THE STATE-COUNTY FISCAL RELATIONSHIP IN CALIFORNIA

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- **Counties deliver both statewide and local services.**

  California's counties have three primary responsibilities, delegated to them by the state. First, they serve as agents of the state in administering statewide health and social services programs. Second, they carry out other designated countywide functions, including public safety, public works and elections. Third, in unincorporated areas they deliver local services that would otherwise be provided by cities (for example, policing, parks and garbage collection). About 35% of all state and local government workers in California (excluding those involved in education) are employed by counties.

- **Revenue transfers from other levels of government account for a substantial share of county budgets.**

  Almost half of county revenues come from the state and federal governments (28.8% and 19.1%, respectively). Of the revenues originating within counties, property taxes account for the largest share (20.8% of total revenues). On the expenditure side, California counties spent $56.7 billion in 2008–09, with the two largest spending categories—public protection and public assistance—each accounting for somewhat over a quarter of total county expenditures.

- **Over the years, county fiscal authority has diminished …**

  Although per capita expenditures by counties have grown (by about 10% in the past decade alone), counties have relatively little discretion over how they spend their revenues. For the most part, state and federal revenue transfers are designated for specific programs (with counties required to contribute an additional share). Moreover, Proposition 13 in 1978 led to a sharp reduction in property taxes, the primary source of discretionary county revenues. Proposition 13 not only limited property taxes; it also transferred control over their allocation to the state government—a responsibility which had earlier rested exclusively with local governments. This situation disproportionately affected certain county services, in particular those for which the counties did not receive compensatory funding from the state (for example, libraries). In addition, state allocation mechanisms do not always keep up with changing county demographics.

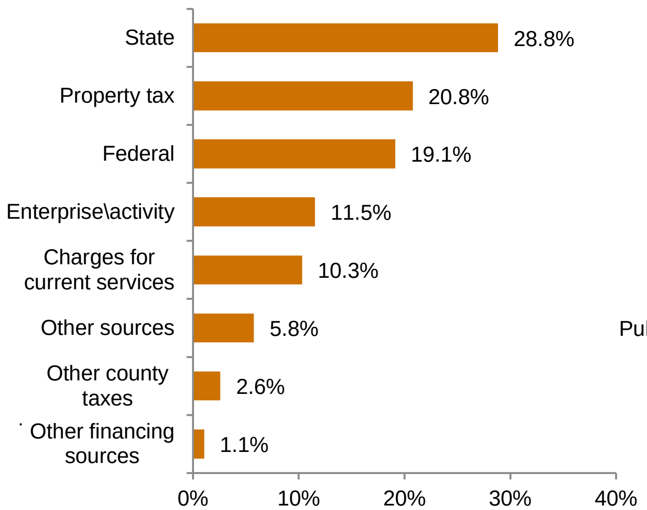
- **… while state-county fiscal relationships have become more complex.**

  Legislation subsequent to Proposition 13 provided counties with state revenue in compensation for their lost property tax revenues. Later legislation and propositions have repeatedly modified the state-local fiscal relationship. In 1991, counties gained new revenues from the state in return for taking on additional responsibilities in certain health and social services programs. However, more typical were shifts in the amounts or sources of revenues. For example, in 1993 Proposition 172 added a half cent to the sales tax to fund local public safety programs. A 2004 swap increased property tax revenues to counties and other local governments in exchange for revenue reductions from other sources. And in 2004, Proposition 1A limited the state's ability to redirect property taxes away from local governments.

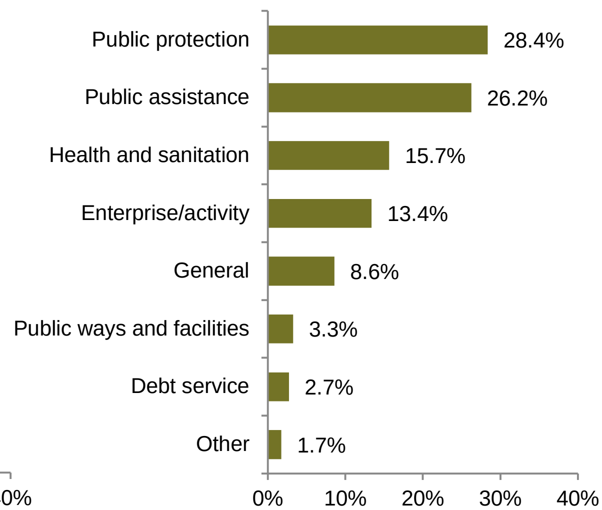
- **The state has increased county responsibility for certain programs, beginning in 2011–12.**

  The latest shift in the state-county fiscal relationship involves significant new responsibilities for the counties. The state has mandated that, beginning in October 2011, counties are to incarcerate and rehabilitate certain low-level offenders who earlier were a state responsibility. In addition, most aspects of Child Welfare Services and Adult Protective Services, as well as some mental health and drug and alcohol programs, have now become county responsibilities. The state will retain an oversight and compliance role, and counties must continue to adhere to federal law and regulations. Currently, funding for these new responsibilities is coming from dedicated portions of sales tax revenues and vehicle license fees.

About half of county revenues come from the state and federal governments

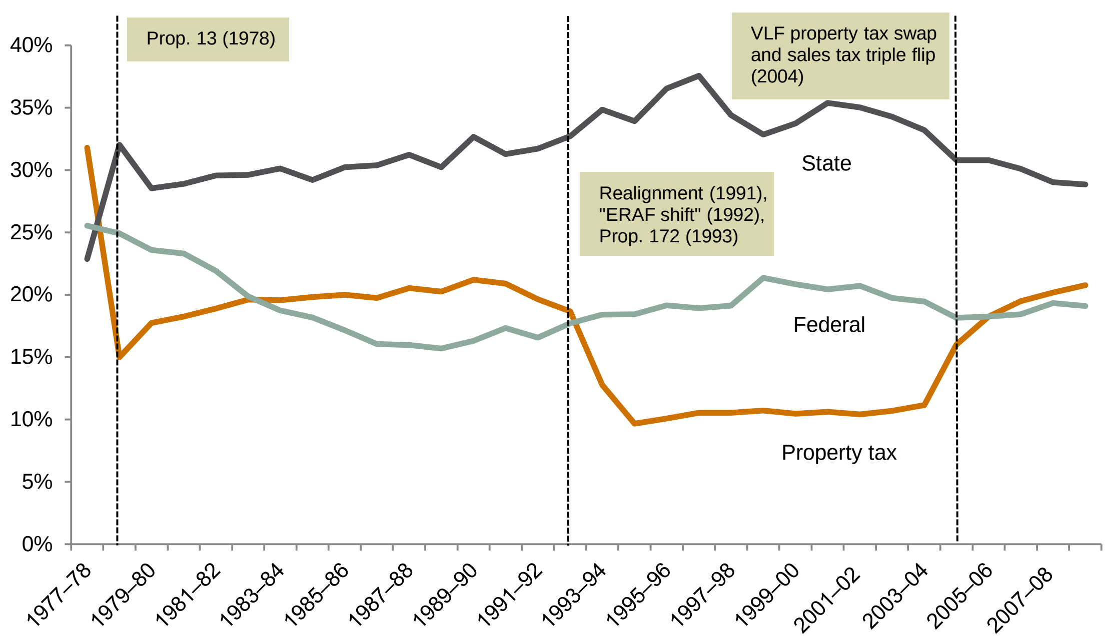


About half of county expenditures support public protection and public assistance programs



Notes: Percentages are based on 2008–09 statewide total county revenues and expenditures, excluding the City and County of San Francisco. Federal revenues include a small percentage of local intergovernmental transfers. “Other sources” includes special benefit assessments; licenses, permits, and franchises; fines, forfeitures, and penalties; revenue from the use of money and property; and miscellaneous.

County revenue sources have shifted substantially over time



Note: Only the top three county revenue sources shown.

Sources: Counties Annual Financial Reports, California State Controller’s Office; U.S. Bureau of the Census Annual Survey of Public Employment and Payroll.

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