Purpose

To establish the Board of Supervisors' legislative policy regarding governance and financing of local agencies, and to provide guidance to the County's legislative representatives when advocating the County's interests to legislators, other elected officials and policy makers.

Background

The State's 58 counties provide a variety of services, from State programs (such as public health and welfare, jails, criminal justice and elections) to municipal services in the unincorporated area (such as sheriff's patrols, libraries, parks and transportation programs). In many instances, as the level of government closest to the residents, counties are the unit of government best suited to deliver these services. However, an ongoing concern is adequate funding to support these responsibilities. For counties, there is often an imbalance between responsibilities, resources and authority. Moreover, the complexity of the relationship between State and local governments often impedes accountability and can result in taxpayer confusion.

The passage of Proposition 13 in 1978 further complicated the State-local relationship by providing State government the authority to allocate property tax revenues among local governments, thereby limiting local entities' revenue raising powers. A byproduct of Proposition 13 was a shifting of power and control of local government finance from local governments to the State.

Since Proposition 13, a variety of State laws and voter-approved ballot measures have been introduced that attempted to rationalize the State-local relationship, some of which have tried to return a degree of control or enhanced funding to local governments, while others have sought to do the opposite.

In 1988, California voters enacted Proposition 98, which guarantees a minimum share (approximately 40%) of State general funds for schools. In 1991 with a multibillion dollar budget shortfall looming, the Legislature realigned the funding and responsibilities for a number of health and human service programs, including indigent health, mental health, foster care, In-Home Supportive Services and public health funding. This realignment brought some level of stability and a measure of predictability to these programs because the realigned programs were no longer subject to the vagaries of the annual State budget process. However, the realigned allocation formulas did not correct long-standing inequities in health and mental health funding. Further, program costs have historically outpaced the realignment funding sources (½ cent sales tax and Vehicle License Fee).

In 1992 and 1993, facing a $14 billion shortfall in revenue, the Legislature shifted billions of dollars in local property tax revenues to schools to meet the State's minimum funding obligation to schools under Proposition 98. The shifted property taxes went into a fund established by the Legislature called the Educational Revenue Augmentation Fund (ERAF). In 1992, to cushion the impact of the ERAF property tax shifts, the Legislature adopted a ½ cent sales and use tax dedicated to local public safety including sheriff, police, fire, county district attorneys, and corrections. The Legislature then placed Proposition 172 on the ballot, asking the voters to make the local public safety sales and use tax permanent for the same purposes. Consequently, a significant amount of general purpose revenue previously available for any governmental expenditure has been replaced with revenue dedicated for certain public safety activities. Subsequent legislation required a minimum expenditure of local general funds to maintain eligibility for Proposition 172 revenues. These property tax shifts further compounded the issues of accountability and fiscal incentives.

Beginning in 1997, counties obtained some relief with the passage of trial court funding realignment. Under this legislation, counties with a population over 300,000 – i.e., the 20 largest counties – send an annual payment to the State, which in turn combines those funds with State funds for allocation to the State's trial courts. This trial court funding "buy-out" freed-up significant county general fund monies, and made the State responsible for increases in the cost of trial court operations. Beginning in 2009, based on legislation passed in 2002, the responsibility for trial court facilities was transferred to the State. Counties now send additional fixed annual payments to the State for trial court facility maintenance and operation. However, as local fine and fee revenues initially available for these obligations decline, there is no change to these annual payment amounts.

In November 2004, voters adopted Proposition 1A, which among other things, amended the State Constitution to require the State to suspend certain State laws creating mandates in any year that the State does not fully reimburse local governments for their costs to comply with the mandates. Beginning July 1, 2005, the State is required to either fully fund each mandate, or suspend the mandate's requirements for that fiscal year. Mandates for schools, community colleges, or relating to employee rights are exempted. In addition, Proposition 1A added to the definition of a mandate the transfer of financial responsibility for a specific program in whole or in part from the State to a local government.

As part of this measure, the State permanently reduced the Vehicle License Fee from 2.0% to 0.65% of the value of the vehicle. About three-fourths of the remaining 0.65% VLF is allocated to realignment funds established in 1991 for health, mental health and social services programs managed by counties. Previously, the State was offsetting 67.5% of the tax through the State's General Fund, so the effective tax rate for local agencies remained the same. Effective 2004, the $4.1 billion in backfill revenue that the State would have given to counties and cities was eliminated and replaced with property taxes from ERAF on a dollar for dollar basis. If the amount needed for replacement of backfill exceeds the amount of ERAF in a county, the property tax revenue is diverted from the property tax allocation for K-14 education. Under Proposition 98, existing law governing school apportionments, the State General Fund must replace the property taxes diverted from K-14 education.

In 2011, a State budget plan was adopted that fundamentally realigned~~s~~ government services in California by shifting the authority and responsibility for many public safety and health and human service programs to the counties as well as the responsibility for certain criminal offenders from the State to counties. Funding for 2011 realignment came from a variety of funding mechanisms utilizing a dedicated portion of state sales tax revenue, Vehicle License Fees, and the redirection of other funds. In 2012, the voters approved Proposition 30, a constitutional amendment which requires the State to continue providing the tax revenues redirected in 2011, or equivalent funds, to local governments to pay for the transferred program responsibilities. The funding sources dedicated to 2011 realignment are subject to risks of economic downturn and may also be significantly impacted by legislative proposals for constitutional changes and by legal challenges.

It is clear that the financial relationship between the State, counties, special districts and cities is complex, confusing and dysfunctional. The responsibilities of and requirements for counties to carry out State functions can exceed available State revenue. This structure can result in State usurpation of local decision-making authority. Revenues and responsibilities are misaligned.

In addition, some are concerned that a revenue-driven bias exists in local land use planning and decision-making, and that development often pits one community against another in an effort to attract businesses that generate sales tax revenue. The connection between the type of development and potential revenue has discouraged local governments from pursuing affordable housing for those Californians in the low- to-moderate-income range. Local competition for retail and auto malls rarely balances community housing needs with the benefits of non-retail business and industry, and often exacerbates transportation and environmental problems.

Policy

The legislative policy of the Board of Supervisors regarding the governance and financing of local agencies is to:

1. Support legislation that would require the State and Federal governments to provide full funding of all costs to counties for all mandated programs, including regional services such as the administration of the property tax system and elections.

2. Support legislation that would stabilize local government financing, to increase funding to local agencies in an equitable manner, and to permit the most cost-efficient management of State-mandated programs.

3. Support legislation that would fairly allocate State resources for the purpose of funding State-required programs and local revenues.

4. Support a statutory or constitutional redistribution of property tax revenues that more equitably reflects local government responsibilities.

5. Support sales tax distribution formulas that would allocate sales tax funds based on a combination of population and situs, with sales tax growth allocated throughout the region on a per capita basis.

6. Support legislation that would "buyout" the remaining cost of trial courts for all counties.

7. Support legislation that would develop a local government finance system that would balance state, regional, and local conservation and development policies, as well as adequately finance local and regional services.

8. Support legislation that would increase the discretion of local governments to design programs and determine method of service delivery when local funds are required to match State and Federal funds.

9. Support legislation that would preserve some amount of revenue for local purposes only.

10. Support legislation that would provide local elected officials the latitude and flexibility to manage programs in the most cost-efficient manner possible when local revenue must be used to finance state-mandated programs.

11. Support legislation that would provide the same "municipal affairs/home rule" authority as currently enjoyed by charter cities.

12. Support legislation that would provide equitable apportionment at the State level between cities and counties before county-level allocations are made by revenue either point-of-origin or population basis taking into account the state-mandated regional responsibilities counties discharge in the incorporated areas.

13. Oppose legislation or regulations that would curtail the County's issuance of tax exempt financing instruments.

14. Oppose legislation that would attach conditions and penalties to allocations of State funds that lessen local decision making prerogative or control.

15. Oppose legislation that would reduce or eliminate general-purpose State subventions to counties.

16. Support constitutional protections that would provide adequate and guaranteed funding for counties for any services and responsibilities transferred from the State to counties, including but not limited to Realignment 2011.

Responsible Departments
Chief Administrative Office
Office of Strategy and Intergovernmental Affairs

Sunset Date
This policy will be reviewed for continuance by 12-31-2025.

References
Board Action 6-20-79 (12)
Board Action 5-21-80 (14)
Board Action 12-11-84 (34)
Board Action 10-31-06 (14)
Board Action 12-09-08 (33)
Board Action 11-08-11 (24)
Board Action 10-30-18 (23)
Board Action 1/12/21 (12)-Suspended