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**An Exploration of County Expenditures  
and Revenues for Children's Services**

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# An Exploration of County Expenditures and Revenues for Children's Services

The changing conditions of children in California will necessitate significant increases in public expenditures. For example, the annual enrollment growth in schools alone will increase education expenditures by about 3 percent. Many of these additional children will require special services due to recent immigration, working parents, poverty, or family disorganization. Great strain will be placed on county and school district resources in order to keep pace with growth and tailor programs to the particular circumstances of various localities.<sup>1</sup>

The current system for financing children's services in California provides cities greater fiscal flexibility and revenue-raising potential than counties and school districts. But counties and school districts are the major providers of children's services and provide a broad array of children's services, while cities have very limited responsibilities (mostly recreation and law enforcement). Some county administrative responsibilities are presented below (Table 1).<sup>2</sup>

<b>TABLE 1 Selected Children's Programs Administered by California Counties</b>	
<u><b>HEALTH AND NUTRITION</b></u> Maternal and Child Health Women, Infants, and Children Feeding (WIC) Child Health and Disability Prevention Early Periodic Screening and Diagnosis Genetic Disease (newborn screening) Rural Health Indian Health Family Worker Health Family Planning MediCal (includes medically indigent children) Mental Health California Children's Services (physical therapy)	<u><b>CHILDREN'S PROTECTIVE SERVICES</b></u> Children's Shelter Child Abuse Prevention Child Welfare Services Aid for Adoptions of Children Foster Care
	<u><b>JUVENILE JUSTICE</b></u> Juvenile Detention Juvenile Prosecution
<u><b>INCOME SUPPORT</b></u> Payments for Children (AFDC) Child Support Incentives	<u><b>EDUCATION</b></u> Juvenile Hall—Education Programs Special Education for Severely Handicapped Children

This paper's objective is to provide information on county children's services and trends in county budgets. This will serve as a basis for further PACE research on the adequacy of county financing for children's services. In order to fully understand public financing for California's children, one would need to compile comprehensive data from federal, state, and local sources. Unfortunately, data on federal and state funds to support children in California are not compiled anywhere. Some federal program analyses are available, but they also encompass funding for adults through such programs as Medicaid. The state government does not provide any overall children's budget.

No data are available concerning total expenditures for children in all California counties. A major study was needed to compile and analyze children's programs and budgets in just one county (Los Angeles Roundtable for Children 1986). Los Angeles County contains 27 percent of California's children, and six out of ten children there are nonwhite. Obviously, it is not representative of the state as a whole. The next section illustrates overall county responsibility for children through the example of revenue and expenditure patterns within one specific county. Many counties are experiencing difficulty obtaining revenues for children. Most county funds come from federal and state sources, and services are mandated by these higher levels of government. The Los Angeles County example, however, demonstrates the crucial importance of locally raised revenue in providing children's services designed to meet local circumstances.

## **Los Angeles County Funding for Children**

A comprehensive study of the Los Angeles County children's budget concluded that most programs serve "vulnerable and at-risk children for whom various Los Angeles County government agencies have special, often legally mandated responsibilities. They are boys and girls endangered by poverty, physical or mental illness or handicapped conditions, child abuse and neglect, conflict with the law, or other special circumstances" (Los Angeles County Roundtable for Children 1986).

A few important county services are available to all children, such as child immunization, libraries, parks, and recreation. The Los Angeles County children's budget was slightly less than half the size of the total budget for all eight-two county public school districts combined, and accounted for one third of the Los Angeles County government's total expenditures.

Three quarters of the total children's budget for Los Angeles County is spent on children's income support programs—five programs in four departments. Assistance to Families with Dependent Children (AFDC) accounts for 95 percent of the funding for children's income support. A breakdown of the Los Angeles County children's budget by

service areas (Table 2) reveals that, after income support, the second largest item—child health services—consumes only 9.4 percent of the total children’s budget. But these figures do *not* include a much larger amount of funding—some health services for poor children go directly through MediCal payments to health providers who are not part of county government. The Los Angeles County Department of Health provides a basic medical safety net for the poorest children and administers preventative public health services to a broader child population. Most spending for children’s health, however, would need to be compiled from individual hospitals not run directly by Los Angeles County.

**TABLE 2 The Children’s Budget of Los Angeles County, Expenditures 1984-85<sup>a</sup>**

Service Areas	Dollars	Percent of Total Children’s Budget
Children’s Income Support Programs	\$1,478,188,526	75.55%
Child and Adolescent Health Services <sup>b</sup>	185,250,756	9.4%
	138,526,395	(7.0)
	46,724,361	(2.4)
Juvenile Justice System Services	131,386,176	6.72%
Children’s Protective Services	117,222,572	6.0%
Children’s Mental Health Services	26,772,884	1.4%
Children’s Programs: Recreation/Culture	17,253,846	0.9%
Child Care	671,485	0.3%
<b>Total Children’s Budget</b>	<b>\$1,956,746,243</b>	<b>100.0%</b>
<b>Total Consolidated Los Angeles County Budget, 1984-85<sup>c</sup></b>	<b>\$6,049,542,759</b>	<b>100.0%</b>
<b>Total Children’s Budget as Percent of Total County Budget</b>	<b>\$1,956,746,243</b>	<b>32.3%</b>

<sup>a</sup> Estimated expenditures for children’s programs during fiscal year 1984-85 as compiled from special Department reports prepared by request of Los Angeles County Chief Administrative Officer.

<sup>b</sup> These figures include 7 percent for Department of Health Services and 2.4 percent for administrative costs for MediCal and Food Stamps, part of the Department of Public Social Services budget.

<sup>c</sup> Communication from James C. Hankla, Chief Administrative Officer, Los Angeles County, May 16, 1985.

The juvenile justice system includes ten Los Angeles County departments plus a separate County Office of Education and accounts for 7 percent of the Los Angeles County government budget. Child Protective Services encompasses nine county departments. Also, Child Protective Services frequently deals with the same children that Juvenile Justice does at a different time or under different circumstances, since there is a high probability that an abused or neglected child may be subsequently involved in delinquency.

Children's Mental Health consumes only 1.4 percent of the Los Angeles County government budget and serves children in other county service systems such as probation or protective services. Children with mental health problems are often served by more than one county department. The county also pays for mental health programs administered by private agencies.

Cultural and recreational services are provided by seven Los Angeles County departments, the largest expenditure being for the county library system. County government provides child care only to specific targeted groups of children, primarily abused or neglected children, AFDC recipients, or children of parents in specific job training programs. Of the \$98 million provided by government for child care within Los Angeles County, 70 percent was allocated through the education system, 23 percent went to various non-profit agencies, and 6 percent went to public agencies other than the Los Angeles County government.

## **Who Pays for County Children's Services**

An overview of Los Angeles County children's services and local budgets reveals heavy county fiscal dependence on federal and state governments (Table 3). The combined federal and state share of the budget amounts to 81 percent. By contrast, Santa Clara County's federal and state funding share was 58 percent.

In every area of children's resources, there is a partnership of funding, but in some areas federal funding dominates; in others, the state or county dominates. The largest expenditure is for the Children's Income Support Program, provided through 48 percent federal, 45 percent state, and 7 percent Los Angeles County sources. But health programs are funded predominantly from county sources, which account for 55 percent of the total; the state share is 30 percent, and the federal share only 0.5 percent. Children's Protective Services is funded 63 percent by the state, but the state uses Title XX bloc grant funding from the federal government to provide much of its contribution to counties. The rapidly growing Juvenile Justice budget, however, is 83 percent county-funded. County libraries also rely overwhelmingly on county funds.

The funding of income support for children highlights some of the differences between Los Angeles County and the rural counties. Currently, counties pay 5.4 percent of

AFDC costs, while the state finances 44.6 percent and the federal government 50 percent. Even this 5.4 percent is difficult to raise in some rural counties which have experienced rapid growth of low-income populations. Parents realize that their grants will purchase more housing and other necessities in rural economies, so many people have moved to Colusa County (welfare expenses climbed by 247 percent between 1981 and 1986) and Tehama County (246 percent in the same period).

**TABLE 3 Income Sources: The Children's Budget and Total County Budget, 1984-85**

Source	Children's Budget	%	Total County Budget	%
Federal	\$765,429,213	39.0%	\$1,177,370,058	19%
State	813,613,575	42.0%	1,810,782,824	30%
County	337,321,739	17.0%	1,137,103,798	19%
Other (A)	24,666,265	1.2%	960,406,349	16%
Other (B)	15,715,451	0.8%	963,879,730	16%
<b>Total</b>	<b>\$1,956,746,243</b>	<b>100.0%</b>	<b>6,049,542,759</b>	<b>100%</b>

Note: Other (A) includes client fees, third party payments, and contributions from outside private sources. Other (B) includes special districts and special earmarked funds that cannot be used for other purposes. Los Angeles County Chief Administrative Officers separated this item out for the total County budget; the same was done in the children's budget in order to compare the two.

### **The Squeeze on County Children's Budgets**

Available evidence suggests that California counties are facing revenue constraints that will have a significant impact on the conditions of children. State limitations on local ability to raise revenue create shortages in the supply of services. These shortages are intensified by child population growth and increased mandates from the federal and state levels for adult services.

Most counties are unable to tailor children's services to particular local needs because this requires local discretionary revenues they do not have. Some counties cannot participate in federal or state programs that require local matching funds. Many counties cannot fund state-mandated programs, so they ration services by not seeking clients or by changing eligibility requirements (Legislative Analyst 1987). If county budgets are squeezed, outreach and referral services that are largely locally funded cannot increase at the same rate as the child population.

In order to understand the roots of this budget squeeze, the overall nature of demands on county services for both children and adults must first be examined. If funds are insufficient, then services for children and adults are in direct competition. After this analysis of demands, we examine two counties, one urban and the other rural, in order to specifically demonstrate the impact of these fiscal trends.

County governments are the major providers of health, welfare, and justice services to children and adults. As we have seen, counties deliver AFDC, food stamps, medical, and other health services. Counties share law enforcement and fire responsibilities with cities, but have the responsibility to conduct legal proceedings and house prisoners who are not in state prisons. Cities arrest felons and turn them over to counties for subsequent processing. The city role for children is very limited and encompasses mostly law enforcement and recreation. Table 4 demonstrates the more rapid growth of total expenditures in cities, compared to counties and school districts, and their greater ability to raise local revenues.

**TABLE 4 California Local Government Expenditures, 1978-1986**  
(in constant 1986 dollars per capita)

	1978	1986	Change
City Expenditures	547	671	22.7%
Net of Intergovernmental Assistance	350	567	61.6%
County Expenditures	655	636	-2.9%
Net of Intergovernmental Assistance	329	327	-0.6%
Local School Expenditures	3,356	3,789	12.9%
Net of Intergovernmental Assistance	1,851	908	-50.9%
Special District Expenditures*	102	365	257.8%
Net of Intergovernmental Assistance	75	207	176.0%
Community Redevelopment Agency Expenditures	56	100	79.9%
Net of Intergovernmental Assistance	48	98	105.7%
Total City Expenditures (City plus Community Redevelopment Agency)	603	771	28.0%
Net of Intergovernmental Assistance	398	665	67.0%

\* Excluding Community Redevelopment Agencies.

Note: Deflated using the GNP deflator for state and local government purchases. City and Community Redevelopment Agency expenditures are expressed per city population in the state, while Local School District expenditures are expressed per Average Daily Attendance in the state. All other expenditures are expressed per total state population.

SOURCES: State Controller, *Annual Report of Financial Transactions*, 1977-78 and 1985-86 volumes for Cities, Counties, Special Districts, Community Redevelopment Agencies, and School Districts.



## **Ramifications of Proposition 13 and the Gann Limit**

Proposition 13, passed by California voters in 1978, limited a local jurisdiction's ability to raise revenue via the property tax. The proposition, now Article XIII A of California's Constitution, decreased property taxes to 1 percent of assessed value, reducing the revenue available to local government and schools by between \$5 and \$7 billion in 1978-79. Proposition 13 all but eliminated a county's ability to raise local revenue to support locally-provided services (California Tax Foundation 1984). The only revenue source of any significance remaining under county control is charges for current services, which account for less than 10 percent of total county revenues (Legislative Analyst 1987). Cities have been able to levy fees and taxes and thereby alleviate some of the effects of Proposition 13.

The Gann limit, passed as Proposition 4 in 1979 and now Article XIII B of the state constitution, limits state and local government spending relative to increases in population and inflation. If local government has income greater than the limit for a particular year, it must either return the money to the taxpayers or receive voter approval to increase the limit. An increasing number of cities and counties are approaching their expenditure limits as this report goes to press (California Tax Foundation 1987). As a consequence of Proposition 13, property taxes as a source of county revenue declined from 35.4 percent in 1976-77 to 23.8 percent in 1984-85 and have continued to drop (Legislative Analyst 1987).

These predicaments, coupled with decreases in federal support of social service programs in the 1980s, result in counties becoming more dependent on the state for financial assistance and more subject to state budget constraints or crises (California Tax Foundation 1984). State aid in California as a share of county revenues increased from 23.8 percent of the county budgets in 1977-78 to 36.1 percent of the county budgets in 1985-86 (Reid and Winkler 1987). Limited availability of local revenues restricts a county from providing discretionary services for its children. Fiscal and service disparities can also occur in counties across the state, depending on their ability to raise tax revenue and provide essential services (California Legislative Analyst 1987).

## **Statewide Budget Factors**

Since county revenue and ability to provide services are so closely tied to the state, it is important to examine statewide budget factors, especially as they relate to social service programs that may affect the condition of children. In the period from 1981 to 1987 the state budget for education and youth/adult corrections grew by 20 percent and 81 percent respectively in *real* terms adjusted for inflation. In the same time period, spending on health and welfare programs decreased by 4 percent in *real* terms (California Legislative Analyst 1986). Revenue growth in current dollars between 1976-77 and 1984-85 shows increases for

counties by 70 percent, the state by 133 percent, and California cities by 175 percent. The 70 percent current dollar revenue growth for counties, when adjusted for inflation, actually indicates a 7 percent *decrease* in this time period (California Legislative Analyst 1987). The Legislative Analyst summarized county budget trends this way (reprinted from County Legislative Analyst report *The 1987-88 Budget Perspective and Issues* 1987):

**TABLE 5 County Fiscal Trends, dollars in thousands**

	1983-84	1984-85	1985-86	Change 1983-84 to 1985-86
County General Purpose Revenues <sup>a</sup>	\$5,435	\$5,810	\$6,152	13.2%
County Expenditures				
State-Required Programs <sup>b</sup>				
Health and Welfare	994	1,123	1,266	27.3%
Trial Courts	559	780	900	61.0%
Jails	515	589	668	29.7%
All Other Programs	3,367	3,318	3,318	-1.5%

<sup>a</sup> SOURCE: Department of Finance.

<sup>b</sup> SOURCE: Legislative Analyst's Office estimates. These amounts are county costs net of specific state and federal assistance.

Note: The higher growth rates for state-required program costs, relative to the growth of general purpose revenue, mean that other program requirements must be accommodated within a gradually shrinking pool of funds. Although greater efficiencies have mitigated this problem to some extent, our review indicates that in some counties, it has resulted in significant service reductions. County officials face pressures to avoid cuts in programs which are considered vital by the majority of their citizens, such as law enforcement activities. As a consequence, the cuts tend to fall on less visible programs, such as probation, building maintenance and services to indigents.

Finally, the fiscal condition of counties is not uniform throughout the state. Certain counties are able to raise more tax revenue than others, due to regional variations in the state's economy. In addition, the proportion of persons requiring public assistance and health care differs significantly between counties. These "fiscal disparities" mean that some counties are less able to provide basic levels of services than other counties, and that to some extent, the state's objectives in some program areas are met to a greater or lesser degree depending upon geographic location.

County expenditures for adult corrections, criminal justice, and health services are increasing faster than revenue earmarked for these purposes by the state or federal government. Between 1983-84 and 1985-86 state-mandated county costs increased 61 percent for trial courts, 30 percent for jails, and 27 percent for health and welfare. The increases occurred

while overall county revenues increased by only 13 percent in the same two-year period, resulting in program and service reductions, especially for services deemed nonessential (California Legislative Analyst 1987). An example of a similar situation is projected by the County Supervisors Association of California (CSAC). Their projections for Los Angeles County in 1991 indicate that discretionary revenue will increase by 163 percent over its 1979-80 base, while court, jail, and public assistance expenditures will increase over the same base by 219 percent, 332 percent and 361 percent respectively. Again, it is important to note that almost all counties are in a fiscal straitjacket in terms of raising their own revenues, constrained by both Proposition 13 and the Gann spending limit. A few counties are trying to raise sales taxes that are not capped by Proposition 13 property tax restrictions, but this type of increase requires a two-thirds local vote that is very difficult to obtain.

State-mandated services will continue to place pressures on counties in the next few years. Local governments are responsible for the operating costs of correctional facilities. County jail population increased by 71 percent between 1980 and 1985 (California Legislative Analyst 1987). Growth of the prison population may be connected to decreases in preventive services for children (e.g., protective services, dropout prevention, and family counseling). In the 1988 legislative session, the state provided some increased appropriations for county court costs, but some counties are not accepting the state money because the same statute requires them to provide tax relief to cities with low property values.

Health costs also continue to rise, in part because of increasing numbers of AIDS cases. County hospitals serve a large number of AIDS patients and counties cover over 30 percent of the AIDS health care costs (California Legislative Analyst 1987). Projections indicate a continuing increase in AIDS cases, resulting in increasing costs to counties.

The examples above describe the pressures counties face to provide mandated services. County officials claim that in 1987 more than 90 percent of their budgets were spent on state-mandated programs, including matching fund programs (Iwata 1988). Counties are restricted in their ability to raise revenue for local children's needs, while simultaneously required to provide federal- and state-mandated services. The impact of this fiscal "squeeze" on children is unclear, yet it deserves attention and further research. During interviews, county officials reported that they were forced to cut children's services in order to fund adult justice costs. Ironically, those cuts may only be fueling spiraling demands on law enforcement in the future as potentially violent children are not treated at an early stage. County officials could not see any significant way to expand their present base funding for children's services. They could not increase participation in federal or state matching programs for children, because there was no county money to pay the required match. State-mandated services must be provided, but outreach and referral programs whose purpose is to locate unserved children may be cut back. In this way, counties ration their children's services in order to stay within budget limits.

## **Fiscal Constraints: Examples in Two Counties**

The two examples that follow indicate the types of problems facing counties in California. The example of Santa Clara County shows how responsibilities are passed on to a county without the requisite resources. Shasta County serves as an example of pressures facing rural counties in the state.

Counties are often required to carry out state legislation without being provided the resources necessary to comply. State legislation passed in 1985<sup>3</sup> shifted the responsibility of delivering mental health services to handicapped and disabled students from local education agencies to county mental health agencies. Legal counsel for Santa Clara County claimed that the net cost to Santa Clara County for these services would be \$3,081,000, a sum the county could not afford. Santa Clara County filed a claim to the California Commission on State Mandates to classify this program as a mandate in order to be eligible for more state support (Santa Clara County Counsel 1987).

Shasta County, located in Northern California and having a population of 132,000, is a rural county suffering from limited resources. Approximately 75 percent of Shasta County's \$110 million 1987-88 budget is set aside for state-mandated programs. The county, faced with a \$2.6 million deficit, was forced to make cuts from available discretionary funds that had previously supported the library, hospital, and sheriff's department. On October 15, 1987 Shasta County closed its library system. In early November 1987, Shasta County General Hospital stopped taking new patients and has now closed. The hospital mainly served indigent patients; these patients are now treated in a mobile "clinic" composed of trailers. Shasta's problems are indicative of the financial pressures faced by California's fifty-eight counties as they attempt to meet state mandates while providing other services to their residents (Raymond 1988). Shasta has constructed a new prison, so correctional services will consume a larger part of the budget than in prior years.

It is important to investigate the potential effects of county fiscal constraints on the condition of children in the state. The Assembly Office of Research, California Tax Foundation, and County Supervisors Association of California, among other groups, have expressed concern about the limited money available at the local level to fund discretionary programs. What are the direct or indirect effects on children of this fiscal squeeze on nonmandated and locally generated services? How much support is actually being withdrawn from children's services delivery? Policy makers must address these questions in order to determine the direction the state and counties should take to improve children's services.

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<sup>1</sup> See the PACE report *Conditions of Children in California*.

<sup>2</sup> PACE reports detailing school district expenditures and revenues include: James Guthrie and Michael Kirst (eds.), *Conditions of Education 1988*; Gerald Hayward, *The Two Million Dollar School* (1988); and Allan Odden, *California Public School Finance Programs* (1987). These studies highlight the fiscal challenge caused by pupil growth above and per-pupil expenditures below the national average.

<sup>3</sup> Chapter 1747, Statutes of 1984 and Chapter 1274, Statutes of 1985.

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