



Joint Legislative Audit Committee
Office of the Auditor General



CHANGES IN THE COMPOSITION OF LOCAL GOVERNMENT REVENUE SINCE PROPOSITION 13

Local government financing has changed dramatically as a result of Proposition 13, Article XIII A of the State Constitution, and subsequent long-term financing legislation adopted in 1979. To compensate for reduced property tax revenue, some local governments have expanded their use of discretionary revenue sources by increasing charges for services to reflect the full cost or a greater portion of the cost of providing services. For example, in fiscal year 1978-79 counties increased their reliance on discretionary revenue by approximately 25 percent and cities increased use of discretionary revenue by 13 percent from fiscal year 1977-78. Discretionary revenue, however, still constituted a relatively limited portion of county and city total revenue, approximately 9 percent and 16 percent, respectively, in fiscal year 1978-79.

We also analyzed the difference between property tax revenue projections made for the Conference Committee for Assembly Bill 8 in 1979 and actual property taxes levied. We found that property taxes levied in fiscal year 1979-80 increased approximately 13 percent as opposed to the 10 percent increase originally projected. As a result, total statewide property taxes are approximately \$150 million higher than originally projected for fiscal year 1979-80. The different units of local government will receive varying benefits from these increased property taxes.

REPORT TO THE
CALIFORNIA LEGISLATURE

REPORT OF THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

010

CHANGES IN THE COMPOSITION
OF LOCAL GOVERNMENT REVENUE
SINCE PROPOSITION 13

MAY 1980



California Legislature

Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

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May 14, 1980

010

The Honorable Speaker of the Assembly
The Honorable President pro Tempore of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's report concerning changes in the composition of local government revenue since the passage of Proposition 13.

The report indicates that local government financing has changed significantly as a result of Proposition 13 and subsequent long-term financing legislation adopted in 1979. To compensate for reduced property tax revenue, some local governments have expanded their use of discretionary revenue sources by increasing charges for services to reflect the full cost or a greater portion of the cost of providing services. However, while some local governments' discretionary revenue has increased, it still constitutes a relatively limited portion of total revenue.

The report also found that property taxes levied in fiscal year 1979-80 increased approximately 13 percent as opposed to the 10 percent increase originally projected to the Conference Committee for Assembly Bill 8 in 1979.

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Respectfully submitted,

S. FLOYD MORI
Chairman, Joint Legislative
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SUMMARY

Local government financing has changed dramatically since the passage of Proposition 13 in June 1978. Proposition 13, Article XIII A of the State Constitution, limited the ad valorem tax on real property and mandated that local governments could impose special taxes only with approval of two-thirds of the voters. To compensate for the estimated \$7 billion reduction in property tax revenue resulting from Proposition 13 in fiscal year 1978-79, the Legislature provided approximately \$4 billion in state "bailout" money in fiscal year 1978-79. The Legislature subsequently enacted long-term financing legislation in 1979 which altered the financing of various government services. Additionally, in November 1979, the passage of Proposition 4, Article XIII B of the State Constitution, changed local government financing by limiting the growth in appropriations of local governments to changes in the cost of living and in population.

Since the passage of Proposition 13, local governments have expanded their use of discretionary revenue sources, that revenue which local governments can control to some extent. Local governments which are increasing their use of discretionary revenue sources are doing so by eliminating or reducing the previous government subsidy of services and

increasing charges for services to reflect the full cost or a greater portion of the cost of providing services. The revenue sources which local governments have discretion over are, however, subject to certain practical and statutory considerations.

We found that county revenue from discretionary sources increased approximately 25 percent in fiscal year 1978-79 from fiscal year 1977-78. Similarly, cities' use of discretionary revenue increased approximately 13 percent in the same time period. Discretionary revenue, however, still constitutes a relatively limited portion of total county and city revenue, 9.15 percent and 16.33 percent, respectively, in fiscal year 1978-79.

Nonenterprise and enterprise special districts have been affected differently since Proposition 13. For example, nonenterprise recreation and park districts experienced an approximate 6 percent increase in their use of discretionary revenue in fiscal year 1978-79 while their total revenue declined nearly 25 percent. On the other hand, enterprise county water districts showed an increase of approximately 9 percent in discretionary revenue at a time when total revenue was increasing by approximately 3 percent.

Since school districts receive limited revenue from discretionary sources, their reliance on discretionary revenue has changed little since Proposition 13.

Case studies conducted in seven counties and six cities indicated that the increase in the use of discretionary revenue in fiscal year 1979-80 may be diminishing somewhat in counties but is continuing in cities. The case studies conducted in five special districts showed mixed changes and did not indicate any specific trend.

We also analyzed the difference between property tax revenue projections made for the Conference Committee for Assembly Bill 8 in 1979 and the actual tax levies reported by the State Board of Equalization. Property tax levies in fiscal year 1979-80 increased approximately 13 percent, as opposed to the 10 percent increase estimated for the Conference Committee for Assembly Bill 8. As a result, total statewide property taxes are approximately \$150 million higher than originally projected for fiscal year 1979-80. The different units of local governments will receive varying benefits from the increased property taxes.

INTRODUCTION

In response to a request by the Joint Legislative Audit Committee, we have reviewed the use of revenue sources other than property taxes by counties, cities, schools, and special districts. In addition, we gathered information on property tax revenue generated in fiscal year 1979-80 and compared these data with previous revenue projections made for the Legislature during the fiscal year 1979-80 budget process. This review was conducted under the authority vested in the Auditor General by Section 10527 of the Government Code.

Background

As of fiscal year 1978-79, local government in California included 58 counties*, 419 cities, 4,823** special districts, and 1,194 school districts. In fiscal year 1978-79, these units of local government had revenue in excess of \$27 billion. Table 1 provides a breakdown of the revenue available to local government in fiscal year 1978-79.

* This includes San Francisco which is a city-county.

** This figure is based on the State Controller's Report for fiscal year 1977-78; data on fiscal year 1978-79 were unavailable at the time of this report.

TABLE 1
 SUMMARY OF LOCAL GOVERNMENT REVENUE
IN FISCAL YEAR 1978-79

<u>Unit of Government</u>	<u>Revenue</u>	<u>Percent of Total Local Revenue</u>
Counties	\$ 7,815,335,278	28.5%
School Districts	8,031,865,369	29.3
Cities	6,039,189,392	22.0
Special Districts	<u>5,538,218,918^a</u>	<u>20.2</u>
Total Revenue	<u>\$27,424,608,957</u>	<u>100.0%</u>

^a This figure is based on the State Controller's Report for fiscal year 1977-78; data on fiscal year 1978-79 were unavailable at the time of this report.

Article XIII A of the State Constitution, adopted in 1978 (Proposition 13), significantly impacted the composition of local government revenue. Proposition 13 limited ad valorem tax on real property to one percent of a property's full cash value. This reduced property tax revenue by an estimated \$7 billion in fiscal year 1978-79. The loss in property tax revenue was partially offset by approximately \$4 billion in state "bailout" money distributed from the state General Fund to local governments in fiscal year 1978-79. In addition, Proposition 13 mandated that local governments could impose special taxes (except on real property) only with approval of two-thirds of the voters.

In response to Proposition 13, the Legislature in 1979 enacted long-term financing legislation which altered the financing of various local government services. Chapter 282, Statutes of 1979 (Assembly Bill 8)* provided a new method for determining a local government's share of property tax revenue. Assembly Bill 8 also shifted a portion of school districts' property tax revenue to counties, cities, and special districts. To compensate for the property tax revenue shift to other governmental units, the State provided increased financial assistance to school districts. Assembly Bill 8 also provided full and partial state funding for programs which previously were locally funded, such as Medi-Cal and Aid to Families with Dependent Children.

Article XIII B of the State Constitution (Proposition 4), which was approved by the electorate in November 1979, limits the growth in appropriations of local governments to changes in the cost of living and in population. Proposition 4 also provides that any surplus funds in excess of the revenue limits be returned to taxpayers. However, certain categories of revenue are not subject to the limitations of Proposition 4; these include user fee revenue (to the extent that such revenue does not exceed the cost of providing the related services) and such nontax revenue as fines, penalties, and property sales.

* Assembly Bill 8 was subsequently amended by Chapters 1133, 1150, and 1161 of the Statutes of 1979. Assembly Bill 8 and these subsequent amendments are referred to as Assembly Bill 8 in this report.

The impact which each of the above measures has had on local governments' use of revenue sources and the extent of the property tax shift resulting from Assembly Bill 8 will be discussed in the Study Results section of this report.

Nondiscretionary and Discretionary Revenue

Local government revenue is classified as either nondiscretionary or discretionary revenue in this report to highlight the degree of control local governments can exercise over the various sources of revenue available to them. For example, property taxes are considered nondiscretionary revenue for local government because local governments have no control over the amount of revenue generated in their jurisdiction. Discretionary revenue is that revenue which local governments can control to an extent. An example of a discretionary revenue source is business license fees. Under provisions of the Business and Professions Code, counties and cities may license businesses for the purpose of regulation and may charge a license fee. Thus, counties and cities have some control over the amount of revenue generated because they can determine the license fee.

Since local governments may categorize some revenue sources differently, revenue is classified in this report as discretionary or nondiscretionary depending upon the primary

revenue sources within a category. The categories of revenue considered discretionary are: licenses and permits; charges for current services; and other revenue. The major revenue categories considered nondiscretionary are: taxes; fines, forfeitures, and penalties; use of money and property; and aid from other government agencies. Additionally, Proposition 13 specified that local governments could not impose any new special taxes without approval of two-thirds of the voters. We have, therefore, classified any special tax requiring voter approval as nondiscretionary revenue.

Scope of the Review

In reviewing the use of revenue sources by local governments, we relied on data available from the State Controller's Office for fiscal year 1977-78 and 1978-79. We also conducted case studies of selected counties, cities, and special districts to gather information on fiscal year 1979-80 revenue and to determine factors influencing revenue. We selected the case studies to provide a cross-section of urban and rural governmental units of varying size from throughout the State. In conducting the case studies, we collected information on fiscal year 1979-80 revenue as of the end of February 1980 and compared this with information from the same period of time in the previous year. It should be noted that in some cases variations in revenue may occur because revenue is not always received at the same time each year. We did not

conduct case studies of school districts because the Office of the Auditor General had recently completed relevant case studies in various districts and because school districts have limited use of discretionary revenue.*

Because differing types of special districts exist, we chose to review one type of nonenterprise special district (recreation and park) and one type of enterprise district (county water) to illustrate the varying impact the recent constitutional amendments and legislation have had on the revenue of these districts. Enterprise districts are those districts which recover the cost of their services primarily through user fees. Nonenterprise districts are primarily reliant on property tax revenue to recover their costs.

To analyze the difference in projected and actual property tax revenue, we used State Board of Equalization property tax revenue information for fiscal year 1979-80 and compared it with revenue projections made for Assembly Bill 8.

* For information on school districts' use of discretionary revenue see Auditor General Letter Report No. 932 concerning school fees, dated December 11, 1979.

STUDY RESULTS

LOCAL GOVERNMENTS HAVE EXPANDED THEIR USE OF DISCRETIONARY REVENUE SOURCES

To compensate for reduced property tax revenue, some local governments have expanded their use of discretionary revenue sources since passage of Proposition 13. Those local governments which are increasing their use of discretionary revenue sources are doing so by eliminating or reducing the previous government subsidy of services. These local governments are increasing charges for services to reflect the full cost or a greater portion of the cost of providing services. The revenue sources which local governments have discretion over are, however, subject to certain practical and statutory considerations, including: (1) economic factors which impact on local government revenue but which local governments have no control over, such as the state of the economy; (2) limits on the ability of users of particular services to pay for the services; and (3) statutory limitations on the type and level of charges for services that local governments can impose.

We found that county revenue from discretionary sources increased to 9.15 percent of total revenue in fiscal year 1978-79 from 7.27 percent in fiscal year 1977-78, an

increase of approximately 25 percent. Cities also increased their use of discretionary revenue, but the increase was not as much as in counties. City discretionary revenue increased to 16.33 percent of total revenue in fiscal year 1978-79 from 14.56 percent of total revenue in fiscal year 1977-78, an increase of approximately 13 percent.

Recreation and park districts, nonenterprise districts that are heavily reliant on property taxes, also showed a marked increase in discretionary revenue from 15.59 percent of total revenue in fiscal year 1977-78 to 21.16 percent in fiscal year 1978-79, an increase of 36 percent. The enterprise county water districts, which rely mainly on service and user charges, increased discretionary revenue from 74.66 percent of total revenue in fiscal year 1977-78 to 77.83 percent in fiscal year 1978-79, an increase of approximately 4 percent.

School districts, which have limited use of discretionary revenue sources, showed little change in the reliance on discretionary revenue since Proposition 13.

Case studies conducted in seven counties indicated that the increase in the use of discretionary revenue which occurred in fiscal year 1978-79 may be leveling off somewhat since three of the seven counties showed a decreasing reliance

on discretionary revenue in fiscal year 1979-80. However, case studies of six cities showed an increasing reliance on discretionary revenue sources in fiscal year 1979-80. The case studies conducted in five special districts showed mixed changes and did not indicate any specific trend.

Legal Authority to Use Discretionary Revenue Sources

Local government units have varying legal authority to take advantage of discretionary revenue sources. A major factor governing a county's or city's ability to use discretionary revenue sources is whether the county or city is a general law or charter unit. General law counties or cities must have express statutory authorizations before utilizing revenue sources, while charter counties or cities may levy taxes for revenue purposes which are not prohibited by their charter or the State or Federal Constitution.

Various provisions of the Revenue and Taxation Code, Government Code, Business and Professions Code and other state codes provide express statutory authorization for using revenue sources. For example, Section 37101 of the Government Code and Section 16000 et seq. of the Business and Professions Code authorize cities to levy business license taxes for regulatory and revenue-raising purposes. Conversely, no express statutory authorization exists for utility-user taxes, admission taxes or

parking taxes; thus general law cities cannot use these revenue sources. However, many charter cities generate revenue through these taxes.

Special districts are limited purpose local governments which provide statutorily authorized services. There are 55 different types of special districts which operate under a wide variety of statutory authorizations. The services a district may provide as well as the revenue sources available to a district are governed by its statutory authorizations. Basically, these districts fall into two major categories: (1) nonenterprise districts, which are heavily reliant on property taxes, and (2) enterprise districts which recover the cost of their services primarily through user charges.

School districts are primarily dependent on state General Fund and local tax revenue. However, some revenue is generated through other sources, including fees for certain items and activities and school impact taxes for new facilities.

County Revenue

County total revenue decreased only slightly from fiscal year 1977-78 to fiscal year 1978-79, but the composition of county revenue changed significantly. Within non-discretionary revenue categories, property tax revenue notably

decreased due to Proposition 13. This decrease was partially offset by increased aid from other governmental agencies, mainly in the form of state bailout funds. Discretionary revenue increased by approximately 25 percent; however, discretionary revenue comprises a relatively small proportion of county total revenue.

Also, case studies conducted within seven counties showed that Assembly Bill 8 has resulted in additional changes in the composition of county revenue in fiscal year 1979-80. Assembly Bill 8 provided a new method of financing local governments under which counties are receiving increased property tax revenue. As a result of the increased property tax revenue, discretionary revenue as a percent of total revenue decreased in three of the seven counties we visited. This is in contrast to the statewide increase in county discretionary revenue in fiscal year 1978-79.

Changes in County Revenue
in Fiscal Year 1978-79

Table 2 provides a summary of the changes in revenue sources for all counties from fiscal year 1977-78 to fiscal year 1978-79.

TABLE 2

SUMMARY OF CHANGES IN REVENUE SOURCES FOR ALL COUNTIES
FROM FISCAL YEAR 1977-78 TO FISCAL YEAR 1978-79

<u>Revenue Category</u>	<u>Adjusted^a 1978-79 Revenue</u>	<u>Percent of Total Revenue</u>	<u>Adjusted^b 1977-78 Revenue</u>	<u>Percent of Total Revenue</u>	<u>Change in Revenue</u>	<u>Percent Change in Revenue</u>
<u>Nondiscretionary Revenue</u>						
Taxes						
Property Taxes	\$1,318,290,772	16.87%	\$2,763,059,057	34.41%	\$(1,444,768,285)	(52.29)%
Other Taxes	278,563,672	3.56	251,923,758	3.14	26,639,914	10.57%
Fines, Forfeitures, and Penalties	92,829,004	1.19	80,176,587	9.99	12,652,417	15.78%
Use of Money and Property	244,210,914	3.12	156,981,212	1.96	87,229,702	55.57%
Aid from Other Governmental Agencies	<u>5,166,798,792</u>	<u>66.11</u>	<u>4,192,857,684</u>	<u>52.22</u>	<u>973,941,108</u>	<u>23.23%</u>
Nondiscretionary Revenue Total	<u>\$7,100,693,154</u>	<u>90.85%</u>	<u>\$7,444,998,298</u>	<u>92.73%</u>	<u>\$(344,305,144)</u>	<u>(4.62)%</u>
<u>Discretionary Revenue</u>						
Charges for Current Services	\$ 520,773,391	6.66%	\$ 443,489,503	5.52%	\$ 77,283,888	17.43%
Licenses and Permits	75,417,779	.96	70,881,780	.88	4,535,999	6.40%
Other Revenue	<u>118,450,954</u>	<u>1.52</u>	<u>69,884,241</u>	<u>.87</u>	<u>48,566,713</u>	<u>69.50%</u>
Discretionary Revenue Total	<u>\$ 714,642,124</u>	<u>9.15%</u>	<u>\$ 584,255,524</u>	<u>7.27%</u>	<u>\$ 130,386,600</u>	<u>22.32%</u>
Total Revenue	<u>\$7,815,335,278</u>	<u>100.00%</u>	<u>\$8,029,253,822</u>	<u>100.00%</u>	<u>\$(213,918,544)</u>	<u>(2.66)%</u>

^a Fiscal year 1978-79 revenue information from the State Controller's report adjusted to reclassify \$161,259,675, originally reported as charges for current services, as aid from other governmental agencies.

^b Fiscal year 1977-78 revenue information from the State Controller's report adjusted to reflect comparable information in fiscal year 1978-79 report. In fiscal year 1978-79, certain activities which were formally reported as General Fund activities were reported as enterprise activities.

Table 2 shows that county nondiscretionary revenue decreased as a percent of total revenue in fiscal year 1978-79. In fiscal year 1977-78, nondiscretionary revenue comprised 92.73 percent of total revenue, but this revenue decreased to 90.85 percent of total revenue in fiscal year 1978-79.

There were major changes in two categories of county nondiscretionary revenue in fiscal year 1978-79. Property tax revenue decreased \$1.4 billion, or 52.29 percent, after Proposition 13. The loss in property tax revenue was partially offset by the second major change, a \$974 million (approximately 23 percent) increase in revenue from other governmental agencies. This increase was primarily the result of the state bailout monies.

Each of the remaining categories of county nondiscretionary revenue: other taxes; use of money and property; and revenue from fines, forfeitures, and penalties; increased as a percent of total revenue in fiscal year 1978-79. However, these categories provided less than eight percent of county total revenue.

Discretionary revenue increased during fiscal year 1978-79. Discretionary revenue comprised 7.27 percent of total revenue in fiscal year 1977-78. In fiscal year 1978-79, discretionary revenue increased to 9.15 percent of total revenue, an increase of approximately 25 percent.

Each of the categories of county discretionary revenue: charges for services; licenses and permits; and other revenue; increased as a percent of total county revenue in fiscal year 1978-79. Charges for services provided the largest amount of additional revenue, increasing \$77 million, an increase of 17.43 percent.

Case Studies of Changes
in County Revenue in
Fiscal Year 1979-80

Table 3 compares revenue through the month of February for fiscal years 1978-79 and 1979-80 for seven California counties which we visited.

TABLE 3
COMPARISON OF CHANGES IN REVENUE SOURCES
FROM JULY THROUGH FEBRUARY FOR FISCAL YEAR 1978-79
TO FISCAL YEAR 1979-80 WITHIN COUNTIES VISITED

<u>Revenue Category</u>	<u>1979-80 Revenue</u>	<u>Percent of Total Revenue</u>	<u>1978-79 Revenue</u>	<u>Percent of Total Revenue</u>	<u>Change in Revenue</u>	<u>Percent Change in Revenue</u>
<u>SACRAMENTO COUNTY</u>						
<u>Nondiscretionary Revenue</u>						
Taxes						
Property Taxes	\$ 27,728,244	14.94%	\$ 21,740,009	13.62%	\$ 5,988,235	27.54 %
Other Taxes	26,546,567	14.30	23,763,545	14.89	2,783,022	11.71 %
Fines, Forfeitures, and Penalties	2,616,687	1.41	2,278,129	1.43	338,558	14.86 %
Use of Money and Property	156,432	0.08	133,902	0.08	22,530	16.83 %
Aid from Other Governmental Agencies	<u>117,950,146</u>	<u>63.54</u>	<u>95,353,017</u>	<u>59.74</u>	<u>22,597,129</u>	<u>23.70 %</u>
Nondiscretionary Revenue Total	<u>\$174,998,076</u>	<u>94.27%</u>	<u>\$143,268,602</u>	<u>89.76%</u>	<u>\$31,729,474</u>	<u>22.15 %</u>
<u>Discretionary Revenue</u>						
Charges for Current Services	\$ 5,041,667	2.72%	\$ 5,214,621	3.26%	\$ (172,954)	(3.32)%
Licenses and Permits	1,908,744	1.03	1,876,354	1.18	32,390	1.73 %
Other Revenue	<u>3,683,901</u>	<u>1.98</u>	<u>9,257,454</u>	<u>5.80</u>	<u>(5,573,553)</u>	<u>(60.21)%</u>
Discretionary Revenue Total	<u>\$ 10,634,312</u>	<u>5.73%</u>	<u>\$ 16,348,429</u>	<u>10.24%</u>	<u>\$(5,714,117)</u>	<u>(34.95)%</u>
County Total	<u>\$185,632,388</u>	<u>100.00%</u>	<u>\$159,617,031</u>	<u>100.00%</u>	<u>\$26,015,357</u>	<u>16.30 %</u>

TABLE 3 (Continued)

<u>Revenue Category</u>	<u>1979-80 Revenue</u>	<u>Percent of Total Revenue</u>	<u>1978-79 Revenue</u>	<u>Percent of Total Revenue</u>	<u>Change in Revenue</u>	<u>Percent Change in Revenue</u>
<u>SAN JOAQUIN COUNTY</u>						
<u>Nondiscretionary Revenue</u>						
Taxes						
Property Taxes	\$ 16,504,589	19.63%	\$ 11,329,418	15.85%	\$ 5,175,171	45.68 %
Other Taxes	4,803,565	5.71	3,223,156	4.51	1,580,409	49.03 %
Fines, Forfeitures, and Penalties	858,616	1.02	1,044,383	1.46	(185,767)	(17.79)%
Use of Money and Property	2,536,580	3.01	1,129,364	1.58	1,407,216	124.60 %
Aid from Other Governmental Agencies	48,819,708	58.02	46,088,476	64.46	2,731,232	5.93 %
<u>Nondiscretionary Revenue Total</u>	<u>\$ 73,523,058</u>	<u>87.39%</u>	<u>\$ 62,814,797</u>	<u>87.86%</u>	<u>\$ 10,708,261</u>	<u>17.05 %</u>
<u>Discretionary Revenue</u>						
Charges for Current Services	\$ 9,029,676	10.73%	\$ 7,888,831	11.03%	\$ 1,140,845	14.46 %
Licenses and Permits	445,879	0.53	383,990	0.54	61,889	16.12 %
Other Revenue	1,137,265	1.35	410,405	0.57	726,860	177.11 %
<u>Discretionary Revenue Total</u>	<u>\$ 10,612,820</u>	<u>12.61%</u>	<u>\$ 8,683,226</u>	<u>12.14%</u>	<u>\$ 1,929,594</u>	<u>22.22 %</u>
<u>County Total</u>	<u>\$ 84,135,878</u>	<u>100.00%</u>	<u>\$ 71,498,023</u>	<u>100.00%</u>	<u>\$ 12,637,855</u>	<u>17.68 %</u>
<u>LOS ANGELES COUNTY</u>						
<u>Nondiscretionary Revenue</u>						
Taxes						
Property Taxes	\$ 683,447,240	39.26%	\$ 520,528,285	28.68%	\$ 162,918,955	31.30 %
Other Taxes	26,105,047	1.50	25,504,758	1.41	600,289	2.35 %
Fines, Forfeitures, and Penalties	13,465,856	0.77	11,937,303	0.66	1,528,553	12.80 %
Use of Money and Property	49,047,219	2.82	45,280,271	2.49	3,766,948	8.32 %
Aid from Other Governmental Agencies	747,982,482	42.97	934,126,118	51.47	(186,143,636)	(19.93)%
<u>Nondiscretionary Revenue Total</u>	<u>\$1,520,047,844</u>	<u>87.32%</u>	<u>\$1,537,376,735</u>	<u>84.70%</u>	<u>\$ (17,328,891)</u>	<u>(1.13)%</u>
<u>Discretionary Revenue</u>						
Charges for Current Services	\$ 90,506,628	5.20%	\$ 152,728,887	8.42%	\$ (62,222,259)	(40.74)%
Licenses and Permits	9,753,767	0.56	5,444,985	0.30	4,308,782	79.13 %
Other Revenue	120,400,335	6.92	119,456,928	6.58	943,407	0.79 %
<u>Discretionary Revenue Total</u>	<u>\$ 220,660,730</u>	<u>12.68%</u>	<u>\$ 277,630,800</u>	<u>15.30%</u>	<u>\$ (56,970,070)</u>	<u>(20.52)%</u>
<u>County Total</u>	<u>\$1,740,708,574</u>	<u>100.00%</u>	<u>\$1,815,007,535</u>	<u>100.00%</u>	<u>\$ (74,298,961)</u>	<u>(4.09)%</u>
<u>VENTURA COUNTY</u>						
<u>Nondiscretionary Revenue</u>						
Taxes						
Property Taxes	\$ 19,639,549	20.14%	\$ 14,261,631	17.05%	\$ 5,377,918	37.71 %
Other Taxes	4,096,417	4.20	3,015,726	3.60	1,080,691	35.84 %
Fines, Forfeitures, and Penalties	1,317,987	1.35	1,058,223	1.26	259,764	24.55 %
Use of Money and Property	2,446,385	2.51	1,659,705	1.98	786,680	47.40 %
Aid from Other Governmental Agencies	47,418,034	48.64	45,032,447	53.79	2,385,587	5.30 %
<u>Nondiscretionary Revenue Total</u>	<u>\$ 74,918,372</u>	<u>76.84%</u>	<u>\$ 65,027,732</u>	<u>77.68%</u>	<u>\$ 9,890,640</u>	<u>15.21 %</u>
<u>Discretionary Revenue</u>						
Charges for Current Service	\$ 17,858,764	18.32%	\$ 14,592,216	17.42%	\$ 3,266,548	22.39 %
Licenses and Permits	1,368,644	1.40	993,706	1.19	374,938	37.73 %
Other Revenue	3,351,685	3.44	3,102,549	3.71	249,136	8.03 %
<u>Discretionary Revenue Total</u>	<u>\$ 22,579,093</u>	<u>23.16%</u>	<u>\$ 18,688,471</u>	<u>22.32%</u>	<u>\$ 3,890,622</u>	<u>20.82 %</u>
<u>County Total</u>	<u>\$ 97,497,465</u>	<u>100.00%</u>	<u>\$ 83,716,203</u>	<u>100.00%</u>	<u>\$ 13,781,262</u>	<u>16.46 %</u>

TABLE 3 (Continued)

<u>Revenue Category</u>	<u>1979-80 Revenue</u>	<u>Percent of Total Revenue</u>	<u>1978-79 Revenue</u>	<u>Percent of Total Revenue</u>	<u>Change in Revenue</u>	<u>Percent Change in Revenue</u>
<u>SAN FRANCISCO COUNTY</u>						
<u>Nondiscretionary Revenue</u>						
Taxes						
Property Taxes	\$148,574,900	36.46%	\$112,432,761	34.14%	\$36,142,139	32.15 %
Other Taxes	64,614,807	15.85	53,547,336	16.26	11,067,471	20.67 %
Fines, Forfeitures, and Penalties	11,473,162	2.81	10,147,081	3.08	1,326,081	13.07 %
Use of Money and Property	17,107,033	4.20	12,006,326	3.65	5,100,707	42.48 %
Aid from Other Governmental Agencies	<u>109,198,926</u>	<u>26.79</u>	<u>114,398,789</u>	<u>34.74</u>	<u>(5,199,863)</u>	<u>(4.54)%</u>
Nondiscretionary Revenue Total	<u>\$350,968,828</u>	<u>86.11%</u>	<u>\$302,532,293</u>	<u>91.87%</u>	<u>\$48,436,535</u>	<u>16.01 %</u>
<u>Discretionary Revenue</u>						
Charges for Current Services	\$ 17,685,944	4.34%	\$ 23,127,789	7.02%	\$(5,441,845)	(23.53)%
Licenses and Permits	4,223,132	1.04	2,860,223	0.87	1,362,909	47.65 %
Other Revenue	<u>34,705,413</u>	<u>8.51</u>	<u>789,818</u>	<u>0.24</u>	<u>33,915,595</u>	<u>4294.10 %</u>
Discretionary Revenue Total	<u>\$ 56,614,489</u>	<u>13.89%</u>	<u>\$ 26,777,830</u>	<u>8.13%</u>	<u>\$29,836,659</u>	<u>111.42 %</u>
County Total	<u>\$407,583,317</u>	<u>100.00%</u>	<u>\$329,310,123</u>	<u>100.00%</u>	<u>\$78,273,194</u>	<u>23.77 %</u>
<u>SAN DIEGO COUNTY</u>						
<u>Nondiscretionary Revenue</u>						
Taxes						
Property Taxes	\$ 48,525,262	16.14%	\$ 43,097,542	15.70%	\$ 5,427,720	12.59 %
Other Taxes	24,480,744	8.14	21,367,840	7.79	3,112,904	14.57 %
Fines, Forfeitures, and Penalties	3,040,057	1.01	2,967,426	1.08	72,631	2.45 %
Use of Money and Property	6,181,106	2.06	7,048,551	2.57	(\$867,445)	(12.31)%
Aid from Other Governmental Agencies	<u>193,490,343</u>	<u>64.37</u>	<u>174,936,337</u>	<u>63.74</u>	<u>18,554,006</u>	<u>10.61 %</u>
Nondiscretionary Revenue Total	<u>\$275,717,512</u>	<u>91.72%</u>	<u>\$249,417,696</u>	<u>90.88%</u>	<u>\$26,299,816</u>	<u>10.54 %</u>
<u>Discretionary Revenue</u>						
Charges for Current Services	\$ 19,417,020	6.46%	\$ 17,137,650	6.24%	\$ 2,279,370	13.30 %
Licenses and Permits	3,732,291	1.24	4,027,575	1.47	(295,284)	(7.33)%
Other Revenue	<u>1,733,924</u>	<u>0.58</u>	<u>3,864,884</u>	<u>1.41</u>	<u>(2,130,960)</u>	<u>(55.14)%</u>
Discretionary Revenue Total	<u>\$ 24,883,235</u>	<u>8.28%</u>	<u>\$ 25,030,109</u>	<u>9.12%</u>	<u>\$ (146,874)</u>	<u>(0.59)%</u>
County Total	<u>\$300,600,747</u>	<u>100.00%</u>	<u>\$274,447,805</u>	<u>100.00%</u>	<u>\$26,152,942</u>	<u>9.53 %</u>
<u>ORANGE COUNTY</u>						
<u>Nondiscretionary Revenue</u>						
Taxes						
Property Taxes	\$ 54,098,012	24.13%	\$ 41,506,101	19.69%	\$12,591,911	30.34 %
Other Taxes	10,375,038	4.63	8,689,156	4.12	1,685,882	19.40 %
Fines, Forfeitures, and Penalties	5,874,571	2.62	5,273,249	2.50	601,322	11.40 %
Use of Money and Property	11,036,446	4.92	8,594,109	4.08	2,442,337	28.42 %
Aid from Other Governmental Agencies	<u>111,322,215</u>	<u>49.64</u>	<u>117,166,180</u>	<u>55.59</u>	<u>(5,843,965)</u>	<u>(4.99)%</u>
Nondiscretionary Revenue Total	<u>\$192,706,282</u>	<u>95.94%</u>	<u>\$181,228,795</u>	<u>85.98%</u>	<u>\$11,477,487</u>	<u>6.33 %</u>
<u>Discretionary Revenue</u>						
Charges for Current Services	\$ 26,230,790	11.71%	\$ 25,144,147	11.93%	\$ 1,086,643	4.32 %
Licenses and Permits	3,059,473	1.36	2,276,141	1.08	783,332	34.41 %
Other Revenue	<u>2,227,753</u>	<u>0.99</u>	<u>2,126,325</u>	<u>1.01</u>	<u>100,928</u>	<u>4.75 %</u>
Discretionary Revenue Total	<u>\$ 31,518,016</u>	<u>14.06%</u>	<u>\$ 29,547,113</u>	<u>14.02%</u>	<u>\$ 1,970,903</u>	<u>6.67 %</u>
County Total	<u>\$224,224,298</u>	<u>100.00%</u>	<u>\$210,775,968</u>	<u>100.00%</u>	<u>\$13,448,390</u>	<u>6.38 %</u>

Table 3 shows that as of the end of February in fiscal year 1979-80, four of the seven counties realized increases in discretionary revenue as a percent of total revenue. It appears that the increase in discretionary revenue which occurred in counties in fiscal year 1978-79 has diminished somewhat in fiscal year 1979-80 in the counties we visited.

Within the nondiscretionary revenue categories, the following revenue sources showed increases in a majority of the counties we visited: property tax revenues; other taxes; use of money and property; and fines, forfeitures, and penalties. Aid from governmental agencies was the only revenue category that decreased in the majority of counties visited.

The increase in property tax revenue is partially attributable to the increased property tax revenue received as a result of Assembly Bill 8. In addition, growth in county assessed valuation has increased revenue. The increase in property tax revenue is in marked contrast to the more than 50 percent decrease in property tax revenue experienced by counties in fiscal year 1978-79 (as shown in Table 2).

Other nondiscretionary revenue categories also increased as the result of factors outside the counties' control. Revenue from other taxes increased because sales tax

revenue, the major revenue item in this category, increased. Counties have no control over their sales tax revenue because the sales tax rate is set by state law and the amount of revenue generated is dependent upon current economic conditions. Use of money and property revenue increased because interest revenue, the major revenue item in this category, increased due to higher prevailing interest rates. Fine, forfeitures, and penalties also increased due to increased revenue from items such as vehicle code violations, which are based on a rate set by the courts.

The only nondiscretionary revenue category showing a decrease for fiscal year 1979-80 in the majority of counties we visited was aid from other governmental agencies. This decrease can be attributed to the elimination of state bailout funds which were provided in fiscal year 1978-79. Also, the State has assumed the counties' portion of the cost of certain programs such as Medi-Cal and a portion of the cost of welfare programs. Therefore, counties are no longer receiving aid for these programs.

County discretionary revenue sources showed an increase in fiscal year 1979-80 in the majority of counties we visited. Charges for services decreased in five of the seven counties visited because charges were no longer reported for the various programs for which the State assumed financing. However, other revenue sources within the category of charges

for services increased. For example, planning and engineering fee revenue increased in six of the seven counties we visited. The revenue increases in this category exceeded 100 percent in some counties. Planning and engineering fees are set by the counties. Each of the seven counties visited increased some of its planning and engineering fees in an effort to recoup a greater share of its costs. The amount of revenue generated in this category, however, is also affected by the amount of building activity within the county. For example, Sacramento County, which had the only decrease in planning and engineering fee revenue, also had a decrease in the number of building permits issued. San Joaquin County, which had the largest increase in this revenue category, had an increase in the number of building permits issued.

The license and permit and other revenue categories also showed increased revenue in fiscal year 1979-80. The increase in license and permit revenue is due to increases from items such as building construction permits. This increased revenue may be the result of increased building permit fees, increased valuation for new construction which is the basis for permit fees, or increases in building activity. The other revenue category is not used consistently in the counties we visited and includes miscellaneous revenue sources which are not indicative of a particular change in the use of revenue.

City Revenue

Cities experienced a slight increase in total revenue in fiscal year 1978-79, and the composition of city revenue changed somewhat. City discretionary revenue increased approximately 13 percent from fiscal year 1977-78. While city discretionary revenue did not increase as dramatically as county revenue in fiscal year 1978-79, cities continue to generate more discretionary revenue as a percent of total revenue than do counties.

Discretionary revenue continued to increase as a percent of total revenue in our six case studies of changes in city revenue in fiscal year 1979-80. Thus, while the counties we visited appeared to be diminishing their reliance on discretionary revenue sources in fiscal year 1979-80, the cities we visited are continuing to expand their use of such revenue.

Changes in City Revenue in Fiscal Year 1978-79

Table 4 summarizes by major revenue source the actual and percentage changes in total revenue for all California cities from fiscal year 1977-78 to fiscal year 1978-79.

TABLE 4

SUMMARY OF CHANGES IN REVENUE SOURCES FOR ALL CITIES
FROM FISCAL YEAR 1977-78 TO FISCAL YEAR 1978-79

<u>Revenue Category</u>	<u>Adjusted^a 1978-79 Revenue</u>	<u>Percent of Total Revenue</u>	<u>Adjusted^b 1977-78 Revenue</u>	<u>Percent of Total Revenue</u>	<u>Change in Revenue</u>	<u>Percent Change in Revenue</u>
<u>Nondiscretionary Revenue</u>						
Taxes						
Property Taxes	\$ 667,872,240	10.87%	\$1,276,673,931	21.54%	\$(608,801,691)	(47.69)%
Other Taxes	1,784,678,468	29.06	1,523,684,791	25.71	260,993,677	17.13 %
Fines, Forfeitures, and Penalties	111,734,922	1.82	100,914,725	1.70	10,820,197	10.72 %
Use of Money and Property	291,521,827	4.75	184,740,890	3.12	106,780,937	57.80 %
Aid from Other Governmental Agencies	<u>2,282,812,758</u>	<u>37.17</u>	<u>1,977,598,472</u>	<u>33.37</u>	<u>305,214,286</u>	<u>15.43 %</u>
Nondiscretionary Revenue Total	\$5,138,621,215	83.67%	\$5,063,612,809	85.44%	\$ 75,008,406	1.48 %
<u>Discretionary Revenue</u>						
Charges for Current Services	\$ 552,553,903	9.00%	\$ 489,636,902	8.26%	\$ 62,917,001	12.85 %
Licenses and Permits	127,088,063	2.07	114,800,503	1.94	12,287,560	10.70 %
Other Revenue	<u>323,350,774</u>	<u>5.26</u>	<u>258,140,361</u>	<u>4.36</u>	<u>65,210,413</u>	<u>25.26 %</u>
Discretionary Revenue Total	\$1,002,992,740	16.33%	\$ 862,577,766	14.56%	\$ 140,414,974	16.28 %
Total Revenue	\$6,141,612,955	100.00%	\$5,926,190,575	100.00%	\$ 215,422,380	3.64 %

^a To facilitate comparison, fiscal year 1978-79 revenue as reported by the State Controller's Office was adjusted to include enterprise revenue which was reported as general city revenue in 1977-78.

^b Fiscal year 1977-78 revenue as reported by the State Controller's Office was adjusted to exclude property tax revenue of \$26,987,096 within Los Angeles County for library and fire protection services which are reported as special district revenue in 1978-79.

City nondiscretionary revenue decreased from 85.44 percent of total revenue in fiscal year 1977-78 to 83.67 percent of total revenue in fiscal year 1978-79. City property tax revenue decreased by approximately \$609 million, or 48 percent in fiscal year 1978-79 due to Proposition 13. Each of the other major categories of nondiscretionary revenue showed increases.

Within the nondiscretionary category, other tax revenue generated in cities through nonproperty taxes, such as sales and use tax, transient occupancy tax, and business license tax increased by approximately \$261 million, or 17 percent, in fiscal year 1978-79. Many of these taxes are levied as a percentage of total price or charge; therefore, the amount of revenue generated is affected by changing prices and business activity. While cities may have determined the applicable tax rate, the amount of revenue generated is largely reliant on economic conditions.

Aid from other governmental agencies also increased approximately \$305 million, or 15 percent, in fiscal year 1978-79, largely as a result of additional revenue from state bailout monies. The remaining categories of nondiscretionary revenue, including: use of money and property; and fines, forfeitures, and penalties; also showed increases in fiscal year 1978-79, but these categories of revenue account for less than seven percent of total city revenue.

City discretionary revenue increased from 14.56 to 16.33 percent of total revenue in fiscal year 1978-79. Each of the discretionary categories of revenue showed increases in fiscal year 1978-79. Charges for services increased approximately \$63 million, or about 13 percent; while other revenue increased by approximately \$65 million, or 25 percent. Licenses and permit revenue increased about 11 percent and provided approximately \$12 million in additional revenue.

Case Studies of Changes in City
Revenue in Fiscal Year 1979-80

We conducted case studies on changes in revenue use during fiscal year 1979-80 in six cities. Table 5 compares these cities' total revenue as of the end of February for fiscal year 1979-80 with similar information from fiscal year 1978-79.

TABLE 5

COMPARISON OF CHANGES IN REVENUE SOURCES
FROM JULY THROUGH FEBRUARY FOR FISCAL YEAR 1978-79
TO FISCAL YEAR 1979-80 WITHIN CITIES VISITED

Revenue Category	1979-80 Revenue	Percent of Total Revenue	1978-79 Revenue	Percent of Total Revenue	Change in Revenue	Percent Change in Revenue
<u>CITY OF SACRAMENTO</u>						
<u>Nondiscretionary Revenue</u>						
Taxes						
Property Taxes	\$ 8,121,342	11.96%	\$ 5,431,829	9.38%	\$ 2,689,513	49.51 %
Other Taxes	19,868,864	29.26	17,252,068	29.80	2,616,796	15.17 %
Fines, Forfeitures, and Penalties	686,994	1.01	611,165	1.06	75,829	12.41 %
Use of Money and Property	18,792,641	27.67	16,709,288	28.86	2,083,353	12.47 %
Aid from Other Governmental Agencies	5,859,391	8.63	6,081,110	10.50	(221,719)	(3.65)%
Nondiscretionary Revenue Total	<u>\$53,329,232</u>	<u>78.53%</u>	<u>\$46,085,460</u>	<u>79.61%</u>	<u>\$ 7,243,772</u>	<u>15.72 %</u>
<u>Discretionary Revenue</u>						
Charges for Current Services ^a	\$11,052,102	16.27%	\$ 8,517,229	14.71%	\$ 2,534,873	29.76 %
Licenses and Permits	2,275,295	3.35	1,778,902	3.07	496,393	27.90 %
Other Revenue	1,254,037	1.85	1,509,834	2.61	(255,797)	(16.94)%
Discretionary Revenue Total	<u>\$14,581,434</u>	<u>21.47%</u>	<u>\$11,805,965</u>	<u>20.39%</u>	<u>\$ 2,775,469</u>	<u>23.51 %</u>
City Total	<u>\$67,910,666</u>	<u>100.00%</u>	<u>\$57,891,425</u>	<u>100.00%</u>	<u>\$10,019,241</u>	<u>17.31 %</u>
<u>CITY OF FAIRFIELD</u>						
<u>Nondiscretionary Revenue</u>						
Taxes						
Property Taxes	\$ 1,230,017	14.49%	\$ 878,688	11.12%	\$ 351,329	39.98 %
Other Taxes	1,946,150	22.92	1,764,485	22.34	181,665	10.30 %
Fines, Forfeitures, and Penalties	239,265	2.82	238,154	3.01	1,111	0.47 %
Use of Money and Property	549,330	6.47	535,982	6.78	13,348	2.49 %
Aid from Other Governmental Agencies	2,460,819	28.99	2,775,174	35.13	(314,355)	(11.33)%
Nondiscretionary Revenue Total	<u>\$ 6,425,581</u>	<u>75.69%</u>	<u>\$ 6,192,483</u>	<u>78.39%</u>	<u>\$ 233,098</u>	<u>3.76 %</u>
<u>Discretionary Revenue</u>						
Charges for Current Service	\$ 728,200	8.58%	\$ 676,120	8.56%	\$ 52,080	7.70 %
Licenses and Permits	802,035	9.45	542,841	6.87	259,194	47.75 %
Other Revenue	533,718	6.29	488,210	6.18	45,508	9.32 %
Discretionary Revenue Total	<u>\$ 2,063,953</u>	<u>24.31%</u>	<u>\$ 1,707,171</u>	<u>21.61%</u>	<u>\$ 356,782</u>	<u>20.90 %</u>
City Total	<u>\$ 8,489,534</u>	<u>100.00%</u>	<u>\$ 7,899,654</u>	<u>100.00%</u>	<u>\$ 589,880</u>	<u>7.47 %</u>
<u>CITY OF PASADENA</u>						
<u>Nondiscretionary Revenue</u>						
Taxes						
Property Taxes	\$ 3,773,281	11.20%	\$ 2,980,655	9.60%	\$ 792,626	26.59 %
Other Taxes	11,941,955	35.44	10,348,176	33.33	1,593,779	15.40 %
Fines, Forfeitures, and Penalties	703,458	2.09	462,155	1.49	241,303	52.21 %
Use of Money and Property	2,037,992	6.05	972,850	3.13	1,065,142	109.49 %
Aid from Other Governmental Agencies	9,663,308	28.68	11,725,788	37.77	(2,061,980)	(17.59)%
Subtotal	<u>\$28,120,494</u>	<u>83.45%</u>	<u>\$26,489,624</u>	<u>85.33%</u>	<u>\$ 1,630,870</u>	<u>6.16 %</u>
<u>Discretionary Revenue</u>						
Charges for Current Services	\$ 3,966,331	11.77%	\$ 3,815,528	12.29%	\$ 150,803	3.95 %
Licenses and Permits	647,530	1.92	423,403	1.36	224,127	52.93 %
Other Revenue	964,403	2.86	316,133	1.02	648,270	205.06 %
Subtotal	<u>\$ 5,578,264</u>	<u>16.55%</u>	<u>\$ 4,555,064</u>	<u>14.67%</u>	<u>\$ 1,023,200</u>	<u>22.46 %</u>
Total Revenue	<u>\$33,698,758</u>	<u>100.00%</u>	<u>\$31,044,688</u>	<u>100.00%</u>	<u>\$ 2,654,070</u>	<u>8.55 %</u>

^a Increase in charges for services of \$1,281,850 is attributable to change in accounting practices in fiscal year 1979-80.

TABLE 5 (Continued)

<u>Revenue Category</u>	<u>1979-80 Revenue</u>	<u>Percent of Total Revenue</u>	<u>1978-79 Revenue</u>	<u>Percent of Total Revenue</u>	<u>Change in Revenue</u>	<u>Percent Change in Revenue</u>
<u>CITY OF OXNARD</u>						
<u>Nondiscretionary Revenue</u>						
Taxes						
Property Taxes	\$ 1,927,648	12.52%	\$ 1,538,756	10.12%	\$ 388,892	25.27 %
Other Taxes	4,551,940	29.57	4,691,688	30.84	(139,748)	(2.98)%
Fines, Forfeitures, and Penalties	171,120	1.11	152,854	1.00	18,266	11.95 %
Use of Money and Property	588,222	3.84	805,257	5.29	(217,035)	(26.95)%
Aid from Other Government Agencies	<u>5,009,219</u>	<u>32.54</u>	<u>5,496,395</u>	<u>36.13</u>	<u>(487,176)</u>	<u>(8.86)%</u>
Subtotal	<u>\$ 12,248,149</u>	<u>79.96%</u>	<u>\$ 12,684,950</u>	<u>83.39%</u>	<u>\$ (436,801)</u>	<u>(3.44)%</u>
<u>Discretionary Revenue</u>						
Charges for Current Service	\$ 2,147,155	13.95%	\$ 1,793,591	11.79%	\$ 353,564	19.71 %
Licenses and Permits	301,824	1.96	200,482	1.32	101,342	50.55 %
Other Revenue	<u>620,408</u>	<u>4.03</u>	<u>532,480</u>	<u>3.50</u>	<u>87,928</u>	<u>16.51 %</u>
Subtotal	<u>\$ 3,069,387</u>	<u>19.94%</u>	<u>\$ 2,526,553</u>	<u>16.61%</u>	<u>\$ 542,834</u>	<u>21.49 %</u>
Total Revenue	<u>\$ 15,395,067</u>	<u>100.00%</u>	<u>\$ 15,211,503</u>	<u>100.00%</u>	<u>\$ 183,564</u>	<u>1.21 %</u>
<u>CITY OF SAN DIEGO</u>						
<u>Nondiscretionary Revenue</u>						
Taxes						
Property Taxes	\$ 23,009,739	13.08%	\$ 15,550,638	10.83%	\$ 7,459,101	47.97 %
Other Taxes	50,427,261	28.66	33,924,900	23.63	16,502,361	48.64 %
Fines, Forfeitures, and Penalties	4,076,414	2.32	2,690,518	1.87	1,385,896	51.51 %
Use of Money and Property	12,391,571	7.04	7,475,709	5.21	4,915,862	65.76 %
Aid from Other Government Agencies	<u>57,823,166</u>	<u>32.86</u>	<u>65,869,174</u>	<u>45.87</u>	<u>(8,046,008)</u>	<u>(12.22)%</u>
Subtotal	<u>\$147,728,151</u>	<u>83.96%</u>	<u>\$125,510,939</u>	<u>87.41%</u>	<u>\$22,217,212</u>	<u>17.70 %</u>
<u>Discretionary Revenue</u>						
Charges for Current Services	\$ 12,112,149	6.88%	\$ 9,536,727	6.64%	\$ 2,575,422	27.01 %
Licenses and Permits	3,525,363	2.00	2,724,739	1.90	800,624	29.38 %
Other Revenue	<u>12,584,654</u>	<u>7.15</u>	<u>5,822,405</u>	<u>4.05</u>	<u>6,762,249</u>	<u>116.14 %</u>
Subtotal	<u>\$ 28,222,166</u>	<u>16.04%</u>	<u>\$ 18,083,871</u>	<u>12.59%</u>	<u>\$10,138,295</u>	<u>56.06 %</u>
Total Revenue	<u>\$175,950,317</u>	<u>100.00%</u>	<u>\$143,594,810</u>	<u>100.00%</u>	<u>\$32,355,507</u>	<u>22.53 %</u>
<u>CITY OF SAN PABLO^a</u>						
<u>Nondiscretionary Revenue</u>						
Taxes						
Property Taxes	\$ 130,932	4.17%	\$ 126,698	4.13%	\$ 4,234	3.34 %
Other Taxes	849,183	27.04	781,150	25.49	68,033	8.71 %
Fines, Forfeitures, and Penalties	66,055	2.10	65,952	2.15	103	0.16 %
Use of Money and Property	66,285	2.11	77,912	2.54	(11,627)	(14.92)%
Aid from Other Government Agencies	<u>1,478,322</u>	<u>47.07</u>	<u>1,839,960</u>	<u>60.03</u>	<u>(361,638)</u>	<u>(19.65)%</u>
Subtotal	<u>\$ 2,590,777</u>	<u>82.49%</u>	<u>\$ 2,891,672</u>	<u>94.35%</u>	<u>\$ (300,895)</u>	<u>(10.41)%</u>
<u>Discretionary Revenue</u>						
Charges for Current Service	\$ 265,807	8.46%	\$ 88,497	2.89%	\$ 177,310	200.36 %
Licenses and Permits	92,127	2.93	35,419	1.16	56,708	160.11 %
Other Revenue	<u>192,179</u>	<u>6.12</u>	<u>49,353</u>	<u>1.61</u>	<u>142,826</u>	<u>289.40 %</u>
Subtotal	<u>\$ 550,113</u>	<u>17.51%</u>	<u>\$ 173,269</u>	<u>5.65%</u>	<u>\$ 376,844</u>	<u>217.49 %</u>
Total Revenue	<u>\$ 3,140,890</u>	<u>100.00%</u>	<u>\$ 3,064,941</u>	<u>100.00%</u>	<u>\$ 75,949</u>	<u>2.48 %</u>

^a Revenue changes for San Pablo may be partially due to changes in accounting reporting systems between fiscal years 1978-79 and 1979-80.

Table 5 shows that during fiscal year 1979-80 nondiscretionary revenue as a percent of total revenue decreased in each of the six cities visited. For the majority of these cities, however, each nondiscretionary revenue category showed increases, with the exception of the category of aid from other governmental agencies.

The nondiscretionary revenue categories which increased as a percent of total revenue in fiscal year 1979-80 did so largely as the result of factors outside the cities' control. For example, property taxes, which decreased by nearly 48 percent in fiscal year 1978-79 (Table 4), increased for fiscal year 1979-80 in each city visited. The reasons for increased property tax revenue in fiscal year 1979-80 were the increase in assessed valuation that occurred and the redistribution of property tax revenue resulting from the passage of Assembly Bill 8 in 1979. Similarly, the other tax revenue category increased due to increased revenue from such items as sales tax and other fixed taxes which generate increased revenue as the price or volume of activity increases.

Aid from other governmental agencies which increased statewide as a percent of city total revenue in fiscal year 1978-79 (Table 4), decreased in fiscal year 1979-80 in all six cities visited. This decrease is partially attributable to the elimination of state bailout funds which were provided in

fiscal year 1978-79 and eliminated in fiscal year 1979-80. The loss of bailout funds was, however, compensated for by a shift in property tax revenue under the provisions of Assembly Bill 8 in fiscal year 1979-80.

Discretionary revenue increased as a percent of total revenue in fiscal year 1979-80 in each of the six cities we visited. Revenue from current service charges and licenses and permits increased substantially in each of the cities.

Revenue from charges for services increased partially because the cities in our study raised fees and service charges in fiscal year 1979-80. At least one city tied most fee and service charge increases to the Consumer Price Index, while another raised only selected fees and charges. At least one city had begun a cost accounting system designed to set service fees at prices which would make the services self-supporting. Park and recreation fees are a good example of the tendency of cities to place increasing responsibility for supporting services more directly upon the people using them. In addition, recreation and park fees demonstrate that there are limits to the revenue that can be raised through fee increases.

Park and recreation users' fees changed in at least five of the six cities in fiscal year 1979-80. For example, the city of San Diego has raised some recreation fees more than

annually as part of its effort to make certain activities (e.g., golf, tennis, and public lake fishing) self-supporting. However, there is a limit to the amount fees can be increased to generate additional revenue. For fiscal year 1978-79, the city of Pasadena raised its park and recreation fees 50 percent. Usage of the city's facilities decreased to the extent that revenue actually decreased. As a result, the city lowered its park and recreation fees 25 percent for fiscal year 1979-80.

The license and permit revenue increases realized by all six cities in fiscal year 1979-80 were substantially greater than the statewide increase experienced by cities in fiscal year 1978-79. Construction permit revenue, a major revenue item in this category, increased in five of the six cities visited. This increase is partially attributable to the fact that at least four of the six cities had raised their construction permit fees. Two cities had tied their construction permit fees to the Engineering News Record construction cost index. The level of building activity, however, also influences construction permit revenue.

Special Districts

There are 55 types of special districts in California which perform 32 activities, including 8 enterprise and 24 nonenterprise activities. Some special districts perform more

than one type of activity and derive revenue from both enterprise and nonenterprise functions. During fiscal year 1977-78, there were 4,823 special districts in California.

We reviewed recreation and park districts and county water districts to demonstrate the varying impact of Proposition 13 and subsequent legislation on nonenterprise and enterprise districts.* During fiscal year 1978-79, non-enterprise recreation and park districts experienced a decrease in total revenue of 24.6 percent; discretionary revenue as a percent of total revenue increased 5.6 percent. Conversely, enterprise county water districts had an increase in total revenue of 8.6 percent in fiscal year 1978-79; discretionary revenue as a percent of total revenue increased 3.3 percent.

The case studies we conducted in three recreation and park districts and two county water districts showed variable increases in total revenue in fiscal year 1979-80. At the same time, the discretionary revenue in the three recreation and park districts and the two county water districts increased. These case studies also showed the varying factors which affect the revenue of nonenterprise and enterprise districts.

* This report was based on data from 99 of the 118 recreation and park districts and 164 of the 205 county water districts.

It is important to note that the case studies used in this section are not representative of all special districts. Therefore, no generalizations can be made regarding the revenue potential of special districts.

Statewide Summary of Revenue Sources
for Fiscal Years 1977-78 and 1978-79

Table 6 shows the changes in revenue experienced by recreation and park and county water districts between fiscal year 1977-78 and fiscal year 1978-79.

TABLE 6
SUMMARY OF CHANGES IN REVENUE SOURCES
FOR RECREATION AND PARK DISTRICTS AND COUNTY WATER DISTRICTS
FROM FISCAL YEAR 1977-78 TO FISCAL YEAR 1978-79

<u>Revenue Category</u>	<u>1978-79 Revenue</u>	<u>Percent of Total Revenue</u>	<u>1977-78 Revenue</u>	<u>Percent of Total Revenue</u>	<u>Change in Revenue</u>	<u>Percent Change in Revenue</u>
<u>Recreation and Park Districts (Nonenterprise)</u>						
<u>Nondiscretionary Revenue</u>						
Taxes						
Property Taxes	\$ 12,178,637	30.68%	\$ 30,548,546	58.04%	\$(18,369,909)	(60.13)%
Other Taxes	905,949	2.28	1,020,054	1.94	(114,105)	(11.19)%
Fines, Forfeitures, and Penalties	170	.00	260	.00	(90)	(34.62)%
Use of Money and Property	3,040,620	7.65	1,398,215	2.66	1,642,405	117.46 %
Aid from Other Governmental Agencies	<u>15,166,837</u>	<u>38.21</u>	<u>11,459,798</u>	<u>21.77</u>	<u>3,707,039</u>	<u>32.35 %</u>
Subtotal	<u>\$ 31,292,213</u>	<u>78.84%</u>	<u>\$ 44,426,873</u>	<u>84.41%</u>	<u>\$(13,134,660)</u>	<u>(29.56)%</u>
<u>Discretionary Revenue</u>						
Licenses and Permits	\$ 256	.00%	\$ 295	.00%	\$ (39)	(3.21)%
Charges for Current Services	4,038,376	10.13	3,885,663	7.38	152,713	3.93 %
Other Revenues	<u>4,358,728</u>	<u>10.98</u>	<u>4,317,947</u>	<u>8.21</u>	<u>40,781</u>	<u>.94 %</u>
Subtotal	<u>\$ 8,397,360</u>	<u>21.16%</u>	<u>\$ 8,203,905</u>	<u>15.59%</u>	<u>\$ 193,455</u>	<u>2.36 %</u>
Total Revenue	<u>\$ 39,689,573</u>	<u>100.00%</u>	<u>\$ 52,630,778</u>	<u>100.00%</u>	<u>\$(12,941,205)</u>	<u>(24.59)%</u>

TABLE 6 (Continued)

<u>County Water Districts (Enterprise)</u>						
<u>Revenue Category</u>	<u>1978-79</u> <u>Revenue</u>	<u>Percent</u> <u>of Total</u> <u>Revenue</u>	<u>1977-78</u> <u>Revenue</u>	<u>Percent</u> <u>of Total</u> <u>Revenue</u>	<u>Change in</u> <u>Revenue</u>	<u>Percent</u> <u>Change in</u> <u>Revenue</u>
<u>Nondiscretionary Revenue</u>						
Taxes And Assessments	\$ 19,983,651	12.58%	\$ 26,892,574	18.38%	\$ (6,908,923)	(25.69)%
Fines, Forfeitures, and Penalties	-	-	-	-	-	-
Use of Money and Property	8,272,085	5.20	4,893,938	3.34	3,378,147	69.03 %
Aid from Other Governmental Agencies	<u>6,970,402</u>	<u>4.39</u>	<u>5,440,989</u>	<u>3.72</u>	<u>1,529,413</u>	<u>28.11 %</u>
Subtotal	<u>\$ 35,226,138</u>	<u>22.17%</u>	<u>\$ 37,227,501</u>	<u>25.44%</u>	<u>\$ (2,001,363)</u>	<u>(5.38)%</u>
<u>Discretionary Revenue</u>						
Licenses and Permits	-	-	-	-	-	-
Charges for Current Services	-	-	-	-	-	-
Water Sales	\$ 85,264,871	53.66%	\$ 73,718,289	50.37%	\$ 11,546,582	15.66 %
Water Service	6,010,368	3.78	4,847,741	3.31	1,162,627	23.98 %
Other Revenues	<u>32,397,153</u>	<u>20.39</u>	<u>30,550,456</u>	<u>20.88</u>	<u>1,846,697</u>	<u>6.05 %</u>
Subtotal	<u>\$123,672,392</u>	<u>77.83%</u>	<u>\$109,116,486</u>	<u>74.56%</u>	<u>\$ 14,555,906</u>	<u>13.34 %</u>
Total Revenue	<u>\$158,898,530</u>	<u>100.00%</u>	<u>\$146,343,987</u>	<u>100.00%</u>	<u>\$ 12,554,543</u>	<u>8.58 %</u>

Nonenterprise recreation and park districts and enterprise county water districts each experienced an overall decrease in nondiscretionary revenue as a percent of total revenue in fiscal year 1978-79. Recreation and park districts showed a significant decrease in the property tax revenue category and a substantial increase in aid from other governmental agencies, as well as decreases in revenue from other taxes and fines, forfeitures, and penalties. County water districts experienced a decrease in the taxes and assessment revenue category, but had increases in the categories of use of money and property and aid from other governmental agencies.

Recreation and park district property tax revenue decreased significantly in fiscal year 1978-79 due to Proposition 13. This decrease was offset somewhat by increased aid from other governmental agencies in the form of state bailout funding. County water districts' decrease in taxes and assessment revenue was not as large as that experienced by recreation and park districts because recreation and park districts are more heavily reliant on property taxes. Accordingly, county water districts did not receive a large increase in aid from other governmental agencies in fiscal year 1978-79.

Nonenterprise recreation and park districts and enterprise county water districts each experienced an increase in discretionary revenue as a percent of total revenue in fiscal year 1978-79. Recreation and park districts' increase in discretionary revenue as a percent of total revenue occurred at a time when total revenue decreased significantly, while county water district discretionary revenue increased during a period when total revenue was increasing.

Within the discretionary revenue categories, recreation and park districts had increases in the categories of charges for services and other revenue. County water districts also had increases in the charges for services category, but showed a slight increase in other revenue as a

percent of total revenue. While recreation and park districts and county water districts each showed an increase in charges for services in fiscal year 1978-79, this revenue category provides more than half of all county water district total revenue but only about ten percent of recreation and park district total revenue.

Case Studies of Special District
Revenue in Fiscal Year 1979-80

Table 7 summarizes the changes in revenue sources from July through February in fiscal year 1979-80 and for the same period in fiscal year 1978-79 in the special districts we visited.

TABLE 7

**COMPARISON OF CHANGES IN REVENUE SOURCES
FROM JULY THROUGH FEBRUARY FOR FISCAL YEAR 1978-79
TO FISCAL YEAR 1979-80 WITHIN SPECIAL DISTRICTS VISITED**

<u>Recreation and Park Districts (Nonenterprise)</u>						
<u>Revenue Category</u>	<u>1979-80 Revenue</u>	<u>Percent of Total Revenue</u>	<u>1978-79 Revenue</u>	<u>Percent of Total Revenue</u>	<u>Change in Revenue</u>	<u>Percent Change in Revenue</u>
<u>SOUTHGATE</u>						
<u>Nondiscretionary Revenue</u>						
Taxes						
Property Taxes	\$ 237,120	39.98%	\$159,068	33.44%	\$ 78,052	49.07 %
Other Taxes	38,342	6.47	37,225	7.82	1,117	3.00 %
Fines, Forfeitures, and Penalties	-	-	-	-	-	-
Use of Money and Property	5,783	.97	4,309	.91	1,474	34.21 %
Aid from Other Governmental Agencies	<u>232,960</u>	<u>39.28</u>	<u>197,890</u>	<u>41.60</u>	<u>35,070</u>	<u>1.77 %</u>
Subtotal	<u>\$ 514,205</u>	<u>86.70%</u>	<u>\$398,492</u>	<u>83.77%</u>	<u>\$115,713</u>	<u>29.04 %</u>
<u>Discretionary Revenue</u>						
Licenses and Permits	-	-	-	-	-	-
Charges for Current Services	\$ 45,643	7.70%	\$ 42,331	8.90%	\$ 3,312	7.82 %
Other Revenues	<u>33,222</u>	<u>5.60</u>	<u>34,894</u>	<u>7.33</u>	<u>(1,672)</u>	<u>(4.79)%</u>
Subtotal	<u>\$ 78,865</u>	<u>13.30%</u>	<u>\$ 77,225</u>	<u>16.23%</u>	<u>\$ 1,640</u>	<u>2.12 %</u>
Total Revenue	<u>\$ 593,070</u>	<u>100.00%</u>	<u>\$475,717</u>	<u>100.00%</u>	<u>\$117,353</u>	<u>24.67 %</u>
<u>CHICO</u>						
<u>Nondiscretionary Revenue</u>						
Taxes						
Property Taxes	\$ 264,749	23.11%	\$183,458	23.53%	\$ 81,291	44.31 %
Other Taxes	-	-	-	-	-	-
Fines, Forfeitures, and Penalties	-	-	-	-	-	-
Use of Money and Property	61,188	5.34	39,601	5.08	21,587	54.51 %
Aid from Other Governmental Agencies	<u>58,799</u>	<u>5.13</u>	<u>14,388</u>	<u>1.85</u>	<u>44,411</u>	<u>308.67 %</u>
Subtotal	<u>\$ 384,736</u>	<u>33.58%</u>	<u>\$237,447</u>	<u>30.46%</u>	<u>\$147,289</u>	<u>62.03 %</u>
<u>Discretionary Revenue</u>						
Licenses and Permits	-	-	-	-	-	-
Charges for Current Services	\$ 91,991	8.03%	\$ 62,556	8.02%	\$ 29,435	47.05 %
Other Revenues	<u>663,934</u>	<u>58.39</u>	<u>479,563</u>	<u>61.52</u>	<u>189,371</u>	<u>39.49 %</u>
Subtotal	<u>\$ 760,925</u>	<u>66.42%</u>	<u>\$542,119</u>	<u>69.54%</u>	<u>\$218,806</u>	<u>40.36 %</u>
Total Revenue	<u>\$1,145,661</u>	<u>100.00%</u>	<u>\$779,566</u>	<u>100.00%</u>	<u>\$366,095</u>	<u>46.96 %</u>

TABLE 7 (Continued)

<u>Recreation and Parks Districts (Nonenterprise)</u>						
<u>Revenue Category</u>	<u>1979-80 Revenue</u>	<u>Percent of Total Revenue</u>	<u>1978-79 Revenue</u>	<u>Percent of Total Revenue</u>	<u>Change in Revenue</u>	<u>Percent Change in Revenue</u>
<u>HAYWARD</u>						
<u>Nondiscretionary Revenue</u>						
Taxes						
Property Taxes	\$1,097,986	38.93%	\$1,094,340	52.87%	\$ 3,646	.33 %
Other Taxes	-	-	-	-	-	-
Fines, Forfeitures, and Penalties	-	-	-	-	-	-
Use of Money and Property	112,343	3.98	114,877	5.55	(2,534)	(2.21)%
Aid from Other Governmental Agencies	<u>1,117,892</u>	<u>39.64</u>	<u>422,514</u>	<u>20.41</u>	<u>695,378</u>	<u>164.58 %</u>
Subtotal	<u>\$2,328,221</u>	<u>82.55%</u>	<u>\$1,631,731</u>	<u>78.83%</u>	<u>\$696,490</u>	<u>42.68 %</u>
<u>Discretionary Revenue</u>						
Licenses and Permits	-	-	-	-	-	-
Charges for Current Services	\$ 423,645	15.02%	417,174	20.15%	\$ 6,471	1.55 %
Other Revenues	<u>68,504</u>	<u>2.43</u>	<u>21,150</u>	<u>1.02</u>	<u>47,354</u>	<u>123.90 %</u>
Subtotal	<u>\$ 492,149</u>	<u>17.45%</u>	<u>\$ 438,324</u>	<u>21.17%</u>	<u>\$ 53,825</u>	<u>12.28 %</u>
Total Revenue	<u>\$2,820,370</u>	<u>100.00%</u>	<u>\$2,070,055</u>	<u>100.00%</u>	<u>\$750,315</u>	<u>36.25 %</u>
<u>County Water Districts (Enterprise)</u>						
<u>ARCADE</u>						
<u>Nondiscretionary Revenue</u>						
Taxes and Assessments	-	-	-	-	-	-
Fines, Forfeitures, and Penalties	-	-	-	-	-	-
Use of Money and Property	\$ 450,587	38.72%	\$ 361,865	33.86%	\$ 88,722	24.52 %
Aid from Other Governmental Agencies	-	-	-	-	-	-
Subtotal	<u>\$ 450,587</u>	<u>38.72%</u>	<u>\$ 361,865</u>	<u>33.86%</u>	<u>\$ 88,722</u>	<u>24.52 %</u>
<u>Discretionary Revenue</u>						
Licenses and Permits	-	-	-	-	-	-
Charges for Current Services	-	-	-	-	-	-
Water Sales	\$ 662,141	56.89%	\$ 657,714	61.55%	\$ 4,427	.67 %
Water Services	51,109	4.39	49,078	4.59	2,032	4.14 %
Other Revenues	-	-	-	-	-	-
Subtotal	<u>\$ 713,251</u>	<u>61.28%</u>	<u>\$ 706,791</u>	<u>66.14%</u>	<u>\$ 6,460</u>	<u>.91 %</u>
Total Revenue	<u>\$1,163,838</u>	<u>100.00%</u>	<u>\$1,068,656</u>	<u>100.00%</u>	<u>\$ 95,182</u>	<u>8.91 %</u>
<u>CONTRA COSTA</u>						
<u>Nondiscretionary Revenue</u>						
Taxes and Assessments	\$ 866,250	9.33%	\$ 963,284	11.10%	\$(97,034)	(10.07)%
Fines, Forfeitures, and Penalties	-	-	-	-	-	-
Use of Money and Property	648,679	6.98	408,399	4.70	240,280	58.83 %
Aid from Other Governmental Agencies	<u>1,697,705</u>	<u>18.29</u>	<u>1,775,694</u>	<u>20.46</u>	<u>(77,989)</u>	<u>(4.39)%</u>
Subtotal	<u>\$ 3,212,634</u>	<u>34.60%</u>	<u>\$3,147,377</u>	<u>36.26%</u>	<u>\$ 65,257</u>	<u>2.07 %</u>
<u>Discretionary Revenue</u>						
Licenses and Permits	-	-	-	-	-	-
Charges for Current Services	-	-	-	-	-	-
Water Sales	\$ 5,683,391	61.21%	\$5,196,216	59.86%	\$487,175	9.38 %
Water Services	372,200	4.01	323,500	3.73	48,700	15.05 %
Other Revenues	<u>16,140</u>	<u>.10</u>	<u>13,387</u>	<u>.15</u>	<u>2,753</u>	<u>20.55 %</u>
Subtotal	<u>\$ 6,071,731</u>	<u>65.40%</u>	<u>\$5,533,103</u>	<u>63.74%</u>	<u>\$538,628</u>	<u>9.73 %</u>
Total Revenue	<u>\$ 9,284,365</u>	<u>100.00%</u>	<u>\$8,680,480</u>	<u>100.00%</u>	<u>\$603,885</u>	<u>6.96 %</u>

Table 7 reveals that nondiscretionary revenue increased as a percent of total revenue in the three recreation and park districts and in one of the two county water districts we visited. There was considerable variation, however, in the changes which occurred between nonenterprise and enterprise districts with respect to individual revenue categories. There was no consistent revenue increase or decrease in any category of nondiscretionary revenue within the three recreation and park districts we visited. In county water districts, use of money and property increased in the two districts visited, but this was the only nondiscretionary revenue category that changed consistently.

The reason for the considerable variation between individual districts may be partially attributable to the particular revenue sources available to each district. For example, one of the enterprise county water districts we visited, Arcade County Water District, does not receive property tax revenue because the district was created without a property tax base. This district also has not received any aid from other governmental agencies in fiscal year 1979-80. On the other hand, Contra Costa County Water District, which does receive property tax revenue, also received aid from other governmental agencies in fiscal year 1979-80.

Discretionary revenue decreased as a percent of total revenue in the three recreation and park districts and in one of the two county water districts we visited. Charges for services was the largest source of discretionary revenue in both types of districts, however, county water districts were more dependent on this source of revenue than were recreation and park districts.

Each of the three recreation and park districts had increases in the amount of revenue from charges for services in fiscal year 1979-80, but charges for services declined as a percent of total revenue in two of the three districts. The increased charges for services revenue can be attributed to the increased fees being charged by recreation and park districts. The districts we visited have raised fees from 50 to 300 percent since Proposition 13. However, due to increased property tax revenue or aid from other governmental agencies resulting from Assembly Bill 8, charges for services have decreased as a percent of total revenue in recreation and park districts.

Total revenue from charges for services increased in fiscal year 1979-80 in the county water districts we visited, but charges for services decreased as a percent of total revenue in one of the two districts. While the fees charged for water sales and service did not increase in the districts

in fiscal year 1979-80, the revenue from fees can vary due to other factors. For example, the demand for service affected the revenue generated by charges for services in the water districts. Water service fees are charged for service connections, turn on/turn off, or installation of new service. The level of demand for service is a major factor in determining the amount of revenue generated by these services.

School Districts

Proposition 13 and Assembly Bill 8 have altered the method used to finance school districts' operations. However, schools are still predominantly reliant on nondiscretionary sources of revenue, including state General Fund monies, local property taxes, and federal revenue.

Table 8 shows the changes in school district revenue from fiscal year 1977-78 to fiscal 1978-79.

TABLE 8

SUMMARY OF CHANGES IN SCHOOL DISTRICT GENERAL FUND REVENUE
FROM FISCAL YEAR 1977-78 TO FISCAL YEAR 1978-79

<u>Revenue Source</u>	<u>1978-79 Revenue</u>	<u>Percent of Total Revenue</u>	<u>1977-78 Revenue</u>	<u>Percent of Total Revenue</u>	<u>Change in Revenue</u>	<u>Percent Change in Revenue</u>
Federal	\$ 605,998,618	7.5%	\$ 547,746,359	6.8%	\$ 58,252,259	10.6 %
Combined Federal and State Miscellaneous Revenue	6,762,688	.1	6,806,298	.1	(43,610)	(.6)%
State	5,214,058,829	64.9	3,118,299,640	38.7	2,095,759,189	67.2 %
County	23,704,113	.3	46,816,141	.6	(23,112,028)	(49.4)%
Local						
Property Taxes	1,990,441,245	24.8	4,212,662,397	52.3	(2,222,221,152)	(52.7)%
Sales/Rentals and Other Revenue	190,899,876	2.4	127,473,342	1.5	63,426,534	49.8 %
Total Revenue	<u>\$8,031,865,369</u>	<u>100.0%</u>	<u>\$8,059,804,177</u>	<u>100.0%</u>	<u>\$ (27,938,808)</u>	<u>(.4)%</u>

Table 8 shows the impact of Proposition 13 on school district revenue. After Proposition 13, school district property tax revenue decreased approximately \$2.2 billion, but this was offset by a corresponding increase in state funding of \$2.1 billion. Overall, school district revenue in fiscal year 1978-79 decreased approximately \$28 million from fiscal year 1977-78 levels.

Table 8 also shows that in fiscal year 1978-79, state General Fund monies, local property taxes, and federal revenue provided 97.3 percent of school district general fund revenue. This indicates that school districts are heavily dependent on nondiscretionary revenue and that they generate a relatively limited amount of discretionary revenue. However, school districts do generate other revenue from areas such as fees for certain items and activities and school impact taxes for new facilities.

In December 1979, the Office of the Auditor General issued Report No. 932 which analyzed the types of fees charged in California schools and the varying circumstances under which fees are charged. The report documented that schools are charging fees for miscellaneous items such as gym clothes and laboratory fees, basic raw materials for courses, and other activities such as optional competitive athletic programs. Although the fees charged were directly related to the cost of the material or service provided, the report questioned the

legality of such fees and charges since Section 5 of Article IX of the California Constitution requires the Legislature to provide for a system of free common schools.

Another source of alternative revenue to schools is school impact taxes which are designed to alleviate the overcrowding of local school facilities caused by new residential developments. Government Code 65974 provides that, withstanding certain conditions

A city, county, or city and county may, by ordinance, require the dedication of land, the payment of fees in lieu thereof, or a combination of both, for classroom and related facilities for elementary or high schools as a condition to the approval of a residential development.

Various school districts have imposed school impact taxes prior to and after Proposition 13 based on the type of dwelling in a development. These fees, which may be upwards of \$400 per single family dwelling, can be a significant source of revenue. For example, between March 1979 and March 1980, the Rio Linda School District in Sacramento County collected \$217,200 in school impact taxes. The Attorney General, however, has questioned the constitutionality of charging such taxes without first receiving the electorate's approval.

In Opinion No. CV 78-123, May 18, 1979, the Attorney General concluded that fees imposed under Government Code Section 65974 constitute "special taxes" within the meaning of

Article XIII A of the California Constitution. Therefore, any special taxes enacted since Proposition 13 must be approved by a two-thirds vote of the electorate.

Assembly Bill 8 provided a major change in school financing in fiscal year 1979-80. It shifted property tax revenue from schools to other local governments and provided for replacement of shifted property tax revenue with state General Fund revenue. However, this had little net impact on the discretionary revenue available to school districts since both property taxes and state General Funds are nondiscretionary sources of revenue.

Because (1) school districts collect a relatively small amount of discretionary revenue, and since (2) the Auditor General recently studied fees and charges in school districts, and (3) the constitutionality of certain school impact taxes is currently in question, we did not conduct case studies of school districts to gather information on fiscal year 1979-80 revenue.

CONCLUSION

Counties and cities have increased their reliance on discretionary revenue sources since Proposition 13. During fiscal year 1978-79, counties increased their use of discretionary revenue as a percent of total

revenue by 25 percent, while cities increased their use of discretionary revenue sources by 13 percent. However, discretionary revenue is still a relatively small source of revenue for counties and cities, comprising 9.15 and 16.33 percent of total revenue, respectively.

Nonenterprise and enterprise special districts have been impacted differently by Proposition 13. Our review of nonenterprise recreation and park districts showed that reliance on discretionary revenue increased by approximately 36 percent in fiscal year 1978-79, while the enterprise county water districts increased discretionary revenue approximately 4 percent. Recreation and park districts derive only 21.16 percent of their revenue from discretionary sources while county water districts receive 77.83 percent of their revenue from discretionary sources.

School districts have limited discretionary revenue available to them. Since Proposition 13, their reliance on discretionary revenue sources has not changed appreciably.

Case studies conducted in counties, cities, and special districts regarding changes in use of revenue in fiscal year 1979-80 indicate that the increasing

reliance on discretionary revenue sources in fiscal year 1978-79 may have diminished somewhat in counties but not in cities. The results of case studies conducted in special districts did not indicate any specific trend.

PROPERTY TAX REVENUE AVAILABLE
TO LOCAL GOVERNMENTS IN
FISCAL YEAR 1979-80 IS
HIGHER THAN ORIGINALLY PROJECTED

Property tax levies in fiscal year 1979-80 are approximately three percent higher than originally estimated. The Conference Committee for Assembly Bill 8 estimated in July 1979 that property tax levies would increase 10 percent in fiscal year 1979-80. However, the State Board of Equalization has reported that property tax levies actually increased approximately 13 percent. As a result, total statewide property taxes are approximately \$150 million higher than originally projected for fiscal year 1979-80.

Units of local governments have received varying benefits from the increased property taxes. On a percentage basis, property taxes for schools increased 3.9 percent more than projected; special districts increased 3.3 percent more; counties increased 2.7 percent more; and cities increased 1.0 percent more than projected. This means that schools will receive \$74 million more property tax revenue than originally projected*; special districts will receive \$20 million more; counties will receive \$49 million more; and cities will receive \$7 million more than originally projected.

* Assembly Bill 8 provides a mechanism for compensating for additional property tax revenue in excess of the originally projected property tax revenue by transferring funds from the state General Fund to the state School Building Lease-Purchase Fund.

Property Taxes Levied
in Fiscal Year 1979-80

Assembly Bill 8 established a long-term method for distributing property tax revenue which significantly altered the revenue structure for schools, counties, cities, and special districts. For fiscal year 1979-80, a portion of the property tax base was transferred from schools to counties, cities, and special districts. The decrease in property tax revenue for schools resulting from this transfer was compensated through increased state assistance.

Table 9 compares the property tax revenue projections with the actual allocations for schools, cities, counties, and special districts in fiscal year 1979-80.

TABLE 9

SUMMARY OF FISCAL YEAR 1979-80 PROPERTY TAX ALLOCATIONS
 COMPARED WITH AB 8 PROJECTIONS^a
 (IN MILLIONS OF DOLLARS)

	<u>Schools</u>	<u>Percent of Total</u>	<u>Counties</u>	<u>Percent of Total</u>	<u>Cities</u>	<u>Percent of Total</u>	<u>Special Districts^b</u>	<u>Percent of Total</u>	<u>Total</u>
Projected 1979-80 Property Tax Allocations	\$1,913	38.3%	\$1,787	35.8%	\$700	14.0%	\$598	12.0%	\$4,998
1979-80 Property Tax Allocations	\$1,987	38.6%	\$1,836	35.7%	\$707	13.7%	\$618	12.0%	\$5,148
Difference Between Projected and Actual	\$ 74	.3%	\$ 49	(.1%)	\$ 7	(.3%)	\$ 20	-0-	\$ 150
Percent Difference Between Projected and Actual	3.9%		2.7%		1.0%		3.3%		3.0%

^a Includes homeowners' and business inventory property tax exemption reimbursements and excludes voter approved debt levies. Amounts represent levies rather than actual collections or expected collections after a delinquency allowance.

^b Includes less than countywide property tax levies and excludes incremental revenue allocated to redevelopment agencies.

The projected and actual figures presented in Table 9 are comparable in that they represent property taxes levied rather than those actually collected or expected to be collected after an allowance for delinquencies. Total property taxes were underestimated by 3.0 percent or approximately \$150 million.

Itemized Analysis for Fiscal
Year 1979-80 Projections

Table 10 shows an itemized comparison of the projected and actual property tax revenue shift from schools to counties, cities, and special districts in fiscal year 1979-80.

TABLE 10

SUMMARY OF PROJECTED AND ACTUAL
PROPERTY TAX REDISTRIBUTION IN FISCAL YEAR 1979-80^a
(IN MILLIONS OF DOLLARS)

	Schools			Counties			Cities			Special Districts ^b		
	Estimated	Actual	Difference	Estimated	Actual	Difference	Estimated	Actual	Difference	Estimated	Actual	Difference
1979-80 Property Tax Revenue before Redistribution	\$2,670	\$2,759	\$ 89	\$1,475	\$ 1,522	\$ 47	\$493	\$ 495	\$ 2	\$398	\$410	\$ 12
Revenue Redistribution:												
Amount Transferred to Replace Block Grants	(825)	(825)	-	436	436	-	207	207	-	182	182	-
Growth in Block Grant Transfer	(83)	(103)	(20)	44	51	7	21	26	5	18	26	8
Amount Transferred to Replace Reduction in AFDC Buyouts	(116)	(116)	-	116	116	-	-	-	-	-	-	-
Growth in AFDC Transfer	-	(15)	(15)	-	15	15	-	-	-	-	-	-
Amount Transferred to Offset New State Support for County Health Programs	267	255	(12)	(267)	(255)	12	-	-	-	-	-	-
Growth in County Health Transfer	-	32	32	-	(32)	(32)	-	-	-	-	-	-
Net Transfer	\$ (757)	\$ (772)	\$(15)	\$ 329	\$ 331	\$ 2	\$228	\$233	\$5	\$200	\$208	\$8
Reduction in State Reimbursement for Business Inventory Exemption (1979-80 only)				(17)	(17)	-	(21)	(21)	-	-	-	-
1979-80 Property Tax Revenue after Redistribution	\$1,913	\$1,987	\$74	\$1,787	\$1,836	\$49	\$700	\$707	\$7	\$598	\$618	\$20

^a Includes homeowners' and business inventory property tax exemption reimbursements and excludes voter approved debt levies. Amounts represent levies rather than actual collections or expected collections after a delinquency allowance.

^b Includes less than countywide property tax levies and excludes incremental revenue allocated to redevelopment agencies.

The difference between projections made for the Conference Committee on Assembly Bill 8 in July 1979 and the actual property tax levied is discussed below.

Transfer to Replace Block Grants

Table 10 shows that there was no difference between the estimated and actual amounts transferred to replace block grants because these amounts were specified in previous legislation. The amount of transfer was determined based on a percentage of the block grants allocated to local agencies in fiscal year 1978-79 before any adjustments for General Fund reserves and other restrictions. The percentages specified in Assembly Bill 8 and the resulting transfer are shown in Table 11.

TABLE 11

DETERMINATION OF FISCAL YEAR 1979-80
BLOCK GRANT TRANSFER

Governmental <u>Unit</u>	1978-79 <u>Block Grant</u>	Percentage Factor From <u>AB 8</u>	1979-80 Block Grant <u>Transfer</u>
Counties	\$436 million	100.00%	\$436 million
Cities	250 million	82.91%	207 million
Special Districts	<u>191 million</u>	95.24%	<u>182 million</u>
Total	<u>\$877 million</u>		<u>\$825 million</u>

Growth in Block Grant Transfers

The amount of growth in block grant transfers was underestimated by \$20 million in fiscal year 1979-80 because the growth in the tax base was greater than originally projected (Table 10). Assembly Bill 8 shifted a portion of the tax base from schools to counties, cities, and special districts. The tax base which was shifted increased with the growth in assessed valuation. Since the amount of growth in assessed valuation for fiscal year 1979-80 was higher than originally projected, the actual growth in the block grant transfer was \$103 million, not \$83 million as originally projected.

Transfer to Replace Reduction in AFDC Buyouts

Assembly Bill 8 provided an increase of \$116 million to the property tax base for counties (Table 10). This amount represents a reduction in the State's share of the cost for Aid to Families with Dependent Children (AFDC). The school property tax base is reduced by the same amount.

Growth in AFDC Transfer

The Conference Committee report on Assembly Bill 8 did not include an estimate of the growth in the property tax base transfer for AFDC in its calculations. Consequently, the amount of the AFDC transfer was understated by \$15 million, as shown in Table 10.

Transfer for Support of County Health Programs

The transfer for support of County Health Programs is overstated by \$12 million in the report of the Conference Committee on Assembly Bill 8 (Table 10). Assembly Bill 8 provided that the property tax base for counties be reduced by the amount of the state grant for county health services. County health services include public health services, outpatient health services, and inpatient health services provided directly by the county or financed or purchased by the county through grants, contracts, or agreements.

The difference of \$12 million between the projected and actual county health services transfer is attributable to two major factors. The first factor results from adjustments made to the fiscal year 1977-78 net county costs which were the basis of transfer projections. The other factor was the use of a 16 percent growth factor in estimating the transfer rather than the 8 percent specified in the formula in Assembly Bill 8.

Growth in County Health Transfer

The Conference Committee report on Assembly Bill 8 did not include an estimate of the growth in the property tax base transfer for county health programs. As a result, the amount of the transfer was underestimated by \$32 million as shown in Table 11.

Net Transfer

The net transfer of funds from the schools' property tax base to counties, cities, and special districts was understated by \$15 million (Table 10). The Assembly Bill 8 Conference Committee report had estimated the net transfer to be \$757 million. The actual net transfer was \$772 million.

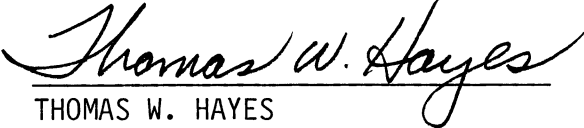
Reduction in Business Inventory Exemption Reimbursement

Table 10 shows that Assembly Bill 8 reduced the state reimbursement for business inventory property tax exemptions by \$17.4 million for counties and \$21 million for cities. This reduction is only for fiscal year 1979-80 and does not alter the property tax base for future years.

CONCLUSION

Property taxes levied in fiscal year 1979-80 were higher than originally estimated in the Conference Committee report for Assembly Bill 8. As a result, statewide property taxes are approximately \$150 million higher than originally projected for fiscal year 1979-80. The different units of local governments will receive varying benefits from the increased property taxes. Schools will receive \$74 million more property tax revenue than originally projected; special districts will receive \$20 million more; counties will receive \$49 million more; and cities will receive \$7 million more than originally projected.

Respectfully submitted,


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