slowing down the whole system;
- Larger numbers of individuals and families applying who are ineligible for benefits, but whose claims must be processed anyway;
- Increasing level of stress among staff.

From the perspective of local government officials, cities and counties are caught between a rock and a hard place. As with the state, they have suffered from declining economic conditions that have eroded their revenue bases. But they must also contend with attempts by the state itself to cure its fiscal infirmities with program shifts, cuts, adjustments, and deferments, as well as the devolution of responsibilities down to the local level.

The 2008–2009 Budget Crisis

The economic downturn in the state that began in late 2007 was unprecedented in the post- World War II period. It resulted in equally unprecedented budget deficits, the vast proportion of which were managed with budget cuts, including very large reductions in state support for local services and deferrals of payments to local governments. In less than a year, from September 2008 to July 2009, the state adjusted for approximately $60 billion in deficits, covering part of 2008–2009 as well as the incoming 2009–2010 fiscal year.[4] At $84.6 billion, the 2009–2010 budget was slightly above what it was in 2004–2005, about $82 billion (LAO, October, 2009), and represented a nearly 8 percent decline from the 2008–2009 budget of nearly $92 billion.

Of the $60 billion in solutions, $32.5 billion was addressed by reductions, furloughs, and the redirection funds from transportation, higher education, and local redevelopment. The rest was addressed through a variety of tactics: temporary tax increases, shifting the final state government payday of 2009–2010 into the first day of 2010–2011, selling and privatizing some state programs, and shifting state funds. These actions were partly enabled by the state invoking its fiscal emergency powers under Prop 1A (2004) [5], which permitted the state to

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[3] Based on California State Association of Counties "Client Trends Survey," December, 2008. Contact person, Jean Kinney Hurst, Legislative Director, California State Association of Counties. This survey involved responses from 37 counties.

[4] LAO (October 2009), Figure 4, which indicates that the February 2009 and July 2009 budget packages produced $59.5 billion of "solutions" to the state's structural deficit. As the LAO stated, "these solutions affected both the 2008–2009 and 2009–2010 state budgets. Of the roughly $60 billion of General Fund budget solutions adopted by the Legislature, about $15 billion (including $10 billion of spending measures and over $1 billion of new tax revenues) affected the 2008–2009 budget, and $45 billion (including $22 billion of spending measures and about $11 billion from increased taxes) affected the 2009–2010 budget.

[5] Throughout the report we refer to Proposition 1A of 2004, not to the November 2008 or May 2009 ballot measures with the same designations, which dealt with high-speed rail bonds and the size of the state's budget reserve, respectively. Adding confusion, the latter ballot measure was part of the 2009–2010 fiscal year budget agreement. Briefly, Proposition 1A placed into the state constitution the following requirements: local property taxes cannot be shifted from cities, counties, or special districts to the state; by a two-thirds vote of both the senate and assembly, property tax revenues can be reallocated among

borrow $1.9 billion from local government property taxes. A further $350 million in local-to-state shifts were scheduled for FY 2010–2011.

Local Linkages in the State Budget

A number of elements in the revised 2009–2010 budget had particular relevance for local fiscal stress. For example, the state's increasing use of deferred payments to nearly everyone, including billions of dollars to K–12 schools, created increasingly complex local cash flow management issues—since local payments for educational programs could not be deferred. Other notable state cuts included spending reductions for the Department of Corrections of nearly $1.2 billion and the prospect of having inmates released early into communities, as well as the elimination of virtually all Williamson Act funding, which was designed to help preserve prime agricultural land by compensating local governments for reduced property taxes on these lands. A number of counties had been receiving significant funding via the Williamson Act, and some facing the greatest loss of these funds simultaneously had to contend with higher-than-average unemployment and poverty.[6]

Perhaps most important for this study was the combined borrowing and shifting over a two-year period of nearly $4 billion in local funds to the state, resulting specifically from a second shift of redevelopment funds from local governments, and the suspension of Proposition 1A (2004), with the subsequent borrowing of $1.9 billion of city, county, and special district property taxes.

These funds were to be used to compensate the state's general fund for its Proposition 98 commitments for K-14 education.[7] A complex securitization program was extended, using the state's commitment to pay back the funds as a way to create a bond market for localities to secure cash while the state borrows from them. The state shifted roughly $2 billion in redevelopment funds—despite its earlier legal setback on this issue—also to manage its Proposition 98 commitments. The loss of these funds would disrupt local economic development programs and deprive communities of funds that they had planned on borrowing themselves to manage their own widespread local 2008–2009 deficits. The courts had not decided on the legality of this latest redevelopment shift as of this writing.

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cities, counties, and special districts by the state; property taxes can be borrowed by the state, limited to twice in a ten-year period, up to an 8-percent maximum; the state cannot reduce the local sales tax rate or alter the formula for its allocation; the state may not lower the Vehicle License Fee from 0.65 percent without replacing the equivalent or greater amount of funding to cities and counties; the state is permitted to borrow property tax funds upon (1) declaration of "severe fiscal hardship" by the governor; (2) two-thirds vote of both legislative houses; and (3) passage of repayment legislation requiring full repayment of the loan, with interest, within three years.

[6] Although the purposes and effects of the Williamson Act on land conservation and on prevention of premature conversion of agricultural land into urban uses are controversial, the payments have in fact been an important source of funding in some counties. The major recipients are in the Central Valley, and include Fresno, Kings, Merced, San Joaquin, and Kern Counties, which have hundreds of thousands of acres of prime agricultural land (as well as additional hundreds of thousands that are non-prime). In the case of Kern County, for example, the elimination of the Williamson Act funds cut over $3 million in agricultural preserve money (Burger, 2009).

[7] Proposition 98 was enacted in 1988 and mandates that 40 percent of California's general fund expenditures be spent on education. The provisions of Proposition 98 can be suspended with a two-thirds vote of the legislature.

2. Local Fiscal Adaptations, 2008–2009

Before 2009, counties and cities had already been making systematic cuts in services, roughly across the board and including public safety. Some services were more dramatically affected, particularly if they depended on fees coming from new development. The primary local revenue losses tended to be in sales tax revenues, due to plummeting retail and auto sales. This loss tended to affect cities more than counties and county revenues tended to be less affected initially by local revenue losses, because property tax revenues, on which counties rely more than do cities, tended to be flat. County revenue problems in 2008–2009 stemmed more from state budget cuts.

Throughout 2008–2009, cities and counties had begun making adjustments, curtailing services, raising fees, and in a few cases winning voter approval for additional revenues. Most California cities were losing revenues, largely because of declines in sales and user tax revenues and the loss of revenues associated with the turnover and development of property. Counties were also suffering losses related to local revenue sources, including sales tax declines (albeit with a much lower per capita initial base) and accelerating declines in assessed property values. But their main concerns were the dramatically escalating demands for county health and social services, along with a growing list of receivables in the form of deferred payments owed by the state, non-payments for services rendered, and mandates previously imposed as a result of even earlier state budget cuts.

The 2008–2009 Local Surveys

The major sources of data for this report are two web-based surveys of city and county government officials that were administered between mid-February and early May of 2009. One survey was directed at counties, the other at cities. The chief aim was to discover how local governments and officials were managing their budgetary challenges during the 2008–2009 fiscal year, and to characterize how they planned to deal with fiscal stress that would likely persist for some time. [8] The surveys are described in detail in Technical Appendix A.

Deploying surveys to assess perceptions of budget issues, particularly among local governments, is a conventional research strategy, and a number of such projects have been done in California and nationally (Baldassare and Hoene, 2003; Baldassare, Yaroslavsky, and Lewis, 2004; Baldassare and Hoene, 2004; Hoene and Pagano, 2006; Hoene, 2009).

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[8] Fiscal stress is not a straightforward concept. At the simplest level, fiscal stress is a gap between planned expenditures and patterns of revenue. If a county or city is experiencing a drop in revenue so that it is insufficient to cover planned expenditures, the stress results in having to cut expenditures or increase extraction of revenues. Various approaches have been used to measure related effects. The Legislative Analyst's Office (1990) defined "fiscal capacity" as the proportion of general-purpose revenues available for local purposes after accommodating state mandates. Another common measure is "tax effort": the ratio of local taxation to personal income (Deller and Maher, 2004). Other measures include "fiscal health" (the ratio of revenues to estimated needs), "fiscal strain" (the ratio of public budget to private resources), and others (Clark and Walter, 1991). It is not uncommon for researchers to build complex constructs from various sources, yielding an aggregate score or index. Our approach, described in detail in Technical Appendix D, involves soliciting the perceptions of local finance officers about various aspects of the fiscal conditions in their jurisdictions and constructing a composite scale from those reports.

The surveys used here share qualities with these other surveys, but differ in one notable respect. Standard procedure is to ask respondents to assess fiscal and economic conditions generally, while asking for only limited amounts of detailed information, because response rates on surveys are negatively affected by requests for particulars. The consistency of the information reported for such specifics can be imperfect, even with detailed instructions. However, because we wanted to collect as much concrete information as possible about city and county trends in managing cutbacks, our surveys asked respondents to provide fairly detailed data about specific revenue sources and levels, and their declines and changes.

We gathered from a significant proportion of the respondents the revenue and expenditure items we requested, although many of our respondents exercised their privilege of not filling out the fiscal detail portion of the surveys. Nevertheless, we were able to use these data to produce estimates of 2008–2009 local revenues. It should be noted that the budget figures reported in the survey are not audit-approved, and so must be viewed as tentative. However, even these provide a useful picture of the general direction that local revenues and expenditures were heading at that time. The surveys also included more standard questions about perceptions and assessments of fiscal issues.

Local Revenue Sources and Spending Categories

In this section we compare local revenue sources and spending categories for counties and cities between fiscal years 2007–2008 and 2008–2009.[9] Although the revenue sources reviewed in the following tables are slightly different for each category, they do account for about 90 percent of the revenues of both cities and counties.

As background, Table 2.1 summarizes some of the general differences between city and county revenue sources, aggregated from state controller data of 2006–2007; these general proportions have not changed substantially since then. For example, although the largest city revenue source is utility fees for water, sewer, and garbage collection, these revenues are specifically targeted to support those services. The revenues that provide cities' general discretionary funds are sales and use taxes, property taxes, business license taxes, transient occupancy (hotel bed) taxes, and utility user taxes.

[9] For a detailed, complete description of revenue and expenditure data among cities and counties refer to the annual reports published by the state controller (www.sco.ca.gov/ard_locrep_annual_financial.html).

Table 2.1
Average city and county revenue sources, 2006–2007
(%)

Revenue source	Cities	Counties
Taxes	35	26
Federal, state	9	54
Utility service charges	36	12
Use of money and property	5	2
Fines, forfeitures, and penalties	4	2
Other	11	6

NOTE: Percentages are averages. Among counties, over 86 percent of the taxes are property taxes, with just over 5 percent of tax revenue from sales taxes; among cities, only 23 percent of the taxes are property taxes, while 24 percent of tax revenue is sales tax.

SOURCE: California State Controller's Office, Cities Annual Report and Counties Annual Report (2006–07). Data exclude San Francisco, which has a unique city/county government.

For counties, the largest revenue source comes from the federal and state governments. The bulk of that goes to support health and human services, including welfare. The remaining revenue—property taxes, sales and use taxes, and vehicle license fees—are the primary sources for many county services including law enforcement or parks and recreation.

The following tables report results from our surveys. Table 2.2 reports county per capita revenues, using the main categories used in the state controller's annual reports.[10] The results confirm that funds from the state constitute the single largest category of county revenue, followed by property tax revenues and then federal revenues. By contrast, as Table 2.1 showed, total average intergovernmental funds revenue constitute less than 9 percent of all city revenue, most of it state funds. In 2006–2007, the latest year for which data are available, nearly 65 percent of all county intergovernmental funds came from the state.[11]

Table 2.2
Mean changes among reporting counties in per capita revenue sources, 2007–2008 (estimated actuals) to 2008–2009 (projected)

	Per capita amount ($)			%
Revenue Source	2007-08	2008-09	Difference	Change
Per capita prop tax revenue (N=33)	392	400	+8	2.1
Per capita sales tax revenue (N=33)	46	44	-2	-3.7
Per capita other tax revenue (N=33)	90	87	-3	-3.7
Per capita fees and service charge revenue (N=31)	157	153	-4	-2.7
Per capita state revenue (N=31)	507	540	+32	6.4
Per capita federal revenue (N=30)	336	344	+8	2.3
Total of listed revenue items (N=30)	1639	1656	+17	1.0

NOTES: The responding counties are identical for both time periods. These revenue categories capture on average about 90 percent of all county revenue sources. Results are from before the May 2009 special election.

[10] It is important to recall the caveats noted above and to view these results in terms of trends and directions, not as actual, precise budget figures.

[11] Unless otherwise indicated, all of our discussion regarding revenues and expenditures before FY 2007–2008 is based on the city and county annual reports issued by the state controller. The most recent date for the county reports is 2006–2007 and for cities, 2005–2006.

Table 2.2 also shows that for 2008–2009, reported county property tax revenues were expected to increase somewhat on average, as were per capita state and federal revenues. However, other county tax revenues and other sources of revenues (e.g., fees and fines) were expected to decline slightly in the 2008–2009 fiscal year.

Table 2.3 summarizes the per-capita levels of revenue sources for cities.

Table 2.3
Mean changes among reporting cities in per capita main revenue sources, 2007–2008 (estimated actual) to 2008–2009 (projected)

Revenue source	Per capita amount ($)		Difference	% Change
	2007–08	2008–09		
Per capita prop tax revenue (N=195)	226	228	+2	0.7
Per capita sales tax revenue (N=195)	182	182	0	0.0
Per capita other tax revenue (N=195)	164	181	+16	9.9
Per capita fees and service charge revenue (N=186)	107	98	-9	-8.3
Total of listed revenue sources (N=181)	702	717	+15	2.1

NOTES: The items listed here are, on average, about 90 percent of city revenue sources. Results are from before the May 2009 special election. The cities responding for both years are the same.

These data suggest that property tax revenues on average were expected to increase for both cities and counties in FY 2008–2009. However, as discussed below, it appears as though declining property tax assessments are likely to affect property tax revenues adversely in the coming years. Overall per capita revenues for both cities and counties were expected to rise slightly between 2007–2008 and 2008–2009.

This is not to say that counties and cities were free of fiscal stress in 2008–2009. Indeed, they were subject to deferrals and delays in repayments from the state for mandates or for the state share of services already rendered. The totals for these deferments could not be tracked in our surveys, but they were mentioned repeatedly in written survey comments and referenced by state officials in describing how they had prioritized state payments. (Of course, widespread deferral of payments to local governments is an explicit part of the state's package of deficit solutions.) These general patterns, if not the precise figures, of contrasts between county and city revenue sources are very similar to the prevailing patterns found in previous years and which were reported in state controller reports.

Table 2.4 reports counties' spending changes mid-year relative to their original budget for FY 2008–2009. The figures in the middle column are the per capita amounts that were reported as being initially budgeted while the last column is the number of responding counties in that category. For the reporting counties as a whole, general county expenditures were reduced mid-year by an average of over 5 percent.

Table 2.4
Average percent mid-year reduction for line items for responding counties, 2008–2009

	All responding counties		
Budget line item	**Avg. percent reduction**	**Avg. budget per capita**	**Number of responding counties**
Planning and zoning	7.0	$30	22
General county expenditures	5.8	$1,982	21
Fire	4.3	$99	8
Elections	3.0	$9	23
Protective inspection (including agricultural)	2.8	$26	24
Legislative and administrative	2.6	$48	25
Finance	2.3	$68	25
Health (public health, medical, mental health)	1.8	$1,065	25
Emergency services	1.7	$5	19
Recorder	1.7	$9	17
Recreation and culture	1.4	$23	23
Public works and facilities (roads, terminals)	1.3	$312	21
Detention and corrections	1.2	$137	25
Judicial (district attorney, public defender)	1.1	$102	27
Sheriff	1.1	$202	27
Public assistance and welfare	0.7	$446	25
Library	0.7	$23	20
Animal control	0.7	$9	19
General relief	0.6	$21	19
Local Agency Formation Commission	0.6	$1	18
Coroner	0.5	$4	12

NOTES: Line items correspond to selected line items from the state controller annual reports. A county must respond to two questions to be included in the pool from which averages are calculated: the initial budget, and the reduced amount for that line item. Technical Appendix C reports total responses for individual questions, so any differences between the number of responses for line items in the appendix and the number of responses in this table are due to the omission of such cases. Also, some counties responded to some but not all line items. In some cases, service provision differs. (For instance, many counties don't provide fire protection, but have either city departments or an independent county fire authority (e.g., Orange County)). Also, some counties may have declined to respond to specific line items because their budgets are not necessarily broken down according to our questionnaire and they could not allocate the necessary time to generate a description that meshed.

The reports from the counties indicate they generally cut line items for 2008–2009 across the board, with planning and zoning expenditures taking the largest hit. For all reporting counties, the average reported cut for planning and zoning was about 6.4 percent. This is perhaps not surprising, since the bulk of planning department resources are based on fees and charges associated with the business of development. As housing and construction declined, so did funds for planning and zoning. It remains to be seen what the implications of reduced planning and zoning funding might be for long-range local development planning or for local cooperation with statewide mandates such as those contained in recent climate change legislation.[12]

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[12] We do understand that permanent planning staff not funded by permit and processing fees are retained, and that this often means continuing advanced and strategic planning activity, but still it is useful to raise questions about what the spillover effects of smaller planning staff might be on localities' abilities to implement or contribute to state mandates.

Table 2.5 reports similar results for cities. As in Table 2.4, values in the middle column are 2008–2009 per capita budgeted amounts for each line item as indicated by survey respondents, while the left-hand column represents the reported mid-year percentage reductions in these amounts.

Table 2.5
Average percent mid-year reduction for line items for responding cities, 2008–2009

Budget line item	All responding cities		
	Average percent reduction	Avg. budget per capita	Number of responding cities
Contribution to reserve fund	48.1	$40	29
Senior programs	16.8	$23	52
Streets and roads	13.9	$82	88
Planning	12.5	$58	106
Library	12.1	$40	42
Homeless	11.5	$11	9
Management and administrative services	10.8	$171	117
Animal control	10.6	$6	69
Parks	10.2	$54	90
Fire and emergency medical	9.9	$157	76
Economic development (not redevelopment)	9,1	$18	49
Adult and youth recreation	8.8	$49	84
Police services	8.5	$308	116
Public works	7.9	$95	95
Water and sewer utilities	7.3	$311	49
Support of arts, culture, museums	6.9	$16	31
Transit	6.5	$73	30

NOTE: Line items correspond to selected line items from the state controller annual reports. The data need to be assessed with care, since the number of cases for each category of city size varies considerably and to some extent by line item. The differing number of cities in each category is affected the same way as explained in the preceding table.

Many of the reporting communities reduced their contributions to their budget reserve accounts by an average of more than 48 percent. This was by far the highest percentage reduction for any line item, reflecting perhaps the severity of the statewide fiscal crisis. Cities have strong commitments to preserving their reserve accounts, that is, to avoid depleting them, even while dipping into them. This view of reserve accounts may be contributing to some difficulties with the state, which might be seeing them as resources that locals ought to be using more extensively.

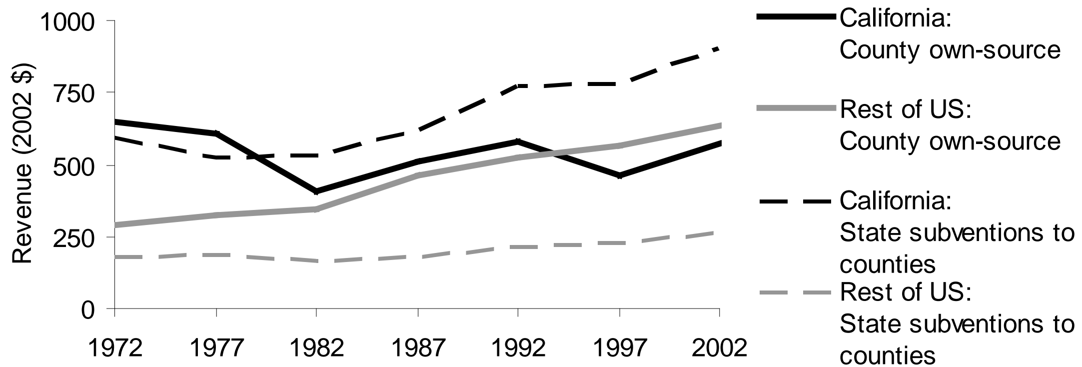
As mentioned earlier, major sources of city revenues declined substantially during 2008–09.[13] Although a handful of cities completely eliminated contributions to their reserve fund in 2008–2009, 60 percent of responding cities indicated that they had already reduced or eliminated them. Nearly half (47%) of responding cities also indicated that it was either very or somewhat likely that their city would further reduce contributions to or eliminate their reserve

[13] The exception was property tax revenues, which on average increased slightly among the reporting cities. However, property tax revenues account for less than 10 percent of all tax revenues among cities, according to the controller's 2005–06 annual report for cities.

accounts in 2009–2010. It is curious that cities are apparently cutting back more than counties in 2008–2009, even though they were expecting similar revenue changes. We have no direct data on this question, unfortunately. One possibility is that counties are far more dependent on flows from the state than are cities, and the state seemed to be increasing substantially its flow to counties during 2007–2008.

While local government revenues are not as erratic as the state's, a major wildcard for local government is the extent to which the state cuts, restricts, delays, borrows, or attempts transfers of local government funds. California counties are significantly more dependent on state assistance than counties in most other states (Barbour 2007),[14] although the overall amount of money available to California counties is higher than is available to counties elsewhere in the country (Figure 2.1). However, California counties have become increasingly obligated by the state to administer a host of services while in many other states these are shared between counties and municipalities. Counties in California are also often engaged in service contracts with municipalities, so that sheriffs, for example, act also the local police force.

Figure 2.1
Per Capita Revenue, Own-Source and from State Subventions



SOURCE: Barbour, 2007.

[14] Specifically, since the passage of Proposition 13, "California counties became more dependent on the state. Their own-source revenue plummeted from a high level to below the national average. State subventions more than made up the difference, reaching a level more than three times higher than in the rest of the nation by 2002. By then, California cities raised four-fifths of their revenue independently, but counties only about one-third. In contrast, in the rest of the nation, city and county finance was much less dissimilar, and both types of local government raised most revenue independently."

There have been repeated shifts of funds from cities and counties to pay for state reductions of support for K–14 education (Barbour, 2007), and the adjustments made by the state government have not subsequently been fully replaced.[15] (Such shifts led to the passage of Proposition 1A in 2004, which limited them.)

Deteriorating Local Property Tax Bases

In the summer of 2009, the California Board of Equalization reported that the total value of assessed property in the state fell by 2.4 percent for the first time since the Depression year 1933, from 2008–2009 to 2009–2010 (California State Board of Equalization, 2009; Yee, 2009). In Los Angeles County there was a $6 billion reduction in property assessments from the previous year. Sacramento County experienced a drop in property values of 7.2 percent, and San Diego County a drop of 2.4 percent, its first decline in 25 years. Riverside County's property value assessments dropped by about 10.5 percent, meaning that property owners there would be paying on average $1,600 less in property taxes than the previous year. The county had experienced about a 60-percent drop in the peak value of the median housing value from 2006.

Property tax revenue losses accelerated and began to weigh heavily in county budgets for 2009–2010, meaning that counties faced not only continued and increased state cutbacks but also a loss of key own-source revenue.

[15]There is universal agreement that the state has not fully compensated local governments for the state shifts of funds from them, largely to K–14 education. However, there is less agreement about the precise amounts at issue, although these are agreed to be in the billions of dollars. There is also less agreement on whether this reflects bad behavior on the part of the state. Certainly, the prevailing view of local governments is that the state is shirking its responsibility to local governments. In the words of one analyst, reporting in a League of California Cities memo, "In fiscal 2008–09, the annual impact of the ERAF shift is a shortstopping of some $7.5 billion from cities, counties, special districts and the cities those entities serve" (Coleman, 2008).

3. Local Reactions to Fiscal Stress

Going into 2008–2009, many local officials were cautiously optimistic that the worst was over, but when the fiscal year began, they found their own revenues declining more than anticipated while the state's budget cuts to localities were much greater than anticipated. Our surveys indicate that subsequent perceptions regarding the future turned gloomy. We found as well that perceptions of local fiscal stress were related to local characteristics: larger localities and places with higher concentrations of less affluent residents reported higher levels of perceived stress. To deal with this, some localities with higher concentrations of service needs were more likely to seek tax and fee increases, but on the whole most localities reported having avoided efforts to raise more revenues.

Although there are similarities between cities and counties in how they implemented cuts, there were differences that reflected their differing roles. Counties concentrated many of their cutbacks in social and human services, with cities emphasizing reductions in public works, maintenance, and personnel, although counties did these personnel and wage-related retrenchments too.[16]

Before the 2009–2010 state budget was enacted, fewer than a quarter of those who provided responses to the survey indicated that their fiscal condition—cities or counties—was poor (Table 3.1). However, these officials also indicated almost unanimously that they expected the future to be increasingly challenging.

Table 3.1
Responses to fiscal situation items

		Counties		Cities	
Rate the fiscal conditions of your county/city government today:	Fair Poor	47% 23%	(N=47)	50% 22%	(N=272)
Compared to other counties/cities, would you say fiscal conditions in your county are better?		62%	(N=47)	44%	(N=278)
Less able than last year to provide revenue for county or city services?		98%	(N=47)	90%	(N=278)
Less able NEXT year to provide revenue for county or city services?		98%	(N=47)	96%	(N=278)

NOTE: In this table, and in following tables and discussions, "N" represents the total number of responses to each individual survey question or subgroup.

We also assessed the question of how local governments viewed their fiscal position in terms of whether the findings were affected by median family income, location (coastal or

[16] A recent National League of Cities (NLC) survey (Hoene, 2009) indicates that cities nationally are responding to fiscal stress in similar ways to the California cities we surveyed. However, the NLC survey and our survey were fielded at somewhat different times: most of our respondents completed the survey by February–April 2009, whereas the national survey was conducted April-June 2009. Because the national economic situation and local fiscal context was changing rapidly over these months, we do not emphasize comparisons between these two surveys' results.

inland), and population size. There were no differences in results for counties.[17] For cities, there were no differences in ratings by 2008 median housing value, central city status, or region. However, cities below 100,000 in population were far more likely to indicate that conditions in their communities were better than others. Indeed, only about 27 percent of responding cities above 100,000 population reported that conditions in their city were better, compared to 47 percent of less populous cities.[18]

We also asked about unemployment, declining retail sales, and deteriorating housing markets as factors affecting local budgets. The results are summarized in Table 3.2. For cities, lower retail sales were the most important factor, while in counties, declines in the housing market were seen as more important.

Table 3.2
Importance of unemployment, retail sales, and housing market on local budgets

	Counties		Cities	
Higher unemployment	66[a]	(N=41)	47%	(N=212)
Lower retail sales	85	(N=41)	83	(N=213)
Housing market decline	90	(N=41)	72	(N=211)

[a] Percent saying important or very important.

Of course, large numbers of cities and counties found declining employment, sales, and housing values all to be important or very important. The modest differences in the patterns of concern are consistent with counties' greater dependence on property taxes and related revenues compared with cities greater' dependence on retail sales tax revenues.

Some of these differences did vary by key county characteristics. Higher proportions of the more populous counties were significantly more likely to say that unemployment was an important factor affecting local budgets.[19] For counties with populations of 500,000 or more, over 92 percent (12 out of the 13 such counties in our sample) responded that unemployment was important or very important, while 54 percent of those with fewer than 500,000 residents had the same response (15 of the 28 responding counties). County population was not related to county perceptions regarding the impact of retail sales or housing market declines.

Among responding cities with housing values below the state median, 60 percent of the responding cities indicated that higher unemployment was important or very important in affecting local budgets while only 35 percent of respondents from cities above the median value of housing did. Among cities with lower median housing values in 2008, 83 percent indicated that housing market declines were important or very important, while only 55 percent of cities

[17] For the counties, we created a number of dichotomous variables to cross-tabulate with a number of the survey items reported in this chapter. We classified counties in terms of whether they were above or below median family income, whether they were coastal or inland, and whether they were above or below 500,000 in population.

[18] In thinking about findings based on different categories of city size, it's worth keeping the following in mind. In California, using Department of Finance estimates, the total 2008 population of cities under 50,000 is 5.7 million, for those between 50,000 and 99,999, it is 7.5 million, and for those cities with populations of 100,000 or more the population is 18.2 million. About half of the state's total population (including those not living within incorporated municipalities) is located in cities of 100,000 or more.

[19] In the discussion we refer to significant differences based on findings that are statistically significant in cross-tabulations at the p=.05 level or less.

with higher valued housing did. Further, measures from 2000 of community status, income, and home ownership were not significantly related to judgments about the importance of housing market declines since 2007, perhaps underscoring that it is declines from peak values that contribute to perceptions of local fiscal stress. Respondents from built-out cities (those with less developable land), were slightly but significantly more likely to indicate that declining retail sales had an important or very important effect on local budgets (89 percent, compared to 82 percent of cities with more undeveloped land). Finally, among larger cities, respondents were significantly more likely to indicate that declining retail sales were very important in affecting city budgets than respondents from less populous cities (86 percent of the cities over 100,000 population, compared to 57 percent of cities under 100,000).

Drivers of Expenditures

Table 3.3 summarizes the results of survey questions about the factors in counties or cities that drive expenditures and how important they were judged as budget items. Several items were not asked of the city respondents since the nature of the county service mix, with its greater emphasis on social services, suggests that some factors that involve local spending apply to counties but not to cities.

Table 3.3
City and county expenditure drivers

Expenditure driver	Counties	Cities
Salaries	100% (N=47)	95% (N=224)
Inadequate cost of living funding from state	100% (N=40)	
Current employee pension cost	98% (N=40)	
State government mandates	95% (N=40)	65% (N=223)
Increasing caseloads (social/health)	88% (N=40)	
Financially stressed, impoverished persons	82% (N=40)	
Retiree pensions (not including health)	78% (N=40)	77% (N=223)
Aging, costly-to-maintain infrastructure	78% (N=40)	74% (N=222)
Retiree health benefits	72% (N=40)	41% (N=220)
Current employee, health benefits	69% (N=40)	91% (N=223)
Contracts (vendors; private providers)	65% (N=40)	74% (N=224)
Increasing crime rates	59% (N=40)	
Utility cost increases	50% (N=40)	53% (N=222)
Population growth	45% (N=40)	23% (N=222)
Interest on bonds issued	35% (N=40)	23% (N=219)
Materials and supplies	28% (N=40)	37% (N=223)
Short-term borrowing costs	22% (N=40)	11% (N=221)
General debt service, other than bonds	20% (N=40)	19% (N=221)

NOTE: Blank cell indicates that the item was not included on the city survey.

Given the considerable difference in the sample sizes between the counties and cities, comparisons between the two should be evaluated only with regard to general differences in emphasis and direction.

Health benefits for retired employees appear among the more important factors with the counties and seem to be a less important issue with cities. Health benefits for current

employees, on the other hand, seem considerably more important for city respondents. Employee salaries, not surprisingly, had the highest proportion of counties and cities indicating that this factor was either important or very important.

We explored some of the linkages between expenditure drivers and county and city characteristics in more depth. For example, the correlation between county median family income and several drivers was significant: Higher median family income was associated with lower importance of utility cost increases, lower importance of materials and supplies, and lower importance of population growth. We also found that within cities, the median family housing value was inversely and significantly related to the importance of population growth.

City population, moreover, seems to be significantly and positively related to a number of the key drivers of city costs: Population above 100,000 was associated with higher perceived importance of employee salaries, health benefits, retiree pensions (excluding health benefits), and retiree health benefits. Larger cities are also associated with lower importance of contract costs from private vendors, private service providers, and from services contracted with counties. This result is consistent with the tendency for most large cities to provide more of their own services while their smaller counterparts often contract with counties for such services.

Table 3.4 shows key factors that increased in importance for county officials from 2007–2008 to 2008–2009. The factors listed in this table relate to those influencing the social services or other issues that affect counties and not cities (e.g. there are no city jails, all the courts are now managed by counties). Moreover, the process of applying for lower property tax assessment has to be executed through county assessor offices. County services are more likely to undergo rapid, upward pressures as a result of the state and national economic downturn, even while county resources are being eroded by county socioeconomic conditions and state cutbacks and deferrals of payments for social services. Over 90 percent of the counties reported increases in unemployment, in applications for downward assessments of property taxes, and in larger numbers of people seeking public health and social services. A sizeable proportion of the county respondents (65%) reported increases in the number of indigent health care cases as well.

Table 3.4
Significant factors affecting demand or need for county services

Factors affecting demand or need for county services	Significant increase
Number of unemployed individuals	95% (N=41)
Applications for downward property tax assessments	93% (N=41)
Number of Individuals seeking general social and health services	93% (N=41)
Number of indigent health care cases	65% (N=40)
Number of court cases and court related costs	47% (N=38)
Number of inmates in county jails	27% (N=40)
City incorporations and annexations	9% (N=41)
Size and number of redevelopment areas in counties	7% (N=40)

It is interesting to note that we found lower county median family income associated with higher administration of justice costs. Among the 18 counties under the median income for our responding counties, 44 percent indicated that the number of inmates in county jails increased significantly and was affecting their budgets, while only 17 percent of counties with

incomes above the median reported the same. Among those counties with below-median income levels, 71 percent indicated that court cases and related court costs were affecting county budgets, while only 31 percent in the higher-income counties reported the same.

County and City Responses to Fiscal Stress

Tables 2.4 and 2.5 above describe the types of line item reductions that cities and counties were making to deal with budget difficulties in the 2008–2009 fiscal. Here we summarize various actions taken by counties and cities to deal with the fiscal problems associated with the 2008–2009 budget (Table 3.5). The actions most widely used included cutting spending for various services, eliminating unfilled positions, raising fees, imposing hiring freezes, laying off employees, and using reserves to cover shortfalls.

Table 3.5
Actions taken to deal with fiscal stress, 2008–2009

Actions taken	Counties	Cities
Cut spending for various services	93% (N=41)	81% (N=220)
Eliminated unfilled positions	85% (N=41)	60% (N=222)
Raised fees (any fee)	80% (N=41)	53% (N=220)
Imposed hiring freeze	80% (N=40)	71% (N=221)
Laid off employees	63% (N=41)	30% (N=222)
Used reserves to cover shortfalls	50% (N=40)	60% (N=222)
Reclassified open positions to lower levels	48% (N=40)	24% (N=220)
Reduced/eliminated allocation to reserve account	44% (N=41)	42% (N=220)
Implemented general, uniform cross-board cuts	39% (N=41)	37% (N=216)
Used work furloughs	29% (N=41)	14% (N=220)
Reduced benefits for new employees	29% (N=41)	15% (N=219)
Encouraged/provided incentives for early retirement	15% (N=40)	20% (N=220)
Raised taxes (any tax)	7% (N=41)	10% (N=219)
Reduced employee benefits for current employees	5% (N=41)	10% (N=220)
Reduced wages	2% (N=41)	13% (N=219)

In open-ended comments, counties and cities reported a variety of additional actions being taken. Among the most frequently mentioned were related to salary and benefits, including requests to reopen labor agreements to freeze merit, cost of living, or step salary increases; voluntary agreements to forego scheduled wage increases (for two years, in one case); and even voluntary salary decreases, to avoid layoffs. It is evident that employee benefits among cities and counties are becoming increasingly important as a possible source for cost savings. When asked whether reducing retiree benefits and costs would be controversial or very controversial, 35 percent of the cities and 41 percent of the counties indicated they would. Other actions under consideration involve reductions of part-time employees, postponement of capital projects, and severe restrictions on procurement, travel, or training activities.

It is likely that the actions taken in Table 3.5 and reported by the respondents in open-ended comments will increase in places where they have already been used and be introduced in places where they have not. Only a few jurisdictions indicated that raising taxes was an option, although a majority of counties and cities indicated that they would raise fees. Indeed,

many jurisdictions are increasingly using fees for a wider array of services, many of which are automatically raised or reviewed as the costs of their associated services increase. Other cost-saving measures mentioned by local officials included increasing shared office space, delaying purchase of new equipment or vehicles, and exploring public-private partnerships in the sale and leaseback of facilities.

Among counties and cities in our surveys, raising taxes, reducing wages, and reducing employee benefits for current employees have not yet been a frequently employed option. The survey for cities also inquired whether there were likely to be new or additional cuts among a list of items during the 2008–2009 budget year (Table 3.6). The responses were provided before the state's borrowing of local property taxes, the shift of redevelopment funds, and the imposition of new cuts. These findings indicated how seriously city officials view the prospect of further revenue deterioration.

Table 3.6
Likelihood of additional cuts or revenues in 2008–2009, cities

Local action	Very unlikely %	Somewhat unlikely %	Somewhat likely %	Very likely %	N
Impose a hiring freeze	27	9	18	46	203
Cut funding for various services	20	15	30	35	206
Use city reserves	23	15	27	34	209
Reduce/eliminate reserve account	40	13	20	27	208
Eliminate positions	34	18	24	24	208
Raise fees	38	11	29	22	210
Lay-offs	53	17	15	15	210
Furloughs	49	23	17	12	208
Encourage early retirement	49	25	15	11	206
Reduce wages	56	36	10	8	208
Reduce benefits, new employees	60	22	10	8	209
Reclassify open positions	48	24	20	7	206
Reduce benefits, current employees	59	24	12	6	209
Raising taxes	70	17	10	4	210

NOTES: Values in rows are rounded to nearest whole number and might not round to exactly 100 percent.

The survey responses indicate that raising taxes among city governments is an option being seriously considered only by a few cities. Many of the open-ended comments reveal that some cities sought to raise taxes previously and failed and some had sought increases in the previous budget year. Among our city respondents, 10 percent indicated that an effort to raise taxes was very likely, with another 4 percent indicating it was somewhat likely. Of course, more than 85 percent indicated that it was either very unlikely or somewhat unlikely.

It is worth pointing out that there is some tendency for cities that planned to seek voter support for tax and fee increases to have somewhat higher proportions of Hispanic residents, households with lower median income, higher poverty rates, and greater percentages of Democratic Party voters. Moreover, respondents in communities indicating that their com-

munity services have been seriously affected by budget cuts are more apt to say they have sought tax and fee increases or to believe that these are more likely in their cities.[20]

The surveys show that even before the state's budget crisis deepened in 2009–2010, many jurisdictions had already imposed a variety of cost-cutting actions associated with managing fiscal stress, including furloughs, layoffs, service cutbacks, and concessions from public employee labor groups. Thus, many are on the brink of having to make cuts that respondents report are likely to cause significant deterioration in services and community conditions.

Perceived Fiscal Stress Score

For our city survey we further explored some of the community and fiscal features that are related to our overall Perceived Fiscal Stress score. This is a composite measure (explained more fully in Technical Appendix D) that combines the amount of expenditure cutbacks a city has done, how severe these cuts are, and the likelihood of a range of additional cutbacks. We tested individual pair-wise correlations between the Perceived Stress score and various community characteristics.[21]

The results indicate that higher Perceived Stress scores are significantly associated with:

- Lower reliance on property tax as a percentage of total revenues;
- Higher percentage growth in total city revenues between 1990 and 2007;
- Older cities (measured by incorporation date);
- Lower median housing values (as of 2008);
- Cities over 100,000 population (as of 2007);
- Higher percentages of Democrat-registered voters (as of 2006);
- Lower median household income in 2000;
- Lower proportions of owner-occupied housing in 2000.

Cities with higher Perceived Stress scores were also more likely to be planning to ask voters for tax or fee increases.

Thus, less affluent and older cities have higher levels of perceived fiscal stress. It is perhaps a bit surprising to find that greater local dependence on property tax revenues as a percentage of total revenues is associated with reports of lower fiscal stress. Property tax revenues are not as volatile as most other sources of local revenue, and there are features of

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[20] We created several simple composite scores comprised of items in the survey to measure whether the respondent was more or less concerned about the overall cuts occurring in his or her city and how likely the respondent believed his or her city was likely to inflict more cuts. These composite measures are described in Technical Appendix D and are found to be significant, independent correlates of whether a city was seeking to raise taxes or had already sought to do so. These scores were used to develop our single, overall composite score. Given the relatively small number of counties, we were not able to replicate
a similar analysis for them.

[21] We tested individual, pair-wise correlations between the Perceived Stress score and various community characteristics. These relationships are all significant at the .05 level or less. These pair-wise statistics do not take into account multivariate comparisons, so some of these correlations do not imply causality and could be driven by other factors.

Proposition 13 which further work to smooth the growth in revenues and conversely limit the sharpness of declines. Since assessments for tax purposes are limited to 2 percent growth per year, the property tax base will likely trail considerably the actual market value of property. In California, when property values are stagnant or decline particularly after a period of sustained growth, it takes an extremely sharp decline or a sustained period of decline before market values are less than the taxable base.

Moreover, dependence on the local property tax is generally unrelated to some key fiscal measures. For example, dependence on the local property tax is not related to change in total per capita city revenue growth between 1990 and 2007 or to change in per capita total expenditures for that period. On the other hand, dependence on sales tax revenues is significantly related to lower growth in per capita expenditures or per capita total revenue growth from 1990 to 2007.

Local Effects on People and Services

We know that different city and county budgets are pressured in different ways by reductions in general categories of revenue, depending on individual community characteristics. In order to explore these differences in more detail, our surveys for both cities and counties asked: "In thinking about people, groups, areas, or services that might be adversely affected by budget cuts in your city/county, please indicate whether each of those listed will be seriously or not seriously affected." Table 3.7 summarizes the responses to these items by our city and county respondents.

Table 3.7.
Perceptions of adverse effects

People, groups, areas, or services	Counties	Cities
Health services	87%[a] (N=39)	
Low income families and individuals	80% (N=39)	
Public employees	80% (N=39)	57% (N=198)
At-risk youth	74% (N=39)	
Probationers (adult and juvenile)	74% (N=39)	
Persons needing treatment (general/criminal)	74% (N=39)	
Social services	74% (N=38)	
Capital projects	72% (N=39)	61% (N=199)
Senior citizens	64% (N=39)	15% (N=194)
Libraries	64% (N=37)	
Public facility maintenance	59% (N=39)	53% (N=198)
Parks	53% (N=38)	49% (N=191)
Cultural activities, arts (excluding libraries)	46% (N=39)	26% (N=189)
Non-criminal code enforcement (e.g., buildings)	46% (N=39)	32% (N=194)
Sheriff (county) or police (city) response times	41% (N=39)	21% (N=197)
Fire response times	25% (N=36)	14% (N=188)
Youth sports		25% (N=192)
Poorer neighborhoods		17% (N=190)

[a.] Percent seriously affected.

Note: Blank cells indicate items that were not included on the county or city survey.

Again, some items were only asked of cities or to counties, depending on the services typically provided by each. Counties are primarily charged with managing the problems of vulnerable, troubled, and distressed populations, with health care, economic and income security, probation, and substance abuse management among the problems with which all California counties must cope. That is why we did not ask cities whether their budget actions have had serious effects on health services, low-income families and individuals, at-risk youth, probationers, people needing health treatment or counseling, or social services.[22]

Respondents' Open-ended Comments

Our surveys provided evidence that the communications between state and local officials about California's budget crisis has become very contentious.

Although state officials are in very important ways constrained by institutional, political, and legal realities as they try to forge acceptable budget agreements, they are still blamed by local officials for much of what is perceived as chaotic, unpredictable, and ineffectual. When our study respondents were asked whether uncertainty over the state budget does or does not complicate local governments' ability to deliver services, their comments revealed a deep concern with the effects of the state's actions on city and county finances.

Counties

- Many county officials reported no long term strategic and financial planning; they face a constant need to re-do things after the state makes decisions. A typical sentiment:

  "It is virtually impossible to predict what the impact [of state action] will ultimately be, which leaves many of our most important budget decisions in limbo. We are not filling vacant positions, which negatively impacts our delivery of services to the public in several areas. It also impacts existing county employees who have increased workloads and concerns about the stability of their own future employment. . . . We are also unable to move forward with certain capital projects due to funding uncertainties. All of the above has a negative impact on our local economy."

- The state's inability to deliver a range of funds due to counties because of its cash-flow crisis and its need to direct funds to higher priority, constitutionally guaranteed programs has meant that money owed to counties for a variety of reasons is being deferred. In the words of a county respondent:

  "We cannot count on the state to deliver its required payments to counties on time (deferrals) and in anticipated amounts. Constant delays in finalizing state budgets as well as constant revisions mean we can't budget in areas that receive significant state aid."

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[22] Neither did we ask cities about libraries—an oversight; there is substantial city participation in the provision of library services.

- The lack of confidence in state actions is typified in this comment:

  "There is no trust in the state following through on any commitments on current programs or any future realignment deals… Thus, we are resistant to any state proposal that might improve service delivery or coordination because of no trust in state agreements."

  Or, more sarcastically,

  "We know that intelligent and creative minds are continuously at work under the Capitol dome looking for ways to shift significant revenues from the counties to the state or responsibilities from the state to the counties."

- The following comment reflects the different mix of county services and revenue flows compared to cities:

  "[State uncertainty] is the greatest single impact to managing a county, especially one that has little revenue from sales tax. Most cities have a larger share of their discretionary revenue generated by sales tax. Although, when sales are down, they are greatly impacted, they can budget, plan, and take corrective action to prepare for the reduction. When the majority of your budget is state or federal dollars, you have no chance of taking corrective action when the state doesn't pass a budget on time, when funding is deferred, when mandates are unfunded, and counties are asked to be the bank for the state."

Cities

Similarly, many city respondents report being concerned about what they consider an unstable economic and fiscal environment made worse by state policy struggles and which impedes their own strategic planning. Many city respondents also complained about delayed payments for grant money that has been diverted for state obligations that have higher constitutional priority. Although cities are far less dependent than counties on state and federal money, they have nevertheless experienced significant budget declines, and city officials worry that state actions might exacerbate their fiscal problems.

- As with counties, city respondents expressed concern about the withholding of local funds:

  "There is always a concern when the state has fiscal trouble that it will balance its budget by actions that take away local revenues."

  Or more presciently by one respondent,

  "The ongoing state budget crises hang over all of us like a dark cloud. In every budget planning scenario, we have to build in a contingency for potential state takeaways."

- City revenues had already experienced significant downturns due to declining retail sales and development activity, and many cities had implemented adjustments and reductions to services, personnel, benefits, and maintenance. There were many

concerns about possible additional state reductions to local obligations, even before those worries were made real in the final 2009–2010 budget.

“Due to the current economy, the city has experienced reduced revenue resulting in the need to cut costs through reduced staffing and services on a citywide basis. Any reductions/takeaways in the state budget will significantly impact the city’s ability to balance its budget and maintain service expectations such as public safety staff, park, and street maintenance.”

- Another respondent from one of the state’s larger cities voiced concern about deferred payments and reduced state assistance, which had caused sudden local reductions in service and enactment of higher public transportation fares:

  “Large reductions in funding of state services administered by our county stresses the county budget so much that the county looks to others, including cities, to help them with their shortfall, and state reductions to K–12 schools, our community colleges and universities reduces local payrolls, working its way through our local economy and to the city primarily in the form of reduced sales tax and property tax.”

Conclusion

Our surveys indicated that respondents who believe local budget cuts have already had serious consequences for individuals and groups report the highest levels of fiscal stress and are particularly concerned about additional local cutbacks.

Most counties in the state, particularly those with most of the population, will experience notable declines or plateaus in the assessed valuation of properties. These lowered assessments will lead ultimately to declines in county funding for services in the future.

Although cities are also likely to experience effects from the property tax declines, these effects will vary according to several factors: the degree to which the city relies on property tax revenues, the extent to which properties within the city have declined, the mix of residential and commercial properties, and the rate at which properties are reassessed downwards.[23] Because there is substantial variation within counties, the net effects on cities within given counties are complex.[24]

The local effects of state shifts of local resources also vary greatly, and it is not possible to generalize how local budgets will be reshaped in response to these cuts. Much depends on the nature and distribution of the clients for affected services, on the remaining size of local reserve accounts, and the composition of tax bases. The less dependent a jurisdiction is on the property tax base, the less of an impact borrowing from local property taxes will have.

Beyond property taxes, there are myriad cuts in state programs that are likely to affect local spending. Among the counties, the budget cutbacks are likely to strike hard particularly at human services, but also at the range of municipal services that counties provide, including streets, roads, public safety, culture, and recreation. How intensely these cuts will be felt depends considerably on local conditions—the characteristics of the population and the mix of revenue sources.

Given the uneven geographical distribution of local resources and needs, the consequences of state cuts might be very different across cities and counties. Counties with

[23] The downward assessment of properties and appeals for downward adjustments is governed under provisions of Proposition 8, which require the county assessor to enroll annually either a property's adjusted base year value (Proposition 13 value) or its current market value, whichever is less. When the current market value replaces the higher Proposition 13 value on the assessor's roll, that lower value is commonly referred to as a "Prop 8" value. Although the annual increase for a Prop 13 value is limited to no more than 2 percent, the same restriction does not apply to values adjusted under Prop 8. The market value of a Prop 8 property is reviewed annually as of January 1; the current market value must be enrolled as long as the Prop 8 value still falls below the Prop 13 value. Thus, any subsequent increase or decrease in market value is enrolled regardless of any percentage increase or decrease. When the current market value of a Prop 8 property exceeds its Prop 13 value (adjusted for inflation), the county assessor reinstates the Prop 13 value (see www.boe.ca.gov/proptaxes/faqs/caproptaxprop.htm#4).

[24] In Los Angeles County, cities like Lancaster (-15%), Palmdale (-15%), La Puente (-8%), Hawaiian Gardens (-8%), and Norwalk (-7%) saw the greatest losses. The city of Los Angeles experienced a loss of - 0.1 percent and Long Beach a decline of -3 percent. On the other hand, business and commercial hubs like Irwindale, Vernon, and the City of Industry experienced increases of 7 percent or more, while exclusive cities like Beverly Hills and Malibu increased by about 6 percent. In Riverside County, where every municipality in the county experienced a decline in property values, these ranged from -34 percent in Desert Hot Springs to -0.4 percent in Rancho Mirage. These variations illustrate how individual localities can vary widely in their response to statewide effects. These figures are taken directly from the 2009–2010 reports of the Los Angeles and Riverside County Tax Assessor's offices.

higher concentrations of unemployment or greater supplies of affordable housing are far more likely to be affected—and in ways that raise equity questions about state budget cuts. For example, if prison inmates are released early, are they more likely to appear in certain kinds of places than others? If some places have higher concentrations of children who benefited from state subsidized health insurance, will these also be the places where emergency rooms experience higher levels of stress? What if, in addition, as our data suggest, communities with a higher concentration of socially vulnerable groups and greater levels of crime, poverty, and unemployment are also places with below-average level of local resources?

Program cuts clearly have very non-neutral effects due to systematic differences among localities in the concentration of resources and needs. Should these factors have played a more important role in how the budget cuts in Sacramento have been designed? Clearly, state legislators are aware of the different circumstances in the communities, cities, and counties they represent, but it is the governor who often imposes the additional budget cuts and the governor's electorate is statewide, not local.

Adversarial Positions

Our interviews and written comments convey a clear adversarial orientation by local governments towards the state. Of course state-local relations in all states are often strained. Notwithstanding arguments over Proposition 13's benign or harmful effects on the civic, fiscal, and institutional life, since its passage in 1978, all local government in California has become more dependent and more influenced by the budget decisions of the state, raising the potential for friction. State-local antipathies seem more evident in periods of economic strain, and in this period of unrivalled economic distress in the post-World War II era, the strains are that much more apparent and evident.[25] The implications of this are not heartening. Indeed, in late 2009, local governments launched a petition drive to place yet another measure on the ballot to protect local budgets.[26]

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[25] A key event in the evolution of state-local relationships was the passage of Proposition 98 in 1988 which was advanced by teachers' organizations and school districts in the aftermath of on-going budget battles in the first half of the 1980s. The lesson was that having a constitutional protection for the revenue source of one organized interest could provide important benefits. Additionally, over time, the Proposition 98 guarantee was consistently being used by the state as a reason for shifting resources from county and city coffers to relieve the state's cost of meeting its school budget guarantees. The result was eventually Proposition 1A. The significance of Proposition 1A, however, was not simply its protections for local government revenues. As Barbour observes, "Using the initiative process to achieve their aims signaled a new approach toward the state government, one in which they act more overtly like an interest group than an intergovernmental partner. The strategy shows that they have come of age politically; they marshaled collective resources and devised a winning strategy to protect their interests" (2007: p. 26).

[26] The initiative is tentatively referred to as, "Local Taxpayer, Public Safety, and Transportation Protection Act of 2010." From the language of the initiative: "It is hereby resolved, that with approval of this ballot initiative, state politicians in Sacramento shall be prohibited from seizing, diverting, shifting, borrowing, transferring, suspending or otherwise taking or interfering with tax revenues dedicated to funding local government services or dedicated to transportation improvement projects and services" (http://ag.ca.gov/cms_attachments/initiatives/pdfs/i861_initiative_09-0064.pdf).

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