Chapter Nine

Financing County Services

<u>Section 1: GENERAL PRINCIPLES</u>

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 each community's unique needs, counties must be given greater financial independence from the state and federal budget processes, including the authority to collect revenues at a level sufficient to provide the degree of local services the community desires. 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.

<u>Section 2: STATE POLICY OBJECTIVES</u>

A. Program Realignment

Reforms 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, justice services, or any other service that the county is best suited to provide. Counties must be given realistic and adequate revenue sources to pay for ongoing program and service responsibilities. The CSAC Realignment Principles document that the Board of Directors adopted in 2010 appears as an appendix to this Platform.

B. Financial Independence

Counties have neither the financial resources to operate state programs and also meet local needs, nor the ability to predict service levels beyond each legislative session. Therefore, counties advocate aligning revenue authority with service responsibility, and support other measures that would grant counties financial independence.

Counties strongly support the provisions of Proposition 1A (2004), which provides constitutional protection of local governments' property tax, sales tax, and Vehicle License Fee revenues. It also requires the Legislature to fully fund or else suspend reimbursable local mandates.

However, counties continue to advocate for a guarantee that the state will appropriate sufficient funds prior to requiring counties to provide new or increased services. (Also see Chapter XIII: STATE MANDATE LEGISLATION.) Counties also seek a guarantee that programs and services that are funded wholly or partially by the state will annually receive full adjustments for the increased cost of providing them, including inflation and population.

Counties will firmly oppose any attempt by the state to borrow property tax revenue from counties under the provisions of Proposition 1A. Such borrowing would cause counties increased costs in several areas, including the cost of borrowing and lost investment income. Furthermore, borrowing to cover ongoing state costs is fiscally unwise, and would put negative pressure on state funding of county-provided services in the out-years.

Counties should be granted 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.

Counties seek a guarantee that the state will pay reimbursements and subventions promptly, with the payment of interest to counties when it does not pay promptly.

Counties should have the ability to adjust all fees, assessments, and charges to cover the full costs of the services they support.

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 be adjusted for inflation annually.

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 from all recipients – proportional to their benefit – for actual administrative costs upon 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 also urge the state to pay counties for the full, current annual costs of administering programs on its behalf, which is currently frozen at 2001 levels.

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 should 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 flexibility to manage county programs in a more efficient and effective

manner and tailored to a community's individual needs.

4. 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. Aligning Revenue Authority with Service Responsibility

The passage of Proposition 13 and implementing legislative and judicial decisions, along with myriad other actions since, have eliminated most connections between the payment of taxes and the benefits received by the individual or business taxpayer. Counties support aligning revenue authority with the level of government responsible for providing services.

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 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.