

# Financing County Services

## **Section 1: GENERAL PRINCIPLES**

California counties are the unit of government best suited to deliver public assistance, public protection, and some public works services, but counties have limited ability to adequately finance these responsibilities. In order to meet their unique community needs, counties must be given greater financial independence from the state and federal budget processes. Counties will seek a level of financial independence that provides for the conduct of governmental programs and services, especially discretionary programs and services, at an adequate level.

## **Section 2: STATE POLICY OBJECTIVES**

### **A. Program Realignment**

Reform of county finances need to involve agreement between the State and the counties on a realignment of responsibilities to provide social services, income maintenance, health care, and justice services. Counties should be given realistic and adequate revenue sources to pay for program and service responsibilities.

### **B. Financial Independence**

Counties do not have the financial resources to operate state programs and meet local needs or the ability to predict service levels beyond each legislative session. The state government and the people of California should provide counties with the following:

1. Additional property tax revenues to provide critical county services. Property tax revenues are the most stable of local revenues and thus offer the predictability counties require to efficiently administer services to California citizens.
2. Enhanced local revenue generating authority to respond to unique circumstances in each county to provide needed infrastructure and county services. Any revenue raising actions that require approval by the electorate should require a simple majority vote.
3. An absolute guarantee that reimbursements and subventions are paid promptly, with the payment of interest to counties when prompt payment is not made.
4. The ability to adjust fees, assessments, or charges to cover the full costs of services.

Additionally, counties strongly support the provisions of Proposition 1A. Passed in 2004, this measure provided constitutional protection of local governments' property tax, sales tax, and Vehicle License Fee revenues, as well as requiring the Legislature to fully fund or suspend reimbursable local mandates. However, counties continue to advocate for:

1. Constitutional protection of all local revenues.

2. An absolute guarantee that the state will appropriate sufficient funds prior to requiring counties to provide new or increased services.
3. An absolute guarantee that programs and services, funded in whole or in part by the state, will annually receive full adjustments for inflation to the corresponding state appropriation and will be adjusted annually for population changes to the extent that such changes are a factor in increased costs.

### **C. Existing Revenue Sources**

The state should recognize that property tax revenues are a significant source of county discretionary funds. Counties oppose erosion of the property tax base through unreimbursed exemptions to property taxes. Any subventions to counties that are based upon property tax losses through state action should annually be adjusted for inflation.

The state should recognize that counties incur significant costs in administering the property tax system and in maintaining financial records for other government entities and jurisdictions. Counties should receive full reimbursement for actual administrative costs prior to the distribution of property tax proceeds.

In 1991, the state and counties entered into a new fiscal relationship known as realignment. Realignment affects health, mental health, and social services programs and their funding. The state transferred control of certain programs to counties, altered program cost-sharing ratios, and provided counties with dedicated tax revenues from the sales tax and vehicle license fee to pay for these changes. Counties support full continuation of all dedicated realignment revenues.

Counties support the provisions of revenue neutrality and encourage enhancements and improvements to new city incorporation law. Property tax transfers resulting from municipal incorporations should be generally negotiated.

Any distribution formula for new sales tax revenue growth should not be limited to a situs-only distribution. Other options for distribution of new sales tax revenue growth should be fully explored. Also, counties oppose unreimbursed sales tax exemptions made by the state.

### **D. Efficient Government**

The state must facilitate the efficient use of taxpayers' dollars by:

1. Streamlining or eliminating unnecessary planning, reporting, and administrative requirements in state-county partnership programs.
2. Reducing or eliminating regulations that seek to control the implementation of state-mandated programs and services.
3. Granting counties greater authority to manage county programs in a more efficient and effective manner.
4. Encouraging all units of local government to develop cost-effective service delivery systems.

5. Allowing counties to use the least costly methods of providing services while meeting operational needs.

### **E. Equal Treatment**

The allocation of new financial resources or needed reductions should treat all counties equally, based on service needs.

There should be ongoing efforts to discuss and negotiate equitable resolutions of conflicts between counties and other units of local government.

### **F. Property Tax Equity**

The passage of Proposition 13 and implementing legislative and judicial decisions have eliminated most connections between the payment of property taxes and the benefits received by the individual or business property taxpayer. Efforts must be made to restore the basic principles of American public finance to the property tax system.

### **G. Master Settlement Agreement**

Under the terms of a Memorandum of Understanding (MOU) with the state, California counties receive forty percent of proceeds from the Master Settlement Agreement between the tobacco industry and a number of states. The MOU specifies that these funds are discretionary. Counties oppose any effort to diminish their share of the tobacco settlement or to impose restrictions on its expenditure. Additionally, counties oppose any effort to lower or eliminate the state's support for programs with the expectation that counties will backfill the loss with tobacco settlement revenue.

## **Section 3: FEDERAL POLICY OBJECTIVES**

### **A. Basic Service Levels**

The federal government should finance a basic level of health, social service, and income maintenance services, including resultant county administrative costs. It must provide flexibility to adjust to local needs and circumstances and it must provide for long-term program planning and program stability.

### **B. Adequately Finance Specific Program Objectives**

Federal efforts to address certain domestic needs as partners with counties must adequately provide for county administrative costs, provide flexibility to adjust to local needs and circumstances, provide for long-term program planning, and provide for program stability.

### **C. Shared Revenues**

The federal government should continue to share the benefits of its greater and more equitable taxing ability with state and local government in a non-restrictive manner. When possible, the shared revenues should be provided in the form of block grants.

### **D. Encourage Public Investment**

The maintenance and development of state and local infrastructure must be facilitated with federal tax exemptions for state and municipal debt and by special taxing and expenditure programs to meet priority needs.

#### **E. Payments In Lieu Of Taxes**

Payments in lieu of taxes (PILT) should be made in full whenever the federal government removes or withholds otherwise productive property from the property tax rolls. PILT payments should receive full cost of living adjustments annually.

#### **F. Taxation Of Remote Sales**

The federal government should endeavor to approve a nationwide system for sales taxation that ensures fairness between remote and brick-and-mortar retailers.

#### **G. Telecommunications**

Counties endorse promoting competition among telecommunications providers and treating like services alike. Any effort to reform the Telecommunications Reform Act of 1996 must maintain local franchising authority and management of the public rights-of-way, encourage investment in all communities and neighborhoods, preserve support funding for public education and governmental (PEG) channels and institutional networks (I-NET), and hold local governments fiscally harmless for any loss of fees or other revenue that result from franchise agreements.