

The Organizational and Fiscal Challenges of Providing Public Services in Los Angeles County

Los Angeles County serves more people than any other county in the nation. It includes almost ten million residents—nearly 30 percent of the state's population—and is expected to grow by another two million people over the next 20 years. Government officials in the county—as well as throughout the state—have argued that citizens' initiatives and legislative actions have severely constrained their ability to raise the revenues needed to meet the large and growing demand for public services. To determine the scope of the problem, four PPIC researchers conducted in-depth interviews with local government officials and community leaders and also did an extensive program-based analysis of the county's finances. In *Risky Business: Providing Local Public Services in Los Angeles County*, Mark Baldassare, Michael Shires, Christopher Hoene, and Aaron Koffman identify the fiscal and organizational strains involved in providing county services, describe the system for financing services at different jurisdictional levels, and suggest alternative organizational and fiscal arrangements for providing services.

Perceived Organizational Stresses

Local government in Los Angeles County includes the county government (84,000 employees in 37 departments), 88 cities, and over 200 special districts. The result is a multilevel bureaucracy that is difficult for the public to understand and access.

The connections between state revenues and local expenditures are complex, generating public uncertainty about what tax monies go to what services and confusion about which branch of government is responsible for delivering various public services.

Contract cities (i.e., cities that provide public services through contract with the county) are controversial. Some believe that the county should not be in the business of selling local services to cities. Others argue that contract city arrangements have reduced administrative overhead and service redundancies in the region.

There is a widespread recognition that county government should work more closely with cities and other local governments, the private sector, and nonprofits in providing local services.

Perceived Fiscal Strains

The county government has little control over its revenues and expenditures. In fulfilling the service needs of residents, the county has become increasingly dependent on state and federal money, which usually comes with mandates on how the money is to be spent.

Although the federal, state, and county governments are partners in providing local services, uncertainty about state and federal funding and mandates has created tensions among the various levels of government.

Health care is a chronic and unsolved problem in Los Angeles County. There was a general consensus among those interviewed that providing health care to the county's large, uninsured population is the most worrisome issue for county government.

The paucity of local revenue sources may be leading to development decisions that favor commercial growth and local sales tax dollars over housing and economic needs.

Fiscal uncertainties make long-term planning difficult. It is widely believed that county government will find itself in trouble when the economy enters the next downturn. However, the uncertain fiscal environment makes it difficult to plan for this eventuality.

The Fiscal Analysis

The researchers' analysis of the county's finances provided empirical evidence of the organizational and fiscal challenges mentioned in the interviews.

Only a small share of the county's revenues are discretionary, thus limiting the government's ability to respond to local preferences and needs. The county role as an agent of the state and federal governments dominates its activities. Maintenance of effort requirements (i.e., requiring the county to maintain a minimum level of service provision) and matching fund requirements (i.e., mandating that the county complement, by a certain percentage, the funds it receives) are good examples of how the policy choices of the state and federal governments constrain the county's ability to customize programs to better suit local needs.

Services the county provides as an agent of the state and federal government often cost more than the county receives. In fiscal year 1997–98, for example, the expenditures for health care services that the county provided in its agency role exceeded the intergovernmental revenues it received for these purposes by some \$211 million.

The absence of a portfolio of local, discretionary revenues makes county finances more vulnerable to economic shocks than other local governments' finances. The majority of the county's discretionary funds come from the property tax. Thus, the county budget is particularly susceptible to changes that unduly affect this revenue stream, such as downturns in the real estate market and state policy interventions.

Although opponents of the contract city model argue that residents countywide are subsidizing the overhead costs of providing local services through the county, the fiscal analysis indicated that this is either not the case or that there are sufficient other factors—including economies of scale—that justify the contracting of services.

Fiscal and Organizational Alternatives

There is general consensus about what the Los Angeles County government needs to do to get ready for the growth and change that will occur in the 21st century. Four particular goals emerged from the interviews and were validated by analysis of the revenue and expenditure data. The researchers endorse the goals and their importance. However, they do not endorse any of the specific suggestions mentioned in the interviews (and listed below) for arriving at these goals. Rather, they acknowledge that approaches for reaching the goals must depend on the development of a

consensus among state and local government officials, civic leaders, and residents.

1. More Fiscal Control. Suggestions from the interviews for increasing fiscal control included giving more property tax revenues to county and local governments, returning control of the property tax to local governments, earmarking a portion of the state income tax for county government, distributing sales tax revenues on a per capita basis, changing from a two-thirds majority vote requirement to a simple majority for approval of tax measures, and reducing minimum-service-level requirements placed on the county by state government.

2. Expanded Partnerships. Suggestions included increasing contract relationships with cities and the private sector—especially for providing health care services—and establishing a forum for interaction on service issues between the county, other local governments, and the private sector.

3. Greater Responsiveness. Suggestions included increasing the number of county supervisors, electing a county mayor or chief executive officer, making the budget process more understandable to noncounty officials, improving public relations, particularly with the Latino media, increasing the use of the Internet for information and services, and monitoring citizen satisfaction through public opinion surveys.

4. Increased Regional Focus. Suggestions included eliminating the county's role as a municipal service provider to unincorporated areas by encouraging annexation or incorporation of these areas, creating a municipal services district for funding and delivering services specifically for these areas, and distributing sales tax revenues on a per capita basis to make these areas more able to finance their own service provision. Other suggestions included expanding the number of locally based county offices to increase the county's presence in the region, prioritizing housing needs, providing a forum for interjurisdictional cooperation, and eliminating the county's involvement with dependent districts.

It became clear in the interviews that there is an abundance of well-considered ideas among civic and government leaders. The next task is for the state and local governments to have a serious dialogue about how to improve the county's ability to finance and provide public services.

This research brief summarizes a report by Mark Baldassare, Michael A. Shires, Christopher Hoene, and Aaron Koffman, Risky Business: Providing Local Public Services in Los Angeles County (2000, 182 pp., \$12, ISBN 1-58213-022-1). The report may be ordered by phone at (800) 232-5343 [mainland U.S.] or (415) 291-4415 [Canada, Hawaii, overseas]. A copy of the full text is also available on the Internet (www.ppic.org). The Public Policy Institute of California is a private, nonprofit organization dedicated to independent, objective, nonpartisan research on economic, social, and political issues affecting California.
