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OVERVIEW OF SAN DIEGO COUNTY FISCAL CONDITION

1. Background

- Two years ago, at a major **conference** on the **County's fiscal condition,** the alarm was sounded that San Diego County was in very serious financial difficulty. Those **difficulties continue**.

  Examples

  -- Adjusted for inflation, general **revenues per capita** available to the County have **decreased by 24%** since FY 1978-79, and **expenditures per capita** have **decreased 16%.**

  -- San Diego County has nearly **19% fewer employees per capita** than it did in FY 1978-79.

  -- Actual State spending for **medically indigent health care** in San Diego has increased only 9% since FY 1978-79, while the population has grown by 43%.

  -- San Diego County's **jails** are the most severely overcrowded of any large detention system in the nation.

2. Legislative Analyst's Report

- A recent report by the **Legislative Analyst** confirms what we have been saying for years.

- San Diego County has a lower level of **general purpose revenue**, on a per capita basis, than all but one of the other 57 counties in California.

- San Diego County has **less "net" revenue** remaining to address local needs, after paying the costs of State-required programs, than other counties.

- San Diego County has **less fiscal capacity** to deal with local service demands and changing State requirements than most other counties.

3. The Butte County Comparison

- **Butte County** is preparing to file for federal **bankruptcy** protection.

- Both the Legislative Analyst and a Department of Finance consultant have independently examined the Butte County problem, and attributed it to **"structural" problems** over which Butte County has little, if any, control -- basically, local spending for State-required programs has grown faster than local revenue.

- **Butte and San Diego exhibit similar fiscal indicators:**

  - Butte receives the lowest per capita level of general revenues ($172); San Diego receives the second lowest ($177).

  - Butte enjoys the 5th lowest per capita level of net general revenues ($75); San Diego receives the 4th lowest ($74).

  - Butte receives the 14th lowest allocation of State assistance per capita ($141); San Diego receives the 13th lowest ($138).

- **Butte** appears to **preview** what is coming for **San Diego.**

4. Causes

- **Proposition 13** resulted in a **47% reduction** in San Diego County's primary revenue source -- the **property tax.**

- The Legislature's implementation of Proposition 13 locked into place arbitrary and inequitable **property tax sharing ratios** which cost San Diego County $85 million this fiscal year.

- The Legislature has failed to redesign **pre-Proposition 13 laws which further deplete county property tax and sales tax revenues** when there are annexations, incorporations and redevelopment projects.

- The Legislature has not provided to counties any of the more flexible **revenue generating authority** enjoyed by cities in California.

- The Legislature has failed to appropriate sufficient **funds to finance** the cost of new programs it has **mandated** or old **programs** whose costs have increased.

- The Legislature has imposed **statutory cost-of-living adjustments** for programs which are unrelated to revenue growth or spending capacity.

5. The Bottom Line

- San Diego County is on the verge of bankruptcy.

- San Diego County does not have the authority to raise added revenues.

- San Diego County may not eliminate those State-required programs which consume more than 91% of the County's general revenues, and more than 97% of the County's total expenditures.

- There is no solution to this critical problem in sight.

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COUNTY FACTS

Property Tax Percentages - Selected Counties FY 87-88

	Cities	County	Schools	Districts
Alameda	$.23	$.30	$.24	$.23
Butte	**.08**	**.23**	**.56**	**.13**
Contra Costa	.11	.25	.33	.31
Fresno	.15	.30	.42	.13
Los Angeles	**.19**	**.42**	**.21**	**.18**
Orange	.12	.18	.49	.21
Riverside	.07	.26	.37	.30
Sacramento	.12	.37	.29	.22
San Bernardino	.09	.27	.31	.33
San Diego	**.15**	**.25**	**.50**	**.10**
San Francisco	**—**	**.84**	**.09**	**.07**
Santa Clara	.12	.26	.46	.16
Ventura	.08	.28	.38	.26
Statewide	**$.13**	**$.33**	**$.36**	**$.18**

Redevelopment

County's Share of property tax diverted to redevelopment agencies:

FY 85-86	$ 5,020,250
FY 86-87	6,754,359
FY 87-88	9,123,464
FY 88-89	12,584,089
Total	$33,247,349

Sales Tax

FY 84-85 County: $12,959,961 (9% of Total Sales Tax in Region)

FY 88-89: County: $ 9,152,083 (4.6% of Total Sales Tax in Region)

Loss due to incorporations:

Encinitas =	$4,071,314
Solana Beach =	1,137,353
Total =	$5,208,667

General Purpose Revenue Allocations FY 87-88: Per Capita - Selected Counties

	Butte	San Diego	Los Angeles	Statewide Average*	San Francisco
Revenue:					
Property Tax	$64.66	$96.37	$169.93	$130.40	$458.90
Sales Tax	18.02	3.73	4.82	10.54	103.74
Fines & Forfeitures	4.33	4.74	10.83	10.00	52.84
Vehicle in Lieu	31.85	32.30	40.35	36.25	73.16
Other	31.81	36.47	42.17	49.16	470.06
Total**	$150.67	$173.61	$268.09	$236.35	$1,158.70
Population	**172,636**	**2,327,684**	**8,555,937**	**27,278,335***	**742,681**
Percentage	.63%	8.53%	31.37%		2.65%

* Statewide Average excludes San Francisco

** Per Capita figures differ from Legislative Analyst's report which includes additional revenues not normally considered "general purpose."

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County of San Diego

Issue: County Fiscal Condition

Issue

Two years ago, at a major conference on the County's fiscal condition, the alarm was sounded that San Diego County was in very serious financial difficulty. Those difficulties continue.

Action Needed

- The Legislature should correct the currently arbitrary and inequitable property tax sharing ratios which will cost San Diego County $85 million this fiscal year.
- The Legislature should redesign pre-Proposition 13 laws which further deplete county property tax and sales tax revenues when there are annexations, incorporations and redevelopment projects.
- The Legislature should provide to counties the more flexible revenue generating authority enjoyed by cities in California.
- The Legislature should appropriate sufficient funds to finance the cost of new programs it has mandated or old programs whose costs have increased.
- The Legislature should rescind statutory cost-of-living adjustments for programs which are unrelated to revenue growth or spending capacity.

Discussion

Examples of the deterioration in San Diego County's fiscal condition include the following:

- Adjusted for inflation, general revenues per capita available to the County have decreased by 24% since FY 1978-79, and expenditures per capita have decreased 16%.
- San Diego County has nearly 19% fewer employees per capita than it did in FY 1978-79.
- Actual State spending for medically indigent health care in San Diego has increased only 9% since FY 1978-79, while the population has grown by 43%.
- San Diego County's jails are the most severely overcrowded of any large detention system in the nation.

Legislative Analyst's Report. A recent report by the Legislative Analyst confirms what we have been saying for years about San Diego County's fiscal condition:

- San Diego County has a lower level of general purpose revenue, on a per capita basis, than all but one of the other 57 counties in California.

- San Diego County has less "net" revenue remaining to address local needs, after paying the costs of State-required programs, than other counties.

- San Diego County has less fiscal capacity to deal with local service demands and changing State requirements than most other counties.

The Butte County Comparison. Butte County is preparing to file for federal bankruptcy protection. Both the Legislative Analyst and a Department of Finance consultant have independently examined the Butte County problem, and attributed it to "structural" problems over which Butte County has little, if any, control -- basically, local spending for State-required programs has grown faster than local revenue.

Butte and San Diego exhibit similar fiscal indicators:

- Butte receives the lowest per capita level of general revenues ($172); San Diego receives the second lowest ($177).

- Butte enjoys the 5th lowest per capita level of net general revenues ($75); San Diego receives the 4th lowest ($74).

- Butte receives the 14th lowest allocation of State assistance per capita ($141); San Diego receives the 13th lowest ($138).

Butte County, in other words, appears to preview what is coming for San Diego.

The Bottom Line. Based on a review of data pertaining to Butte County, San Diego County, and other counties statewide compiled by the Legislative Analyst, the Department of Finance, and others:

- San Diego County is on the verge of bankruptcy.

- San Diego County does not have the authority to raise added revenues.

- San Diego County may not eliminate those State-required programs which consume more than 91% of the County's general revenues, and more than 97% of the County's total expenditures.

- There is no solution to this critical problem in sight.

County of San Diego

FISCAL CONDITION

Background

County "fiscal well-being" is a concept which attempts to measure the ability of the County to (a) finance locally determined priorities, (b) provide adequate matching resources for State-interest programs, and (c) respond to increased programmatic and fiscal demands placed on the County by the State. Fiscal well-being is a function of the interrelationship of three variables -- general revenues, program revenues and service demand.

Fiscal well-being can be described in both absolute and relative terms. Describing fiscal well-being in absolute terms is difficult due to the lack of any universal standard of what is "adequate." Describing fiscal well-being in relative terms is less difficult given the availability of comparative data, but does not answer the question "what is adequate?"

In absolute terms, the deterioration noted in the County's fiscal condition during the April 1988 Board conference has continued.

- San Diego County receives $13.3 million less than its fair share of existing State mental health resources, according to the State Department of Mental Health. Our unmet need for such resources is much greater.

- State spending for medically indigent adults in San Diego has decreased by 34.4% since FY 82-83; since FY 79-80 State spending increased only 9%, while population increased 43%.

- Notwithstanding the new Trial Court Funding Program, each new judicial position still costs San Diego County a net $475,000 per judge.

- Our ability to provide facility services to the courts and other high priority programs continues to diminish -- the proportion of County staff allocated to support services in FY 89-90 reflects a 16.5% reduction compared to FY 77-78.

- The adult probation supervision caseload on February 6, 1990, was 16,276. Since 1985 the ratio of offenders to probation officers has doubled and the level of supervision has been cut in half.

- Our jails, according to a recent Arizona-based study, are the most severely overcrowded of any large jail in the country.

- Our ability to address locally determined needs and priorities has been nearly eliminated -- the proportion of staff resources allocated to community services programs such as parks, libraries, land use planning, etc., in FY 89-90 shows a 36% reduction since FY 77-78.

- Total revenues, adjusted for inflation, have increased only 4.5% since FY 1978-79, for an average annual adjusted growth rate of only 0.005%.

- Revenues per capita, adjusted for inflation, have actually decreased 24% since FY 1978-79.

- General purpose revenues represented 45% of the County's budget in FY 1978-79. That percentage dropped to 36.7% by FY 1988-89.

- Expenditures per capita for County services, when adjusted for inflation, have decreased 16% since FY 1978-79.

- Employees per capita numbered 6.84 per 1,000 in FY 1978-79. That ratio dropped to 4.99 per 1,000 in FY 1984-85, and has since returned to the 1982 staffing ratio of 5.55 per 1,000.

- The County's contingency reserve, as a percentage of total expenditures, has remained at approximately 1% since FY 1978-79.

- Based on data contained in the "Report of Financial Transactions of Counties," prepared by the State Controller, San Diego is next-to-last in terms of general revenues per capita. That shortfall in FY 1987-88 amounted to $146.06 million, making San Diego County number "57 out of 58" counties in per capita general revenues statewide.

New Approach

Another approach to addressing the issue of absolute need is presented by recent attention paid to Butte County. If a consensus assessment of Butte County's fiscal condition can be found, perhaps San Diego County's condition can be ascertained by comparison to it.

By all accounts, Butte is on the verge of collapse. The county has retained an attorney to assist it in filing for Chapter 9 federal bankruptcy. A consultant for the Department of Finance and the Legislative Analyst have independently examined Butte County's fiscal situation, and arrived at mutually consistent conclusions.

- Department of Finance Consultant. In a December 1989 report to the Department, "oversight advisor" Mr. Richard Cutting concluded

  - that Butte County was in good fiscal condition at the time of Proposition 13, with 26% of the local property tax and a healthy fund balance.

  - that Butte County lost property tax revenues due to annexations and redevelopment projects initiated by two cities in Butte, Chico and Oroville.

-- that Butte County experienced no growth in sales tax during the 10-year period ending FY 89-90 due to the ability of cities in Butte to annex retail centers.

-- that locally raised revenue increased only 58.9% during that same period, while State-required program expenditures increased nearly 100%.

-- that Butte County experienced a disproportionately large increase in the number of persons on AFDC (159.9%) compared to counties statewide (22.1%) during the nine-year period ending in FY 89-90, and that its matching costs for the program increased 322.2% during that period.

-- that the number of persons receiving General Relief in Butte County increased 611.2% during the nine-year period ending in FY 89-90, compared to a statewide average increase of 224.4%; while the county's annual cost for the program increased by over 2,000%.

-- that Butte County experienced an increase in expenditures for its public defender program of 402.8% during the nine-year period ending in FY 89-90.

o Legislative Analyst's Office. The Legislative Analyst reviewed the Butte County situation in a "Policy Brief" issued in December 1989. The Analyst concluded:

-- that Butte County is characterized by a structural budget problem common to many counties -- high growth in county costs for State-required programs, and slower growth in local general purpose revenue.

-- that because costs for State-required programs increased faster than general purpose revenues, the county had to divert a larger share of its general purpose revenue to these programs.

-- that the per capita general purpose revenue available for discretionary programs in Butte County, when adjusted for inflation, declined by 21 percent between FY 84-85 and FY 87-88.

-- that Butte County experienced general purpose revenue growth of about 15 percent between FY 84-85 and FY 87-88, while statewide general purpose revenue grew 26 percent; and that Butte County's expenditures for State-required programs grew by 38 percent during that period.

-- that Butte County, in addition to experiencing relatively low growth in general purpose revenues, has a small general revenue base relative to other counties; due primarily to county efforts to reduce property tax rates prior to Proposition 13, and due to its reliance on federal revenue sharing funds prior to the termination of that program.

-- that in the absence of State intervention, Butte County's serious fiscal condition will probably continue to deteriorate over time.

New Data

In attempting to compare San Diego County's fiscal condition to that of Butte and counties statewide, a January 10, 1990, report from the Legislative Analyst to Assembly Member Mojonnier provides new data to support earlier claims. Some of the observations were as follows:

o *"Although [San Diego County] spends roughly the statewide average proportion of its general purpose revenue on state-required programs, it has a lower aggregate level of general purpose revenue, on a per capita basis, than the average for all counties. As a result, relative to other counties, San Diego County has less revenue remaining to address local needs after paying the costs of state-required programs. . . it has less fiscal capacity to deal with local service demands and changing state requirements than most other counties."*

". . . two factors appear to contribute to San Diego County's fiscal situation: (1) the county's relatively low share of property taxes and (2) the amount of state program funding received by the county."

o In FY 1984-85 San Diego County had less *"residual"* or *"net general revenue"* -- i.e., revenue available to fund local priorities after contributions to State-required programs -- than all but two California counties: Alameda and Stanislaus. In FY 1987-88 San Diego County was fourth-lowest in net general revenue, behind Solano, Shasta, and Alameda Counties.

o Not only does San Diego County fare poorly in comparison to statewide averages for counties; it also fares poorly in comparison to the so-called *"distressed"* counties. The notion has developed that only California's rural counties are fiscally distressed, but the LAO's January 10 report belies that notion. For example, note the following comparisons between data for San Diego, for counties statewide, and for Fresno County -- which receives nearly 20% of the entire $15 million "Stabilization" fund allocated to the 44 "distressed" counties:

-- Counties statewide had $242.53 per capita in general revenues to start out with in FY 1987-88. Fresno had $219.44 per capita and

Butte had $172.12 per capita. San Diego had only $176.62 per capita -- the lowest of any of the ten largest counties, and next-to-lowest of any county in California.

- Counties statewide also received about $145 per capita in State assistance payments in FY 1987-88. Fresno received $185 per capita and Butte received $141. San Diego received $138 per capita -- the 5th lowest of the ten largest counties.

- Counties statewide spent 56% of their local general purpose revenues on State-required programs in FY 1987-88. Fresno also spent 56% of its general revenue on State-required programs, while Butte spent 57%. San Diego spent 58%.

- After necessary contributions in support of State-required programs, counties statewide had $108 in "residual" or "net" general purpose revenue per capita left to finance local priorities in FY 1987-88. Fresno had $97 per capita and Butte had $75 per capita. San Diego had $74 -- next-to-lowest of the ten largest counties (behind Alameda).

o During the period FY 1984-85 to FY 1987-88, the amount of local general purpose revenue contributed to the support of State-required programs varied from program to program, and from county to county. The following examples come from the January 10 LAO report:

- During the period FY 1984-85 to FY 1987-88, counties statewide increased the amount of local general revenues allocated to county health services by 52.26%. San Diego increased its allocation by 94.85% during that time. Fresno and Butte decreased their allocation by 26.5% and 26.55% respectively.

- During the period FY 1984-85 to FY 1987-88, counties statewide increased the amount of local general revenues allocated to mental health services by 53.73%. San Diego increased its allocation by 206.16% during that time, while Fresno increased its allocation by 17.89% and Butte increased its allocation by 34.70%.

- During the period FY 1984-85 to FY 1987-88, counties statewide increased the amount of local general revenues allocated to AFDC administration and matching requirements by 21.04%. San Diego increased its allocation by 36.13% during that time, while Fresno increased its allocation by 28.38% and Butte increased its allocation by 42.58%.

- During the period FY 1984-85 to FY 1987-88, counties statewide increased the amount of local general revenues allocated to General Assistance by 60.83%. San Diego increased its allocation by 284.98% during that time, while Fresno increased its allocation by 23.99% and Butte increased its allocation by 348.11%.

Causes

The causes of the fiscal problem in San Diego seem to flow from the same "structural" defects cited by the Legislative Analyst, as well as by the Governor in his proposed budget for FY 90-91: rapid growth in State-required program costs, brought on frequently by statutory cost-of-living adjustments; accompanied by relatively slower growing local general purpose revenues; combined with inadequate State program revenues. Indicators of this problem are as follows:

- General revenue shortfalls stem primarily from the following:

  - Property tax: The statewide average in FY 1987-88 was $130 per capita. San Diego received $96 per capita. This was based on the 1979 AB 8 property tax sharing formula which gives San Diego County only 25% of the regional property tax compared to a statewide average of 33% for counties. In dollar terms, the difference amounted to $79.22 million in FY 1987-88. In FY 1989-90, the difference amounts to approximately $85 million.

  - Sales tax: The statewide average in FY 1987-88 was $10.54 per capita. San Diego received $3.73 per capita, for an extrapolated shortfall of $15.85 million.

  - Fines and forfeitures: The statewide average was $10.00 per capita in FY 1987-88. San Diego received $4.74 per capita, or $12.25 million less than it would have received based on the statewide average.

  - Vehicle in Lieu Fees (VLF): The statewide average was $36.25 per capita in FY 1987-88. San Diego received $32.30, for an extrapolated shortfall $9.2 million.

  - Other general revenues: The average per capita statewide in FY 1987-88 was $49.16 for all other general revenues. San Diego received $36.47 per capita, or $29.54 million less than the statewide average would have produced.

- These general revenue shortfalls dramatically affect our ability to backfill high priority State-required programs, which are also substantially underfunded in comparison to other counties due, primarily, to historical and political factors. For example:

- Mental Health: The average Short-Doyle allocation statewide was $17.80 per capita in FY 1987-88. San Diego received $15.01 per capita that year, for a shortfall of $6.49 million.

- Drug Abuse Programs: The average allocation statewide in FY 1987-88 was $2.19 per capita. San Diego -- the acknowledged "methamphetamine capitol of the nation" -- received only $1.40 per capita, for a shortfall of $1.84 million.

- Alcohol Abuse Programs: The statewide average allocation was $1.88 per capita in FY 1987-88. San Diego received $1.41 per capita, for a shortfall of $1.09 million.

- AB 8 County Health Services: The average allocation statewide in FY 1987-88 was $13.79 per capita. San Diego received only $6.32 per capita, for a shortfall of $17.39 million.

Conclusions

- San Diego County has substantially fewer general revenue dollars per capita than the average for counties statewide, and -- after contributions to the cost of State-required programs -- has substantially fewer net general revenue dollars per capita with which to finance local priorities and backfill underfunded State mandates.

- The demand in San Diego County for local general revenue to finance State-required programs has grown much faster in San Diego (49.57%) than has that local general revenue (33.06%) between FY 1984-85 and FY 1987-88.

- San Diego County allocates its limited discretionary resources in much the same way, proportionately, as counties statewide. Because San Diego has less resources to begin with, needs are not addressed as well as in other counties.

- San Diego County has had to reprioritize its allocation of limited resources, shifting more funding to health and justice system priorities, and reducing funding for system maintenance and community service programs.

- San Diego County's ability to make further shifts in funding has become increasingly limited, while at the same time demands in the justice system and in the area of system maintenance have become more severe.

Implications

What are the implications of these data? By all accounts, Butte County is in severe financial straits. And yet, the data indicate that San Diego is very near -- and fast approaching -- Butte's condition. Further, this assessment is consistent with data which indicate that San Diego is in worse fiscal shape than most of those "distressed" counties which have qualified for several years for State "stabilization" assistance funds.

If San Diego's fiscal condition is near to that of Butte, and if Butte verges on financial collapse, what does this promise for the future of county programs in San Diego? And assuming, for argument, the State were to act quickly to address the structural problems faced by counties, is there time to prevent a major disruption in service delivery? How long will it take to turn the situation around? Is there enough time?

We cannot know the answer to these questions, but the future of Butte County may offer some clues.

February 7, 1990

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