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GAO

Report to the Chairman, Committee on Finance, U.S. Senate

August 1990

DISTRESSED COMMUNITIES

Public Services Declined in California as Budget Pressures Mounted

United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division

B-236433

August 16, 1990

The Honorable Lloyd Bentsen
Chairman, Committee on Finance
United States Senate

Dear Mr. Chairman:

This report provides information you requested about the condition of basic public services in poorer California communities. It examines these conditions in the context of changing federal-local fiscal relations due to declining federal aid and the loss of general revenue sharing. This report examines local efforts to cope with existing fiscal problems and the loss of federal funds and assesses whether state policies helped to offset these circumstances. This is the second of three case studies on this subject.

Copies of this report are being sent to other congressional committees and subcommittees and other interested parties.

Please contact me if you or your staff have any questions. I may be reached on (202) 275-1655. Other major contributors to this report are listed in appendix I.

Sincerely yours,

Linda G. Morra
Director, Intergovernmental and
Management Issues

Executive Summary

Purpose

At the request of the Chairman of the Senate Committee on Finance, GAO examined the condition of local public services in poorer communities in light of recent declines in federal-local aid and the termination of general revenue sharing (GRS). GAO visited communities in three states to: examine these conditions, identify local responses to cope with them, and determine whether state policies and actions have helped to offset the negative impacts of losses in federal aid. This report is a case study of Yolo and Tehama, two of California's poorer counties.

Background

Local governments are the workhorses of domestic policy implementation. In our intergovernmental system, the federal government looks to county and municipal governments to provide basic public services, such as police, fire, and public works. Local governments also help to fulfill national domestic objectives, such as combatting drug abuse and protecting the environment. After increasing for nearly two decades, federal aid that supported these efforts declined in the 1980s. And the Congress repealed the $4.6 billion GRS program in 1986.

While GRS was a relatively small part of most local government budgets, these funds were important because—unlike most federal aid—they funded basic public services, such as police and fire protection, and supported local public infrastructure, such as schools and roads. Poorer communities received more GRS funds per capita than their wealthier neighbors.

Results in Brief

In California, poorer counties have been more adversely affected by state- and voter-imposed revenue limitations and the increased costs of state-mandated programs than other local governments. Poorer counties have a greater need for public services. At the same time, weaker local economies limited the resources that these counties had to finance public services.

In these circumstances, GRS was important to poorer counties. Unlike most intergovernmental aid, it could be used to finance a wide variety of local public services. The GRS program distributed more aid per capita to poorer California counties than to wealthier ones. As fiscal pressures mounted in the 1980s, Yolo and Tehama counties—two counties GAO visited—used their revenue sharing funds to finance basic public services, such as fire and police protection. When GRS terminated in 1986, California did not replace federal funds or take other measures to offset

these losses. Thus, although the program's expiration did not cause Yolo and Tehama's current fiscal problems, it contributed to them.

Before and after the expiration of GRS, Yolo and Tehama counties used some strategies to cope with their worsening fiscal conditions and the loss of federal aid that helped to maintain local public services. However, these efforts were insufficient. Thus, Yolo and Tehama were forced to cut programs and postpone capital investments.

Findings

Federal Aid for Local Public Services Fell in the 1980s

When domestic problems are unresolved at lower levels of government, the federal government often intervenes through financial aid and regulation. Grants-in-aid spending in the 1960s and 1970s reflected increased federal involvement in local public affairs. However, in the 1980s federalism policies changed and budget priorities shifted, causing federal aid to municipalities and counties to decline substantially. These factors also led the Congress to end the GRS program in 1986.

Voter Initiatives and State Policies Adversely Affected California Counties

Two voter initiatives passed in the late 1970s—Propositions 13 and 4—work together as a comprehensive strategy for limiting government growth in California. Proposition 13 reduced property tax revenues statewide by capping the nominal property tax rate at 1 percent of assessed valuation, by rolling back assessed values to their 1975-76 levels, and by limiting annual increases in assessed valuations to no more than 2 percent except when property is exchanged or transferred. Proposition 4 conditions increases in government spending on increases in population growth and cost of living via a statutory formula.

All local governments in California are subject to these revenue and expenditure limitations. However, counties face greater constraints than municipalities and other local governments because they rely more heavily on property taxes. State policies that work to limit sales taxes and user fees, as well as those designed to safeguard California farmlands, also constrained county revenues.

Greater relative fiscal pressures notwithstanding, counties have wider service responsibilities than other local governments. They administer state-mandated programs in welfare and criminal justice, and the local

share of these costs is growing. They also must provide such local public services as police and fire protection to unincorporated areas within their boundaries.

Poorer Counties Are at Greater Risk

All California counties have had to adjust to shrinking federal support, revenue limitations, and the rising cost of state-mandated programs. However, poorer counties have been more adversely affected. Socioeconomic indicators and other statistical evidence suggest that Yolo and Tehama have greater service needs than other counties, but fewer resources of their own. Also, voter initiatives and opposition to increased taxes, as well as state policies, limited Yolo and Tehama counties' access to local revenue sources (for example, sales and income taxes) other than property taxes. At the same time, weaker local economies depressed real property values, which, in turn, substantially reduced the rate of growth in these tax revenues in Yolo and Tehama.

Reduction and Postponement of Public Services Was the Strategy Relied on Most

Poorer governments, including Yolo and Tehama counties, have a number of coping strategies to choose from when service needs exceed revenues. These include management improvements and tax and user-fee increases. They also include cutting services and postponing capital investments. While the first two strategies help to maintain local public services, the latter two approaches reduce them. Existing fiscal problems caused both counties to implement all four strategies before 1986, and they continued to use them after GRS ended.

Yolo and Tehama improved administration and program operations to stave off cuts in public services. They also increased user fees, but gains were modest because state law limits access to these fees. Neither county raised sales taxes. Because these strategies did not overcome budget shortfalls, Yolo and Tehama were forced to cut program spending and postpone capital investments. For example, Yolo eliminated its immunization services for children aged 3 through 5. Tehama County closed four of its seven libraries and eliminated children's library educational services. Yolo doubled the expected service life of its patrol car fleet. Tehama resorted to substituting used rental cars for new patrol cars. Yolo suspended around-the-clock police patrols. Tehama's road maintenance and construction programs lapsed.

Poorer Counties Cope With Public Service Problems Largely on Their Own

General-purpose targeted state aid is not a solution to the demographic, social, or economic factors that underlie fiscal distress in poorer communities. Past GAO work, however, shows that it can help. Such aid can offset federal aid losses and help to lessen the rate of decline in public services in poorer communities.[1] In the absence of such a program, Yolo and Tehama counties and others like them must cope with their local public services problems largely on their own.

Recommendations

GAO is making no recommendations.

Agency Comments

GAO did not ask for agency comments.

[1] Distressed Communities: Public Services Declined in New Jersey Despite Targeted State Aid (GAO/HRD-90-96, July 9, 1990).

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Abbreviations

AFDC	Aid to Families With Dependent Children
GRS	general revenue sharing
SSI	Supplemental Security Income

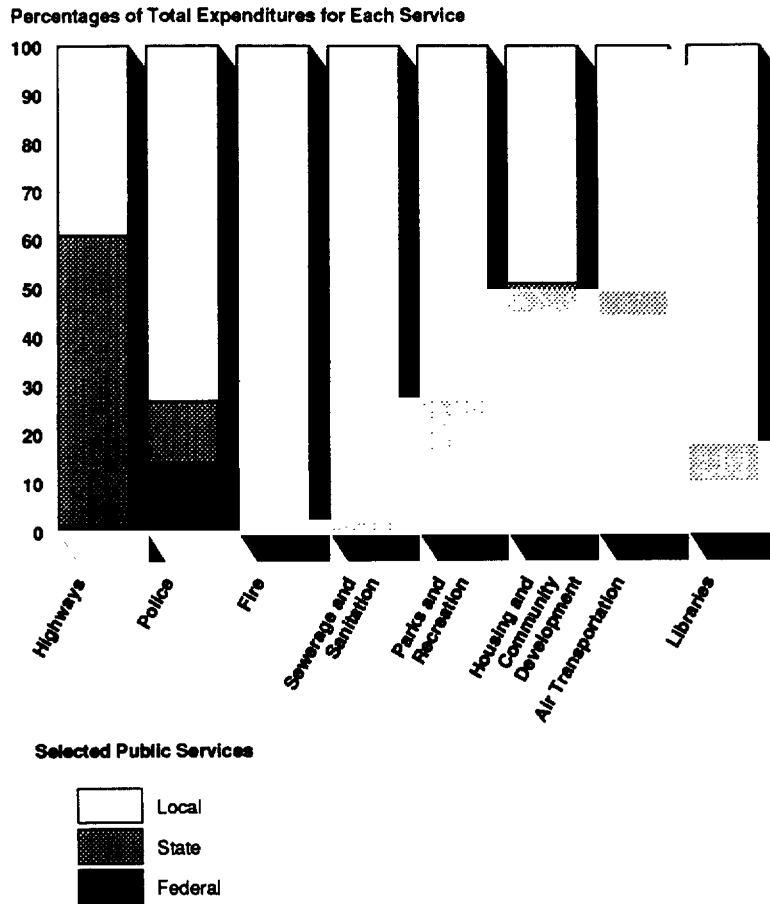
Background and Introduction

Local governments are the workhorses of domestic policy. However, they do not carry out their responsibilities alone. In our federal system of government, responsibilities are shared as well as divided. From the 1960s until the end of the 1970s, the federal government increased its activity in local public affairs, expanding the number and scope of federal grants-in-aid programs and increasing grant funding. As a result, general-purpose local governments, notably counties and municipalities, became more dependent on the federal government. In the 1980s, this trend reversed as federal aid to local governments decreased substantially. In particular, the Congress repealed the $4.6 billion-per-year general revenue sharing (GRS) program. All local governments have had to adjust to shrinking federal support. However, poorer communities have higher public service needs but fewer resources of their own, circumstances that present them with greater difficulty in absorbing federal aid cuts.

Local Governments Are Major Providers of Basic Public Services

Apart from a very few programs, such as the administration of social security, the federal government is not a direct provider of domestic public services. Instead, the vast majority of these programs are implemented through a partnership among federal, state, and local governments. In this partnership, localities are the workhorses. In 1987, local governments led in direct spending for police and fire protection, sewerage and sanitation, parks and recreation, housing and community development, air transportation, and libraries (see fig. 1.1).

Figure 1.1: Percentage of Total Direct Expenditures for Selected Public Services, by Type of Government
(FY 1987)

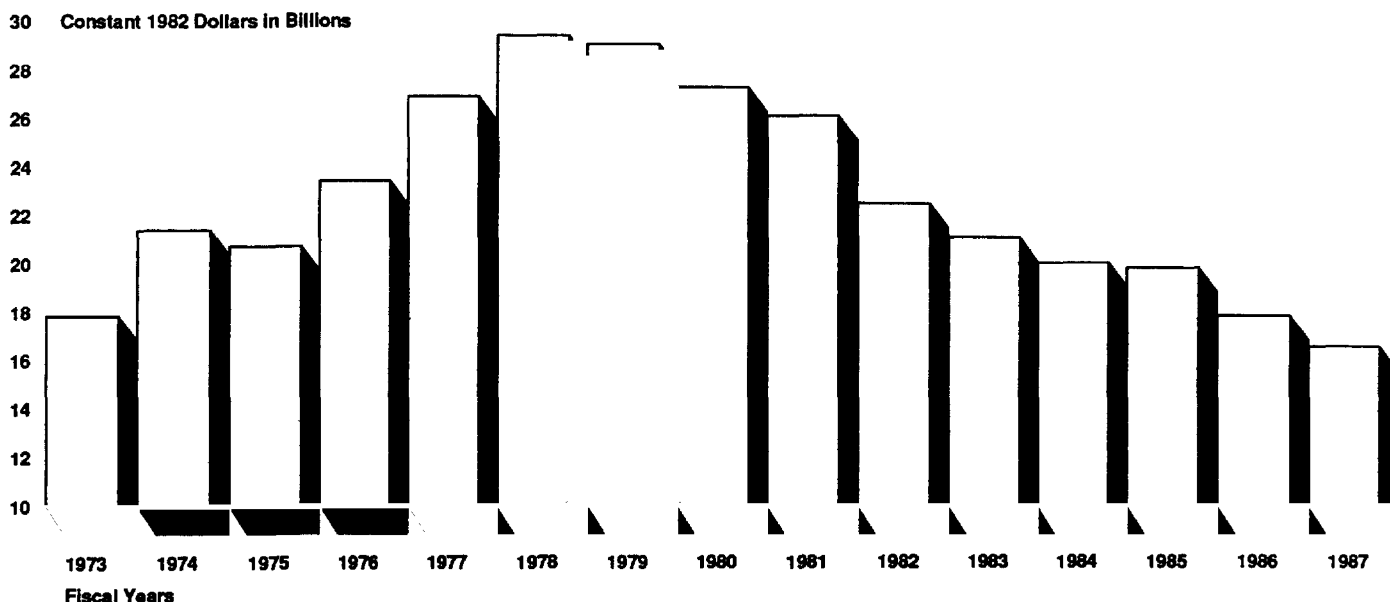


Source: GAO calculations based on Bureau of the Census, Government Finances in 1986-87

After Rising for Two Decades, Federal Aid to Local Governments Has Fallen

American public opinion often favors keeping the provision of public services close to the grassroots. Yet public opinion has also supported federal financial and regulatory intervention. Problems unresolved at lower levels of government have often spurred new federal initiatives. For example, national concern over inadequately attended urban problems led the federal government to increase its involvement in local public affairs during the 1960s and 1970s. Grants-in-aid spending reflected these increased federal commitments to localities as aid rose steadily until 1978, as figure 1.2 shows.

Figure 1.2: Trends in Federal Aid to Local Governments (1973-87)



Source: The Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federalism, 1981-82 Edition, 1988 Edition; and Bureau of the Census, Government Finances in 1986-87

In the 1980s, changing federalism policies favored an enhanced role for states in the development and implementation of intergovernmental programs. These included some that had previously been federal-local programs.[1] Additionally, federal budget priorities favored defense and entitlement spending over programs for housing, economic development, and infrastructure. Since the latter kinds of programs were predominantly federal-local, aid to localities declined between 1978 and 1986, when measured in constant dollars. As a percentage share of total municipal revenues, federal assistance dropped 55 percent from 1980 to 1987. As a percentage share of total county revenues, federal aid dropped 60 percent over the same period. As table 1.1 shows, GRS was the most visible, but by no means the only program cut.[2]

[1] Block Grants: Overview of Experience to Date and Emerging Issues (GAO/HRD-85-46, Apr. 3, 1985) and Federal-State-Local Relations: Trends of the Past Decade and Emerging Issues (GAO/HRD-90-34, Mar. 22, 1990).

[2] GRS was enacted as the State and Local Fiscal Assistance Act of 1972 and reauthorized in 1976, 1980, and 1983. It expired for states in 1980, and local governments in 1986.

Table 1.1: Per Capita Federal and State Aid to Local Governments
(Constant 1982 Dollars)

	Fiscal year		Percentage change
	1980	1987	
Direct federal aid to local governments			
Total	**$120.07**	**$67.84**	**−44**
Public welfare	1.36	1.63	20
Education	9.49	5.45	−43
General revenue sharing	25.94	8.60[a]	−67
Highways	0.68	0.97	44
Housing and community development	20.97	24.44	17
Health and hospitals	1.16	1.05	−9
Other	60.47	25.69	−58
State aid to local governments[b]			
Total	**$461.80**	**$474.93**	**3**
Public welfare	50.69	54.57	8
Education	298.25	305.38	2
Highways	23.51	22.73	−3
Health and hospitals	11.87	13.53	14
Other	77.48	78.71	2

Note: Dollar amounts are rounded. Percentage change is computed using unrounded data

[a]The last quarterly revenue sharing payment was paid in October 1986. This figure includes a few quarterly payments that some local governments received before the program expired

[b]May include federal aid passed to localities.

Sources. Aid and U.S. population from Bureau of the Census, Government Finances in 1979-80, Government Finances in 1986-87, and Statistical Abstract of the United States. The implicit price deflator for state and local government purchases of goods and services is from Bureau of Economic Analysis, Survey of Current Business.

The Rise and Demise of GRS

GRS was originally introduced as the fiscal centerpiece of the Nixon administration's "New Federalism." This sweeping presidential initiative would have nationalized welfare through the Family Assistance Plan. It would have consolidated 129 grant programs (totaling $11.3 billion) into 6 decentralized block grants. In addition, it would have created a $5 billion program of unrestricted intergovernmental aid—GRS—distributed to virtually every state and local government in the United States.

President Nixon advanced this package of general and special revenue sharing proposals during a period in which many prominent economists predicted that the federal government would soon experience large budget surpluses. However, sharing excess federal revenues was not the administration's principal aim. Rather, as the President described his intentions in the 1971 State of the Union Address:

"The time has come to reverse the flow of power and resources from the states and communities to Washington, and start power and resources flowing back from Washington to the states and communities, and, more importantly, to the people—all across America."

GRS served the aim of decentralization well because recipients were given the broadest possible latitude to determine program spending.

Despite early congressional reservations, GRS was eventually enacted as the State and Local Fiscal Assistance Act of 1972. Over its 14-year life, GRS provided over $78 billion to over 39,000 state and local governments. Populous states, such as California, received as much as $8.6 billion in total aid, while rural states, such as Wyoming, received as little as $164 million. As intended, GRS proved to be the least cumbersome and among the most popular of all federal aid programs, from the perspective of recipients.

Although President Reagan shared President Nixon's decentralization goals, he gave higher priority to federal tax cuts and reducing domestic spending than to sharing federal tax revenues with state and local governments. By 1985, mounting federal deficits convinced the administration that there were no federal revenues to share, and the Congress agreed that GRS—a nearly $5 billion line item in the federal budget—was no longer viable. Neither the House nor the Senate fiscal year 1986 budget resolutions contained GRS funding, and the program ended on schedule in 1986.

GRS Was an Important Source of Funds for Local Public Services, Yet Measuring Its Impacts Is Difficult

Virtually all evaluations of the GRS program concur that its funds were used predominantly to support local public services and capital investments. For example, according to official use reports submitted to the Department of the Treasury, GRS primarily helped to maintain or improve local public services. A Brookings Institution monitoring study identified county spending on public transportation, such as roads, highways, and mass transit subsidies, as the program category most significantly affected by GRS. Public safety (that is police, fire, and corrections) ranked next among identifiable spending categories, followed by capital spending in primary and secondary education. Among municipalities, public safety spending was most affected. Public transportation and environmental protection (that is sewerage, sanitation, and water supply) ranked next. Because funds supported essential public services and because poorer communities received relatively more funds per

capita than their wealthier neighbors, GRS was a particularly valuable resource for fiscally distressed communities.

These observations notwithstanding, precisely identifying the effects of GRS on spending priorities in the communities we visited was difficult because the GRS funds were unrestricted.[3] That is these funds could be spent for any purpose that the local government could legally spend its own revenues for, making GRS dollars virtually indistinguishable from local revenues. We can, therefore, report the impacts of GRS funds on local public services as described by local officials in the communities we visited. We cannot, however, link the loss of GRS dollars to public service problems with precision. This does not mean that general conclusions about the impact of the program's expiration cannot be drawn. While GRS was not a large part of most local government budgets, including Yolo and Tehama, losses were one factor contributing to general fiscal pressures that caused the public service problems we observed.

GRS Losses Are Especially Hard for Poorer Communities to Absorb

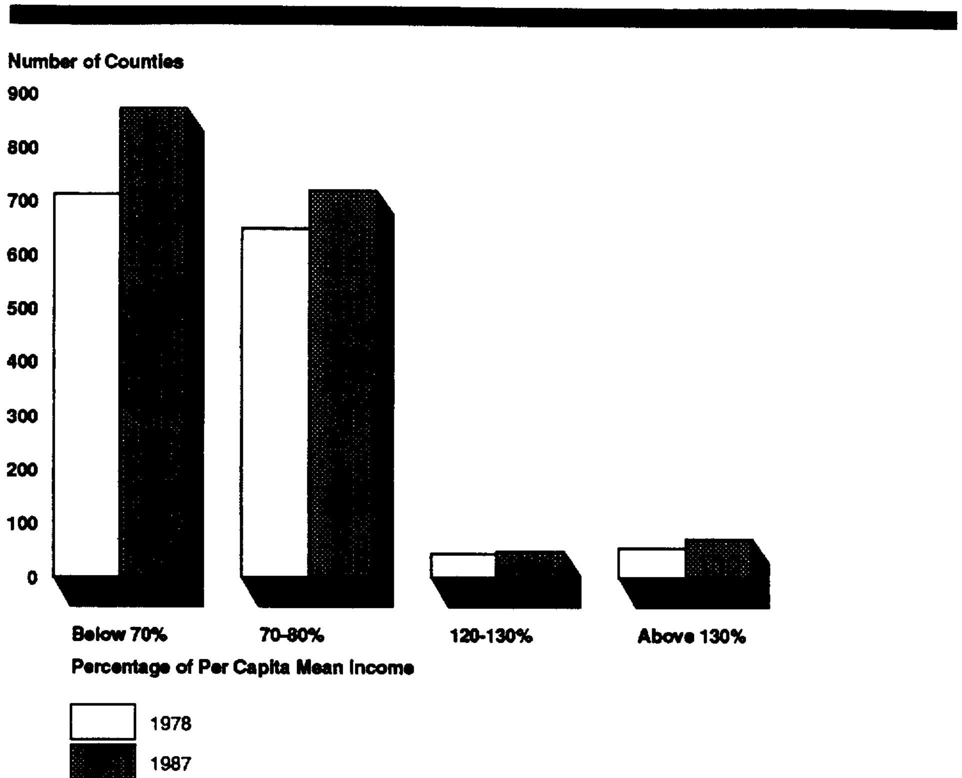
Fiscal disparities characterize the situation in which different communities must tax their citizens and businesses at different levels to obtain similar public services. Such disparities occur because neither the fiscal circumstances nor the need for public services are uniform across communities. This makes it harder for poorer communities to provide adequate public services on their own. Often communities with the greatest needs have the least resources to meet them. In poorer communities, even very high tax rates can fail to produce revenues sufficient to meet service needs. Yet when tax rates are already high relative to surrounding localities, raising them is likely to exacerbate existing problems of middle-class flight and declining business investment.

Nationwide, these kinds of needs-revenues imbalances grew over the past decade. The number of counties where per capita income was below 70 percent of the national average rose from 711 to 871 between 1978 and 1987, a 22-percent increase. (See fig. 1.3.) In contrast, the number of counties where per capita income was above 130 percent of the national average rose from 54 to 72, a 33-percent increase. Moreover, populations have become larger in both wealthier or poorer counties in the

[3]See, for example, Catherine Lovell, "Measuring the Effects of General Revenue Sharing: Some Alternative Strategies Applied to 97 Cities," Revenue Sharing, David Caputo, ed. Lexington, Mass D C Heath and Co., 1976, pp. 49-65.

United States. Proportionally, fewer people lived in middle-income counties in 1987 than in 1978.

Figure 1.3: Number of Counties Above or Below the National Per Capita Mean Income (1978 and 1987)



Source: U.S. Department of Commerce, Bureau of Economic Analysis.

State-Local Strategies to Cope With Needs-Revenues Imbalances

Like all governments, poor communities can choose from a variety of coping strategies when public service needs exceed available resources. Management improvements that deliver services more efficiently and effectively help to maintain services with less revenue. Raising taxes is another option. In poorer communities, where tax bases are weak, this strategy is not without substantial costs to residents. It also can promote middle-class flight and exacerbate declining business investment. Other strategies—especially delays in infrastructure repair or construction or budget cuts in program staff or services—can produce a decline in public services.

States can help poorer communities when local needs exceed local revenues. Because of their superior constitutional positions, states have always been an important factor in shaping local government. To varying degrees, states dictate local government structures and services, control local revenue raising, and supervise administration of local programs. States also have the power to affect equity, effectiveness, efficiency, and accountability in local government institutions and public services.

Some state policies make it more difficult for communities to meet their basic public service responsibilities. Tax and expenditure limitations can constrain service delivery by virtue of the fact that they limit available revenues. Unreimbursed state-mandated programs may also cause problems. Other state policies can help. State assumption of services lifts responsibility from the shoulders of local governments, including poorer communities. Through mandate reimbursement, states can compensate localities for the costs of oversight and administration of state regulations. Targeting reimbursements can reduce certain mandated costs that fall heavily on poorer communities.[4]

Most directly, states can help poorer communities to meet their public service responsibilities, as well as to lessen the negative impacts of declining federal aid, through their grant-in-aid systems. During the 1980s, when federal aid decreased, state aid to local governments increased—on average from $462 to $475 per capita (constant 1982 dollars). However, most of this growth was in education, health, and criminal justice programs—areas in which federal aid was not substantial compared to state aid (for example, education) or where federal aid did not decline as much (for example, health). Meanwhile, local revenue raising outpaced aggregate increases in state aid during the 1980s. Thus, in 1980, states provided 33 cents for every dollar of own-source municipal revenues. In 1987, this figure was 29 cents. Similarly, in 1980 states provided 64 cents for every dollar of county own-source revenues. Yet, in 1987, this figure was 50 cents. Other research we have done shows that, by and large, general state aid to local governments has not been

[4] Legislative Mandates: State Experiences Offer Insights for Federal Action (GAO/HRD-88-75 Sept. 27, 1988).

targeted to poorer communities.[5] Because aid is predominantly distributed on a per capita or return-to-place-of-origin basis,[6] poorer communities continued to receive less aid than their wealthier or larger neighbors during this period.

Objectives, Scope, and Methodology

Our objectives in reporting on public services in poorer communities were to determine:

- the condition of local public services in light of reductions in direct federal assistance to local governments and the expiration of GRS;
- the range of local government responses to these conditions, and
- whether state policies and actions have helped to offset public service problems.

To accomplish our first objective we reviewed trends in direct federal-local aid and drew from our earlier research on trends in the intergovernmental system. We then visited poorer communities in three states. We collected data on public services from local sources and state documents and interviewed local officials to gain insights into local trends and conditions.

To accomplish our second objective we examined local budgets and other relevant financial documents. We also spoke with public officials and others knowledgeable about the strategies that communities used to cope with their fiscal stress and declining federal aid.

To accomplish our third objective we examined state aid and other state policies to determine whether states that we visited had replaced GRS or otherwise taken steps to lessen the negative impacts of declining federal-local aid and the expiration of GRS.

We visited communities in California, New Jersey, and Texas. We selected states and chose field sites that were different along dimensions of state-local relations that we believed would help to explain variation in local public service conditions. Differences we considered included variations in the types of services provided at state versus local levels,

[5] Communities in Fiscal Distress: State Grant Targeting Provides Limited Help (GAO/HRD-90-69, Apr. 13, 1990).

[6] Transfers of state funds to local governments on a return-to-place-of-origin basis are also called "distributions on a source basis" or "shared taxes," although the latter term is sometimes used more narrowly in reference to specific portions of state taxes distributed back to the local government where the taxes were collected.

taxing and spending limitations states place on local governments, state mandating policies, and patterns of state aid to local governments. Within states, we selected communities that were among the more fiscally distressed and that had higher-than-average service needs, as indicated by socioeconomic and other statistical indicators.

This case study is on Yolo and Tehama counties, two of California's more distressed communities. (See fig. 1.4). We also visited one wealthier community in California. This visit provided a better basis for assessing conditions in poorer communities. However, because wealthier local governments were not the focus of our work, we did not include information on them in our report.

We carried out our work between September 1988 and December 1989 in accordance with generally accepted government auditing standards.

Figure 1.4: Case Study of County Governments in California

Voter Initiatives and State Mandates Strain Local Public Services in Poorer Counties in California

The passage of two voter initiatives in 1978 and 1979—Propositions 13 and 4—affected the fiscal condition of all levels of California government. However, the impact of these revenue and expenditure limitations on poorer counties in California had been especially serious.[1] Poorer counties have greater public service needs, but fewer resources of their own. In these circumstances general revenue sharing was an important source of funding for local public services, helping to finance essential programs and needed capital investments in both Yolo and Tehama counties—two poorer counties that we visited. While the expiration of GRS in 1986 did not cause Yolo's and Tehama's fiscal problems, it added to them.

Propositions 13 and 4 Limit Local Government Taxing and Spending

In the late 1970s, citizen concern about the level of taxation and government spending in California launched a grassroots political movement known as the "taxpayer revolt" and resulted in the passage of Propositions 13 and 4. These measures work together as a comprehensive strategy for constraining the growth of government in California. Proposition 13 reduced property tax revenues statewide by capping the nominal property tax rate at 1 percent of assessed valuation; rolling back assessed values to their 1975-76 levels; and by limiting annual increases in assessed valuations to no more than 2 percent, except when property is exchanged or transferred.[2] Proposition 4 conditions increases in state and local government spending on increases in population growth and the cost of living via a statutory formula.

[1] In California, municipal governments are designated cities or towns, functioning as either charter cities or general law cities. As of January 1987, there were 442 municipal governments in California. Since 1907, the state has had 58 counties, including San Francisco, which is considered to be both a city and a county. Counties are responsible for most welfare services, health and hospitals, judicial and correctional services, and numerous regulatory programs. They also offer municipal-type services, such as police, fire, and zoning, to unincorporated areas within the county.

[2] John J. Kirlin and D.R. Winkler, eds., California Policy Choices, Vol. IV (Sacramento, Calif School of Public Administration, University of Southern California, 1988).

Revenue Limitations Burdened Counties the Most

Since its passage in 1978, Proposition 13 has been especially difficult for California counties because it affected their primary and traditional revenue sources. Counties rely heavily on property taxes.[3] In contrast, municipalities have a more diverse revenue structure, including greater access to revenues from sales and other taxes and user fees. In 1978, property tax revenues comprised 67 percent of county own-source revenues, but only 33 percent of municipal own-source revenues.

Proposition 13's impact on county finances was swift and significant. Between 1978 and 1979, county property tax revenues dropped 52 percent statewide, and they remain depressed. Property taxes were 36 percent of all Yolo County revenues in 1978. They were 14 percent in 1988. Property taxes were 30 percent of these revenues in Tehama County in 1978, but 15 percent in 1988. Meanwhile, other forms of revenue raising, such as sales taxes and user fees, did not grow. These taxes and fees held at about 11 percent of total county revenues between 1978 and 1988. In contrast, they continued to rise as a share of municipal revenues, from 34 percent in 1978 to 63 percent in 1988.

County Service Responsibilities Include Some County and Municipal Functions

Counties have a wider range of service responsibilities than other local governments in California. They take primary responsibility for (1) implementing many state programs and (2)providing local public services to unincorporated areas within their jurisdictions.

Historically, California counties—like most counties in the United States—were created to serve as "administrative arms of state government." For example, they collected taxes and administered courts on behalf of the state. Current county administration of state welfare and criminal justice programs also reflects this assignment of responsibility. Additionally, counties provide an increasing variety of services traditionally considered municipal responsibilities. Countywide services include solid-waste dumps, public health, and libraries.

[3]Counties have access to the real property tax (limited by Proposition 13 as described later in this chapter) and several other taxes that generate smaller revenue amounts. These other taxes include: (1) sales and use taxes (permitted by state law up to 1.25 percent of taxable sales in unincorporated areas, (2) property transfer taxes on the sale of real property, (3) transient occupancy taxes on hotel and motel occupancy in unincorporated areas, and (4) ad valorem taxes on aircraft and timber yield. Counties can impose fees and charges for services provided, but these are limited to the costs of providing services. They also can have revenues from county-owned enterprises, such as airports, hospitals, transportation, and refuse collection and disposal.

California counties also must deliver local public services to county residents who live in unincorporated areas.[4] Notable among these are police and fire protection, land-use planning, and parks. Overall, about 20.7 percent of California's population lives outside municipal boundaries. In some counties, local public service responsibilities to serve unincorporated areas are more substantial. For example, in rural counties, such as Calavaras and Tuolumne, over 90 percent of the population lives in unincorporated areas. Thirty of California's 58 counties have more than 50 percent of their populations living in unincorporated areas.

Increasing Mandated Costs Put Extra Pressure on Local Public Services

Between 1978 and 1988, population growth, state and federal policies, and court decisions increased spending for mandated welfare and criminal justice programs by $6.5 billion in California. In the past, the state paid a large share of the costs of many of these mandated programs. Local governments paid for other essential local public services, such as police and fire protection, almost totally from their own revenues. They also paid for optional programs, such as libraries, parks, recreation, and cultural activities.

During the 1980s, in California, state aid failed to rise as fast as the costs of providing mandated services at the county level. Consequently, an increasing share of the costs of state-mandated programs fell on counties, at the same time they continued to pay for the other essential local public services. As a result, poorer counties have had difficulty keeping up. In Yolo County, some welfare caseloads have nearly doubled since 1984.[5] Between 1982 and 1986, the Tehama County Department of Social Welfare's Aid to Families With Dependent Children (AFDC) caseload increased 48 percent, but staff increased only 11 percent. As a result, the department no longer visits homes to verify information on the AFDC applications. Nor does it perform one-on-one introductory meetings with first-time recipients. Tehama County refers significantly fewer fraud cases to state agencies than it has in the past because eligibility workers do not have the time to verify the legitimacy of welfare applications or recipient status.

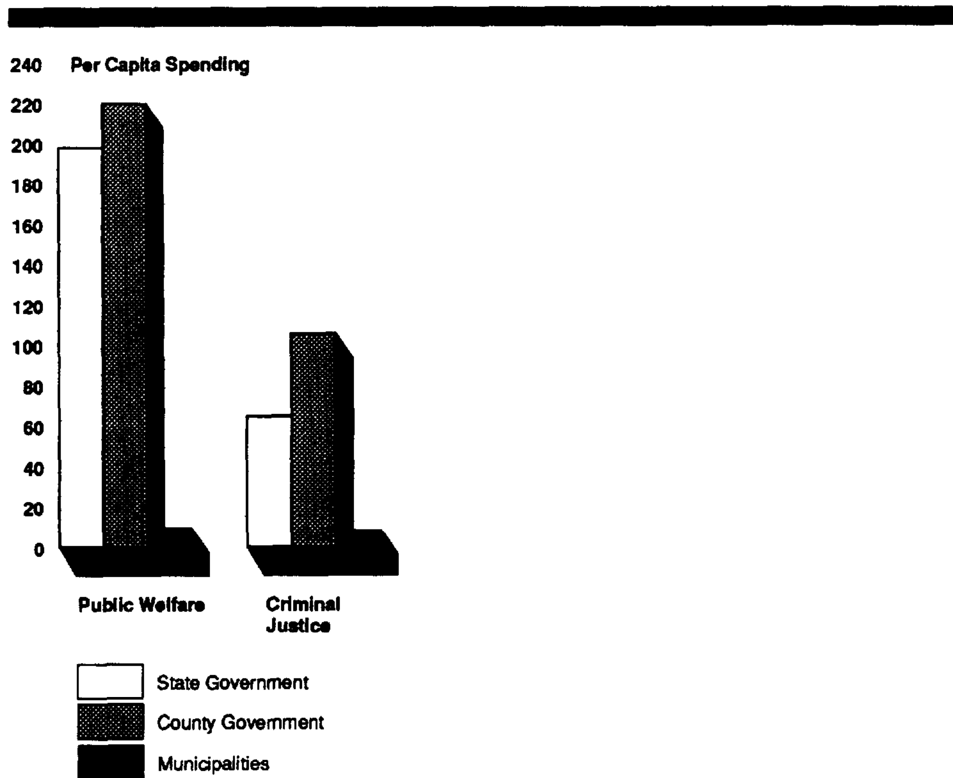
[4] Unincorporated areas are areas outside municipal boundaries, but inside county lines.

[5] These include county-administered General Assistance, MediCal, and AFDC foster care programs.

The Yolo County Public Defender's caseload has also increased faster than local resources. Between 1985 and 1988, felonies and misdemeanors increased 24 percent, resulting in an attorney-client caseload ratio of 1 to 689 in 1988. Lacking resources to prosecute many of these crimes, Yolo County resorts to more out-of-court settlements.

The growing gap between state-mandated costs and state aid has placed even greater pressure on local public services. Mandated costs must be paid first. Local public services are financed from remaining revenues. According to a 1987 survey by the County Supervisors Association of California, an estimated 85 percent of counties' locally raised revenues would be used to finance state-mandated programs. As a result of these trends, counties led both states and municipalities in per capita spending on welfare and criminal justice. (See fig. 2.1.)

Figure 2.1: California County Governments Are Major Providers of Welfare and Criminal Justice Programs



Note: San Francisco is included with municipalities. It has no overlying county government

Source: GAO calculations based on Bureau of the Census, Government Finances in 1986-87

Conditions in Yolo and Tehama Counties Make It Especially Hard to Provide Local Public Services

All counties have wrestled with the combination of revenue constraints and rising costs of state-mandated programs. Poorer counties, however, have been more adversely affected because they have greater needs, but fewer resources of their own.

Yolo and Tehama Have Greater Needs

Yolo County (1988 population of 133,500) lies in the Sacramento Valley, northeast of San Francisco. Over 70 percent of the county's acreage is farmland, and agriculture has been Yolo's economic mainstay. In 1986—the year GRS expired—37 percent of the county's population lived in unincorporated areas. Tehama County (1988 population of 46,731) is about 130 miles north of Sacramento, in the northern-most part of the Sacramento Valley. Over 60 percent of the county's acreage is farmland, and another 27 percent is government owned. Lumber and agriculture have been Tehama's economic mainstays. Sixty-two percent of Tehama residents live in unincorporated areas.

Larger-than-average unincorporated populations indicate that Yolo and Tehama counties have higher local public service responsibilities than other California counties. Socioeconomic and other indicators listed in table 2.1 show this greater need.

Table 2.1: Selected Socioeconomic Characteristics (Yolo and Tehama Counties)

	State	Tehama	Yolo
Mortality rate	7.6	10.2	6.9
Unemployment rate	5.3%	8.5%	6.6%
Violent crime rate	469	509	619
AFDC recipients	6.5%	9.8%	7.7%
Income below poverty	11.4%	12.9%	15.9%
Hispanic origin	9.5%	5.5%	17.1%
Lacking high school diploma[a]	26.5%	30.5%	26.5%
Supplemental Security Income (SSI) recipients	2.6%	3.7%	2.5%
65 years of age or older	10.2%	14.4%	8.7%

Note. Statewide data are averages except for the violent crime rate and Hispanic population, which are median values. Violent crime rate and mortality rates are expressed per 100,000 population Mortality is for 1984, unemployment for 1988, violent crime for 1985, SSI for 1986, income and poverty data based on 1979 income from the 1980 census (the latest available). All other data are for 1980

[a]Percent of population aged 25 and older with less than 12 years of education.

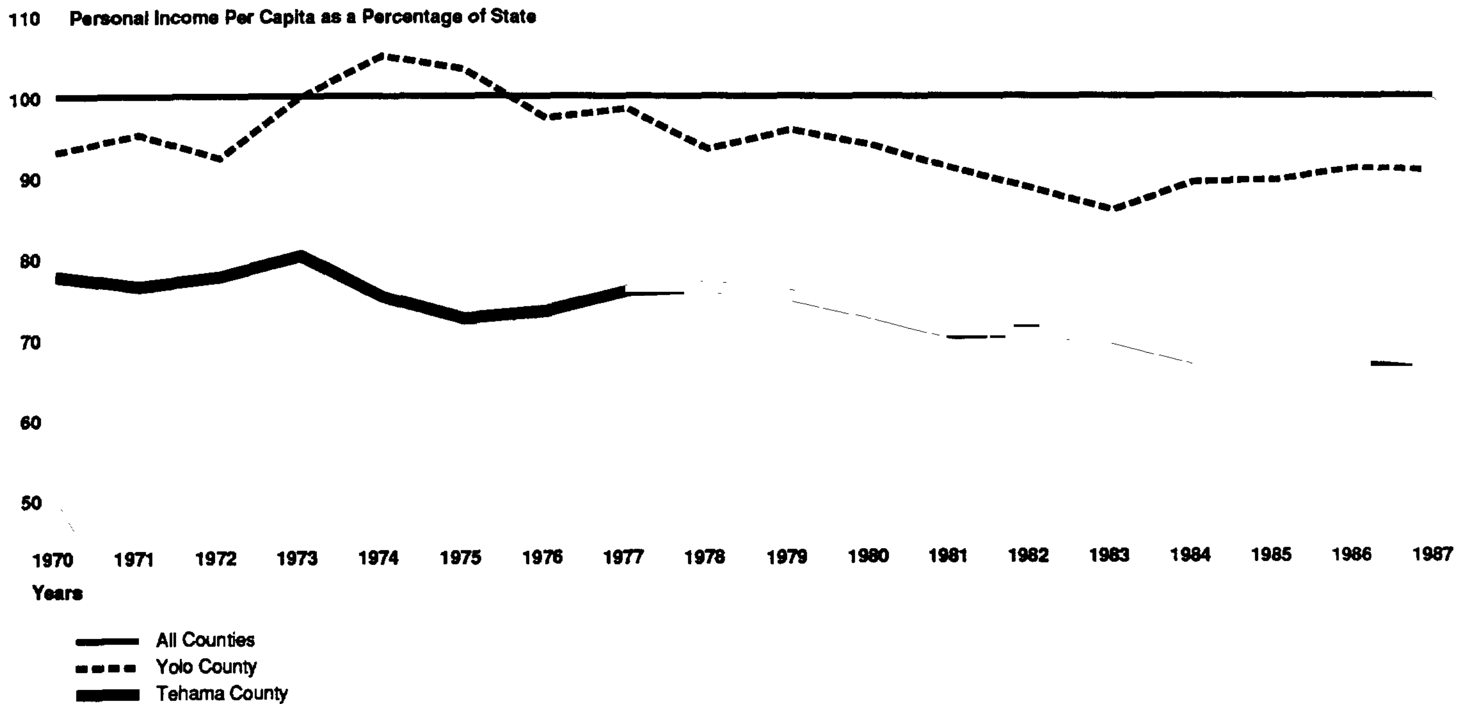
Sources: Unemployment and AFDC recipients are from state data. All other data are from Bureau of the Census, County and City Data Book, 1988 and the 1980 census

Yolo and Tehama Have Fewer Resources of Their Own

Compared to the average county in California, Yolo and Tehama are counties with fewer resources of their own. Economic growth in the two counties consistently lagged behind statewide growth in the 1980s. Weak local economies, in turn, reduced the value of resources Yolo and Tehama counties rely on.

In 1978, California per capita personal income was $9,411. In Yolo and Tehama per capita personal incomes were $8,791 and $7,184, respectively. Already in economically disadvantaged positions, the counties lost ground in the 1980s. California per capita income rose 90 percent between 1978 and 1987. Per capita income grew at a slower rate in Yolo and Tehama—63 and 84 percent, respectively. Slower growth meant that both counties lost ground relative to the state average, as figure 2.2 shows. In Tehama County, the relative decline was so substantial that, by 1987, per capita income was only 66 percent of the state average.

Figure 2.2: Income of All Counties in California, and Yolo and Tehama Counties (1970-87)



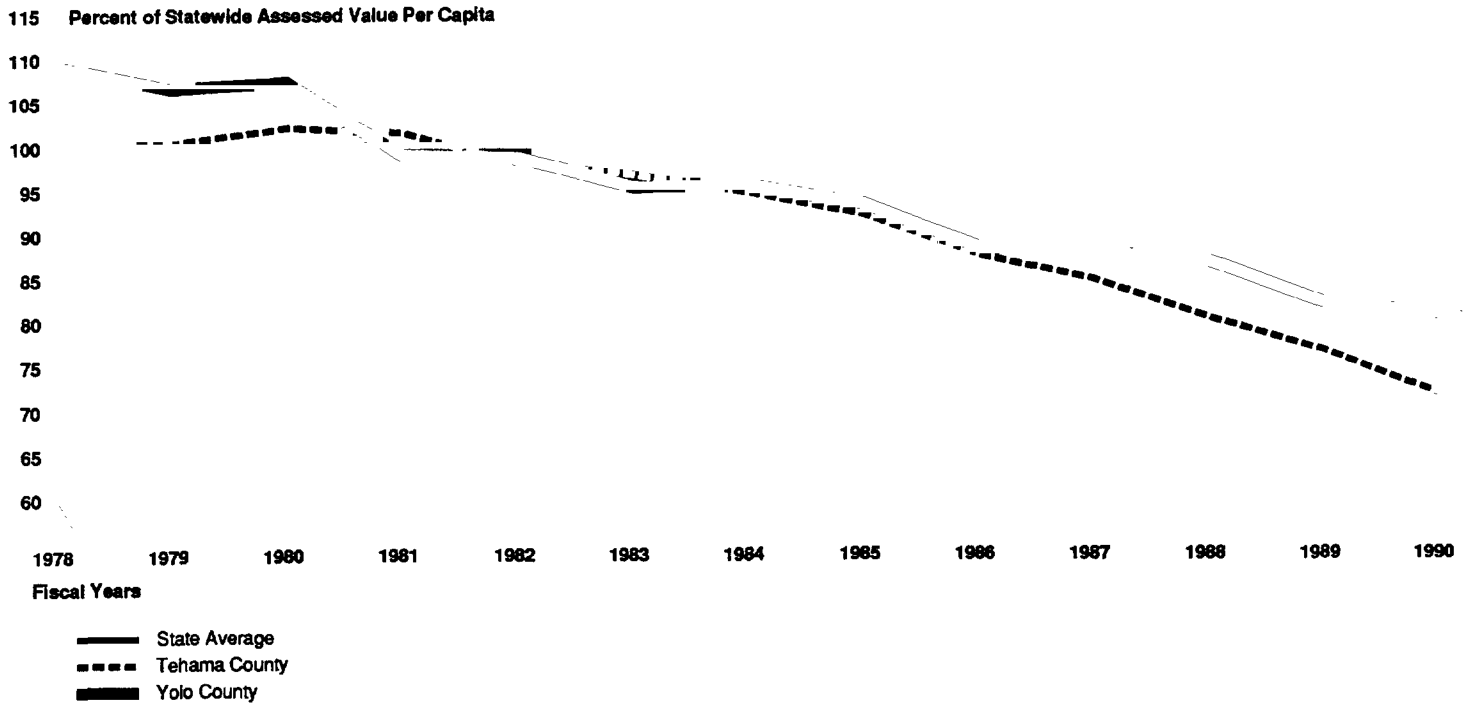
Values in the chart are expressed as a percentage of the state average. "All Counties" is the state average and equals 100.

Source U S Bureau of Economic Analysis

Property taxes are the major source of county tax revenues. Thus, lagging growth in Yolo and Tehama counties' tax bases may be even more important than their disadvantages in per capita personal income. In 1978, total assessed valuation per capita was $19,100 in California. That year Yolo and Tehama totals were similar—$20,800 and $19,100. By 1990, however, significant disparities appeared (see fig. 2.3). While the California average was $48,800, Yolo's assessed valuation per capita was $39,300. In Tehama this total was $34,900.

Lagging assessments caused property tax revenues to remain depressed. Statewide, county government property taxes per capita grew 17 percent from 1978 to 1988. Yet, they decreased by 19 percent in Yolo.[6] These revenues grew by only 6 percent in Tehama County.

Figure 2.3: Tehama and Yolo Counties Lag Behind Statewide Assessed Value Per Capita (1978-90)



Source: U.S. Bureau of the Census and the California State Board of Equalization.

[6]The incorporation in 1986 of West Sacramento in Yolo County partly explains this decrease.

Lagging property tax revenues stem mostly from economic factors and Proposition 13. However, in Yolo and Tehama counties, these statistics are also the result of state policies designed to safeguard California farmlands. In particular, the Williamson Act of 1967 prevents counties from assessing farmland at full market value. This tax subsidy is offered in exchange for owners' commitments not to develop their properties. Yet, local governments bear a financial burden as a result. Tehama County lost about $1.3 million in 1987, or about 4 percent of its budget. Similarly, Yolo lost about $2.5 million in 1988, or about 3 percent of its budget.

Revenue and Expenditure Trends Indicate That Local Public Services Are Declining

Revenue and expenditure data help to illustrate the consequences of concentrated demographic, social, and economic problems.[7] Some statistics from Yolo and Tehama Counties illustrate relative or absolute declines in local public services. For example, based on the most recent available data:

- Expressed in constant dollars, property tax revenues per capita increased 27 percent for all counties between 1981 and 1988. They decreased 8 percent in Yolo, and increased by 3 percent in Tehama.
- Average county per capita (constant dollar) spending for police and fire services in California was unchanged between 1981 and 1988. This spending, however, fell 58 percent in Yolo and 8 percent in Tehama.
- Between 1981 and 1988, per capita (constant dollar) expenditures for public ways and facilities fell an average of 12 percent among county governments statewide. Comparable data show declines of 26 and 36 percent in Yolo and Tehama counties, respectively.
- Between 1981 and 1988, per capita (constant dollar) recreation and cultural spending dropped 13 percent among counties statewide. This spending, however, fell 35 percent in Yolo and 49 percent in Tehama.
- Statewide county per capita (constant dollar) spending for library services rose 9 percent between 1981 and 1988. In Yolo spending for county libraries declined 4 percent. In Tehama it fell 57 percent.

[7]Service outputs (for example, the degree of police services provided) cannot be measured directly. Constant dollar expenditures per capita is a rough proxy for output because a wide variety of state and local policy and administrative actions change expenditures from year to year.

GRS Was an Important Funding Source for Local Public Services in Poorer Communities

As the gap between service costs and available revenues widened, all California counties grew more dependent on intergovernmental aid. As federal aid declined state aid increased. However, the loss of GRS grants was especially important in poorer counties because—unlike most state aid—funds could be used for local public services. While GRS was not adequate to solve the growing fiscal problems of counties, such as Yolo and Tehama, it helped to fund capital investments and essential services.

Shifting Aid Patterns and Growing Dependence

Constrained property tax revenues caused intergovernmental aid to rise as a share of total county revenues over the 1978-88 period. For example, in 1978 intergovernmental grants-in-aid were 47 percent of total revenues in Yolo and 54 percent in Tehama. In 1988, these percentages were 71 and 64, respectively.

Over this 10-year period federal aid declined and state aid increased in California. Thus, while state aid amounted to 47 percent of all intergovernmental aid to counties in 1978, it was 66 percent in 1988. Growing state aid did not help counties to provide all local public services, however. This was because about two-thirds of all state-county aid was restricted and could only be spent on welfare, health, and criminal justice programs.

Like most states, California does not have a program of general-purpose fiscal assistance targeted to its poorer communities. Such programs are not a solution to the demographic, social, or economic factors that underlie fiscal distress in poorer communities. Our past work, however, has shown that these programs can help. They can offset federal aid losses and help to lessen the rate of decline in public services in poorer communities.

GRS Supported Basic Programs and Capital Investments in Yolo and Tehama Counties

In its peak year, 1980, GRS provided $291 million to California counties. Statewide, county per capita revenue sharing averaged $7.93 in 1986. In contrast, poorer counties received relatively more. GRS provided $14.66 per capita in aid to Tehama County and $11.72 to Yolo. Until the program expired, Yolo County had been receiving an average of $1.8 million annually. This was 2.9 percent of total revenues and 13.4 percent of all federal aid.

How were these funds spent? Based on our interviews with local officials, it appears that the counties initially spent a large share of their

grants on discretionary programs. Later, as fiscal pressures mounted, Yolo and Tehama shifted GRS funding from these kinds of optional programs and public works improvements to needed capital investments and basic services.

In the 1970s, nationwide, most counties budgeted GRS funds to one-time capital projects. Similarly, during this period Yolo and Tehama counties reported using GRS funds on one-time or discretionary capital investments—notably jail, park, and fairground improvements. Then, in the early 1980s, Yolo and Tehama counties began to concentrate a greater share of their GRS grants on capital projects with more widespread benefits. For example, Yolo completed construction of its administration building with GRS funds. Similarly, Tehama renovated an abandoned Safeway store, transforming it into a library. From 1983 to 1986, Yolo and Tehama faced declining fiscal conditions at a time when the national economy was expanding. During this period of mounting fiscal pressures, they devoted their GRS grants to program operating costs. For example, Yolo County reported using GRS to help pay operating costs of law enforcement. Tehama County reported using it to help pay Sheriff and Sanitation Department operating costs.[8]

[8]Evaluators of GRS have identified these kinds of local capital and operating expenditures as "substitution" effects because they provide opportunities to reduce local spending, increase fund balances, and cut tax rates. However, in Yolo and Tehama counties, local public services were seriously strained, tax rates were at their legal limits, and fund balances were being drawn down.

Actions Taken by Poorer Counties Had Some Positive, but More Negative Impact on Public Services

California did not take steps to offset the loss of general revenue sharing. Nor did the state take other actions to offset existing fiscal pressures associated with Proposition 13 in poorer counties. Before and after the expiration of GRS in 1986, Yolo and Tehama counties used all four strategies described in chapter 1—improved administration, increased revenues, reductions in program spending, and postponement of capital investments—to cope with their fiscal distress and declining federal aid. Because administrative improvements and increased revenues were insufficient, the techniques Yolo and Tehama were forced to fall back on were spending cuts and postponement of capital investments.

Management Strategies Helped to Maintain Services

Yolo and Tehama counties helped to maintain existing services with less revenues by improving program administration and operations. They also drew down cash reserves to maintain existing local public service spending, but this strategy has nearly exhausted the cash reserves.

Increased Economy and Efficiency

Yolo and Tehama counties adopted cost-saving measures to promote economy and efficiency in program operations. These included substituting volunteers for paid staff, reorganizing operations, and updating communications equipment. For example:

- In Tehama, a staff of 40 volunteers now do work formerly accomplished by two full-time county library employees. According to the county librarian, even the current limited level of services could not be provided otherwise.
- In the Tehama Sheriff's Department, a volunteer staff of about 25 works in the administrative office and administers crime prevention programs.
- The Yolo County Jail saved an estimated 21 percent of its yearly operating costs by replacing deputies with civilian correctional officers.
- Yolo County outfitted its police patrol vehicles with cellular telephones and dictation equipment. Staff are thus able to remain in their vehicles, while also attending to administrative matters.
- By combining operations with three municipalities, Yolo reduced emergency dispatch operating costs 19 percent—from about $560,000 to $455,000.

Reserves Tapped and Funds Transferred

Yolo and Tehama counties drew down their reserves and general fund balances. The counties, however, have nearly exhausted this strategy. For example:

- Tehama County reduced general fund cash reserves by 98 percent between 1982 and 1988. Since 1984, the county has maintained a very small reserve of $2,000 reserve, less than 0.01 percent of Tehama's 1988 general fund budget.
- Yolo County drew down its general fund reserves by 16 percent between 1982 and 1988. In 1988, Yolo cash reserves totaled almost $2 million, or 2 percent of the general fund budget. In 1989, the county transferred about $600,000 from its capital fund to its general fund, and it drew down more than $400,000 from general reserves.

Raising Taxes and Increasing User Fees Were of Limited Help

Raising taxes and user fees can help stave off reductions in local public services. However, in Yolo and Tehama counties, voters have not been inclined to support tax increases, and increases in user fees have been modest.

Taxes Were Not Raised

In California, the statewide sales and use tax rate is 6 percent. If voters approve, however, local governments may increase these rates by up to 1.0 percent. Thus far, only 9 of 58 counties in California have gained voter approval to raise these taxes. These counties generally earmarked revenues for highway or other transportation construction, repair, or improvement projects. Neither Yolo nor Tehama County has sought a sales tax rate increase since the passage of Proposition 13.

User Fees Provided Little Help

Counties may also turn to user fees, although such fees have provided some help in Yolo and Tehama Counties, revenue increases have been modest. Further, local officials in Yolo County told us that the county is now charging the maximum fees for services permissible by law.

Yolo County added to its revenues by increasing court fees, recording fees, and road and street services. However, these are activities where service demands are modest. As a result, service fee revenues increased from a modest 2 to 5 percent as a share of total revenues between 1978 and 1988. Tehama County increased user fee revenues from 4 percent of total revenues in 1978 to 5 percent in 1988.

Yolo and Tehama Counties Cut Basic Programs and Postponed Needed Capital Investments

While Yolo and Tehama counties used management improvements and revenue raising strategies to cope with general fiscal distress and the loss of GRS, these strategies proved inadequate as budget pressures mounted. Thus, constrained revenues and mounting work loads forced both counties to rely heavily on cuts in program operations and postponement of capital investments. For example:

- Yolo County now rations low-income children's routine checkups and immunizations. In the past all children under 6 years of age received these services. Now, only children under 2 years old are served.
- In January 1983, 17 Tehama County Sheriff's deputies patrolled unincorporated areas. In January 1989, there were seven. As a result, department response times have increased, and follow-up officer visits have decreased.
- Yolo County reduced its street protection program to 1 deputy per 1,000 people in unincorporated areas. Round-the-clock patrols have been abandoned.
- The Tehama County Sheriff's Department now relies on citizen reports for crimes, such as burglaries and thefts. In the past, deputies visited the scenes of these crimes.
- Library funding in Tehama County declined 39 percent between 1983 and 1988. Between 1984 and 1986, branch libraries dropped from seven to three. The county cut library staff from 17 to 6. Service hours declined from 115 hours per week to 62. The library suspended children's programs and interlibrary loans.
- Tehama County cut routine road maintenance by 44 percent since 1988. The county deferred new road construction and equipment replacement. Yet, delay leads to deterioration, thus increasing overall costs. For example, local officials estimated that if minor road "chip" repairs cost about 50 cents per square foot within the first 5 years, then delaying maintenance could result in costs for "asphalt and concrete overlay" of $1 per square foot. Further delay could require reconstructing entire road surfaces at a cost of $5 per square foot.
- Between 1982 and 1988, Yolo County cut equipment and vehicle purchases 56 percent. The department used to replace patrol cars after 80,000 miles. Now cars are driven for as many as 160,000 miles. In 1988, the department purchased 3 new cars, although it needed 15.
- Tehama County patrol cars are now driven as many as 120,000 miles. In 1988, the Sheriff's Department could only afford to replace six vehicles with used rental cars.
- Lacking office and storage space, the Tehama County Department of Social Welfare now stores confidential files in boxes on the floor. Some employees work in hallways.

- The Yolo County Social Services Department has also deferred building repairs and modifications. Dilapidated office space remains vacant, while staff are crowded into existing space. Files are stacked in public corridors.

Yolo and Tehama Rationed Mandated Program Services

Welfare and criminal justice programs are mandated by the state. However, because Yolo and Tehama cannot meet the demand for these services, they have begun to ration them. Some rationing has communitywide consequences. For example:

- Tehama's Probation Department caseload increased 68 percent—from 102 probationers per officer in 1984 to 171 in 1989. As a result, 72 percent of all probationers—a percentage that includes drug dealers, child abusers, and burglars—meet with probation officers only once per 3-month period.
- Yolo County's Teen Parent Program has a waiting list of 20. Although this service became a state-funded program 3 years ago, demand exceeds state funding. County funds are not available to meet the need for an additional public health nurse for the program.
- Yolo County is under a federal court order to eliminate overcrowding in its jails. The county responded by creating an early release program. From August to October 1987, 76 prisoners were released under this program, including burglars and drug offenders.
- Tehama County Jail is also overcrowded. At the time of our visit, each of the jail's 82 beds and 24 portable cots all were occupied, and another 10 inmates slept on the floor. The county paid a neighboring county jail to house 31 more inmates.

Conclusions

Voter initiatives, state policies, and weak local economies caused most of the fiscal and public service problems we observed in Yolo and Tehama counties, although the loss of GRS contributed. The state did not take steps to offset the loss of federal aid in poorer communities, nor did it take other steps to lessen fiscal stress associated with Proposition 13. Therefore, California counties, such as Yolo and Tehama, must cope with their public service problems largely on their own. Both communities improved program administration and operations in an attempt to maintain local public services with less revenues, before and after GRS expired. However, the counties did not raise tax rates, and increasing

user fees provided little help. Because management and revenue strategies were insufficient, Yolo and Tehama counties were forced to cut programs and postpone capital investments to cope with their fiscal distress.

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