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Budget Strategy: A Survey of California County Governments

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Abstract

The current recession has taken a hard toll on California local governments. With declining revenues and increasing costs of providing services, many local governments are struggling to balance their budgets. This paper, based on a survey of California county governments in the summer of 2009, intends to investigate what factors have caused their budget shortfalls and what strategies they have adopted to cope with the fiscal crisis. Survey findings show there are three basic reasons for California county budget shortfalls: shrinking revenues; reductions in state aid; and rising costs for labor, goods and services. Confronted with pressing fiscal challenges, California county governments have adopted a wide range of traditional budget control measures to close their revenue and spending gaps, such as personnel control and service cuts. They have also become creative and used this opportunity to reexamine their spending, find savings, and improve government operations. In addition, this fiscal crisis provides an opportunity for federal, state, and local governments to work together to address the problems of federalism, health care and pension systems.

KEYWORDS: California County finance, budgets, federalism, fiscal management

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Introductionn

The current recession, the worst economic downturn since the Great Depression, has taken a hard toll on government finances, particularly at state and local levels. With declining revenues and increasing need for public programs, all governments across the nation have felt the pinch. Reports released by the Nelson A. Rockefeller Institute of Government (2009a, 2009b) detail the impact of the recession on state budgets. According to the Rockefeller Institute, state tax revenue fell by 11.7 percent in the first quarter of 2009 and by 16.6 percent in the second quarter of 2009, a record drop and for the fiscal year ending in June 2009, total state tax collections fell by $63 billion (or 8.2 percent) from the previous year, another record loss. It is estimated the state's fiscal problems are likely to continue into the next year. Similarly, the fiscal health of local governments is also a major concern in light of this economic slump. A survey of large counties conducted by the National Association of Counties (2008) and a survey of city fiscal conditions by the National League of Cities (2008) both reveal a troubling trend of revenue shortfalls, increased expenses, and greater difficulty in borrowing, and suggest that it is only the beginning of a looming financial crisis.

Amid this fiscal crisis, the state of California was hit particularly hard where the weak economy and subprime housing market have severely constrained California state budgets. While many other states have predicted series of budge problems, California stands out by its sheer volume of budget deficits as state revenues are plummeting and many places see double-digit unemployment rates. A chronology of what happened in 2009 highlights the severity of fiscal difficulties the state is facing:[1]

- On February 20, 2009, the governor reached an agreement with the state legislature to close the state's $42 billion budget deficit through a mix of tax increases and spending cuts. That budget package, however, was complex and contingent in nature and was affected by interactions between the federal stimulus bill, the May 19 special election,[2] and the uncertainty of state revenues that are subject to the ups and downs of the business cycle. Personal income tax, sales and use tax, and corporation tax contribute to approximately 80 percent of total California state

revenues and 95 percent of General Fund revenues. These three major revenue sources, however, are volatile over the course of the business cycle (Vasche, Williams, and Ingenito 2008).

- On May 19, 2009, the people of California voted down Propositions 1A through 1E that proposed tax increases, borrowing, and other measures, implying the state faced very limited options to increase revenue and the option left was to cut spending. The governor and the legislature went back to budget negotiations that resulted, as usual, in budget deadlock.
- On July 1, 2009, the governor declared a state of fiscal emergency and ordered state employees to take a third unpaid furlough day each month.
- On July 2, 2009, the State Controller's Office started issuing IOUs to residents and people that do business with the state.
- On July 20, 2009, the governor and the legislature reached an agreement to close the state's $26.3 billion deficit by cutting broadly across the state government, borrowing, and taking funds from local governments.
- On July 29, 2009, the governor signed the $27 billion budget balancing package.

In the midst of this recession, California's local governments were looking to the state to help address their own budget troubles. In California the fiscal conditions of the state and its approximately 7,000 local governments (including cities, counties, school districts, and special districts) are closely intertwined because of various propositions that have been enacted, among which are Proposition 13 (1978), Proposition 98 (1988), Proposition 1A (2004) that have reshaped state-local fiscal relationships. As a result, the fiscal outlook of the state has significant implications for the local governments that are especially vulnerable to cuts in state aid. In 2006-07, for example, according to the U.S. Census Bureau, the state government spent approximately $232 billion, approximately $93 billion (or 40 percent) of which was passed forward to its localities in the form of grants or transfers. In the current economic downturn, the state of California, to balance its budget, adopted, as usual, the strategy of withholding, delaying, and/or cutting funds to its localities. In reaction, counties of San Diego, Sacramento, Riverside, and others sued the state of California and state controller to release the payments to state-mandated programs.

This paper focuses on California's 58 counties that are administrative subdivisions of the state and provide the basic services and general assistance to their residents. The state's fiscal crisis has put enormous pressures on counties, and this paper intends to survey California county governments and investigate how they respond to the current economic and fiscal crisis and state budget cuts. Specially, the paper intends to address the following three questions:

1. What factors have caused or contributed to the budget crisis?

2. What strategies have California county governments adopted to cope with the crisis?

3. What are the implications of this fiscal crisis for future governance?

These questions are answered by analyzing information gathered from a survey of California's 58 counties. The next section provides a review of the extant literature on how government manages fiscal crisis and a discussion of what specifically has happened in the state of California that converges to this fiscal storm. The section that follows summarizes the survey methodology used in the project. The paper continues with a discussion and analysis of the survey data and concludes with a summary of the research and implications for future government operations.

Managing Fiscal Crisis

Charles Levine (1980) provides a useful framework for understanding how to manage fiscal stress in the public sector. He first identifies forces that may cause fiscal problems, including economic base, taxing capacity, organization of taxing and spending authority, scope of governmental service responsibility, citizen's service demands and expectations, and interest-group and public-employee demands. He then provides alternatives and choices available for government to wrestle with fiscal stress, including decision making (data analysis, for example), revenue generation, productivity improvement, and cutbacks and termination. Throughout the process, he cautions that government develop "a middle course between comprehensive planning and 'muddling through' strategies while acknowledging the full importance of the basic mission of public management: balancing economic necessities with political realities" (p.7). The bottom line for "government managers in a time of austerity is finding a balance between fiscal solvency and levels of services and benefits that are adequate, equitable, and stable" (p.12), that is, the goal is to find and establish a fiscally and politically acceptable equilibrium.

Publications since Levine (1980) have reflected this cause-solution approach with a particular focus on the steps government takes to cope with fiscal stress. At the federal level, Rivlin and Sawhill (2004, 2005) edit a series of studies that look into the escalation of federal deficits and national debt. They propose three strategies to balance the federal budget and meet the long-term challenge: a smaller government plan that involves spending cuts, a larger government plan that relies on significantly increasing taxes, and a better government plan that focuses on improving government performance and productivity and reforming the federal budget process. Different from the federal government, all states except Vermont and local governments are required to balance their budgets, and research has been conducted on the measures they have taken to close spending and revenue gaps. The

National Association of State Budget Officers (NASBO) (2002) summarizes state budget shortfall strategies in the 2001 recession and finds both short-term and long-term measures that include spending cuts, layoffs, tapping rainy day funds, offering early retirement, increasing taxes and fees, reducing aid to local governments, and delaying or cutting capital spending. In addition to those most commonly used strategies, states engage in budget savings and improving government efficiency. The state of Oklahoma, for instance, in the search for budget savings and discouraging government agencies from rushing to spend their end-of-year balances, has adopted a policy that allows agencies to carry over and reprogram year-end surplus (Douglas and Franklin 2006). State governments have also found numerous ways to improve performance through such measures as reorganizing and consolidating information technology, property, and purchasing systems and introducing competition to more government services (National Governors Association 2004). At the local level, a symposium on local government finance published in *Public Budgeting & Finance* (Abrams 1982) analyzes the impact of the 1974-75 recession, New York City fiscal crisis, Proposition 13, and other similar limitations on government taxation and expenditure, and the 1980 election on local government finances. The symposium finds that local governments respond to revenue shortfalls by searching for new revenue sources, adopting new budgetary approaches (e.g., zero-base budgeting), and eliminating public services.

In the process of managing fiscal crises, governments often turn to a higher level of government (federal and/or state) for assistance and discussion in the literature surrounds fiscal federalism and how it influences local governments. According to Inman (1988, 33), "[f]rom its beginnings, the fiscal system of the United States has been committed to the principle that multiple layers of government are the preferred structure for the financing and provision of government services." Fiscal federalism in the U.S. has undergone a major shift overtime from "dual federalism" to "cooperative federalism" and to "new federalism" (Rosenbloom, Krravchuk, and Clerkin 2009), and recent literature focuses on various forms of "new federalism" and its impact on different levels of government. For example, Dommel and Rasey (1989) examine the impact of the loss of general revenue sharing (GRS) on Ohio local governments and find the loss of federal funds did not trigger fiscal stress, and localities engaged in spending cuts, increased debt, and other strategies. Cooper (1997) takes a step further to explore the linkage between Alabama local governments' loss of GRS and their resultant coping strategies, and finds higher GRS dependency resulted in greater service cut in Alabama. With regard to the impact of state policies on local governments, Gold and Ritchie (1992, 1994) study how state actions affect cities and counties in the early 1990s, focusing on states changing aid to local governments, providing revenue diversification options to local governments, sorting out responsibilities between state and local governments, changing

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tax and spending limitations, and providing local governments mandate relief. The recession in 2001, though relatively short and mild, has seen most state governments experience their worst fiscal crisis since World War II (National Governors Association 2002). Reschovsky (2004) researches state government fiscal crises of the early 21st century and finds many states have reduced their assistance to local governments and school districts. Overall the literature on intergovernmental finance in hard economic times shows a shifting federalism with local governments providing more public services with less intergovernmental aid, resulting in greater fiscal pressure at the local level.

In essence, managing fiscal stress in the public sector epitomizes the increasing need for fiscal sustainability, the ability of governments to "meet existing program commitments with existing resources not only in current terms but into the future" (Ward and Dadayan 2009, 456). With rising growth in spending (particularly health and welfare) and escalating challenges in finding politically feasibly sources of new revenues, states and localities are confronted with ever-increasing fiscal stress, and the gaps between revenues and expenditures are predicted to continue to grow until 2057, according to the Government Accountability Office (GAO) (U.S. Government Accountability Office 2008a, 2008b, 2009).

In the saga of fiscal stress is the case of California, which is widely covered in the media not only because of the magnitude of its economy, but also its perennial budgetary debacle. Since the 1970s, California has undergone several fiscal and budget crises that came along with the 1973-1975 recession, the 1980s recessions, the early 1990s recession, the 2001 recession, and the current recession that started in December 2007, all of which have buffeted California's local governments. Through these crises, the politics and policies of the state government and initiatives of the people of California have changed the fiscal structure of local governments and challenged their ability to provide services to their residents. One particular event was the passage of Proposition 13 in 1978 that puts a cap on the growth of property taxes and since then, California counties have lost some autonomy and have been under constant fiscal stress as they become more dependent on state aid and their revenue sources become more constrained (Chapman 2003). While a variety of reforms have been proposed to change the state budget processes and dynamics (Musso, Graddy, and Grizard 2006), it seems the state has not learned the lesson that "postponement of hard choices and delays in budget information and analysis made difficult budget problems even worse" (Sheffrin 2004, p.206), especially for local governments. This paper intends to examine how California county governments respond to this round of fiscal crisis and explore how it affects the ability of counties to operate and govern.

Methodology

The data for this paper was collected by a mail survey conducted during the summer of 2009. A survey was sent to the County Administrative Officers (CAOs)[3] of California's 58 counties, whose contact information was obtained off their county websites. The survey protocols included a cover letter introducing the purpose of the research, an informed consent form fully explaining the benefits and costs of the survey, and a copy of the survey questionnaire consisting of 16 questions asking them if they expect any budget shortfalls during FY2008-09 and FY2009-10 and if so, how they deal with them. CAOs or their designees of 17 counties completed the survey, resulting in a response rate of 29 percent.

The 17 counties that filled out the survey provide a nice representation of all 58 counties in California in terms of geographic location and population. They come from northern, central, and southern California, and their population ranges from 3,400 to over 3 million. The following section discusses the survey findings.

Analysis and Discussion

The current economic downturn is having a negative impact on California county governments. For FY2008-09, only two counties out of the 17 counties that responded to the survey reported no budget shortfalls and for the other 15 counties, the size of their budget deficits ranged from slight to $180 million, or approximately 0 to 5.2 percent of their budgets. The fiscal outlook is even worse for FY2009-10 with all but one county expecting budget shortfalls. While the exact magnitude of budget gaps remains unknown as they were waiting upon the state action on how much deduction in state aid they will get in FY2009-10, budget shortfalls are estimated to constitute approximately 0 to 6.8 percent of their FY2009-10 budgets. Many counties expressed serious concerns about the uncertainty of the economy, state budget, and their impact on county fiscal conditions.

The survey also asked questions about what have caused the budget shortfalls, and Table 1 and Table 2 summarize the results for FY2008-09 and FY2009-10 respectively. (Note there are interdependencies between the causes of budget shortfalls. For example, the housing crisis may lead to declining property taxes.) Overall, there are three basic reasons for California counties' fiscal difficulties: shrinking revenues, reductions in state aid, and rising costs for labor, goods and services. Overwhelmingly, as the tables show, 15 counties (88.2%) cited declining taxes, especially property and sales taxes, as the main contributor to their budget problems for both years. California county governments also blamed the housing market and foreclosure crisis for depressing property tax revenues and consumption and sales taxes (10 counties for FY2008-09 or 58.8% and 11 counties for FY2009-10 or

Table 1: What Have Caused Budget Shortfalls in FY2008-09?

	# of Counties that said Yes	# of Counties that said No	Total
Housing crisis	10 (58.8%)	− 7 (41.2%)	17 (100%)
Declining taxes	15 (88.2%)	− 2 (11.8%)	17 (100%)
Reductions in state aid	− 9 (52.9%)	− 8 (47.1%)	17 (100%)
Decreased fees/charges	− 8 (47.1%)	− 9 (52.9%)	17 (100%)
Increased expenses	− 8 (47.1%)	− 9 (52.9%)	17 (100%)
Increased borrowing costs	− 1 (5.9%)	16 (94.1%)	17 (100%)

Note: percentages are in parentheses.

Table 2: What Have Caused Budget Shortfalls in FY2009-10?

	# of Counties that said Yes	# of Counties that said No	Total
Housing crisis	11 (64.7%)	− 6 (35.3%)	17 (100%)
Declining taxes	15 (88.2%)	− 2 (11.8%)	17 (100%)
Reductions in state aid	12 (70.6%)	− 5 (29.4%)	17 (100%)
Decreased fees/charges	− 7 (41.2%)	10 (58.8%)	17 (100%)
Increased expenses	11 (64.7%)	− 6 (35.3%)	17 (100%)
Increased borrowing costs	− 1 (5.9%)	16 (94.1%)	17 (100%)

Note: percentages are in parentheses.

64.7%). Further, reductions in state aid, decreased fees and charges (in building permits, for example), and increased expenses (in human and health services, for example) played a major role in causing local government budget woes. This is particularly significant for FY 2009-10 as more counties complained about decreasing state subventions and increasing expenses. Overall the survey results reveal the massive budget problems that have trickled down from the federal to the state, and from the state to counties. History shows states have between 12-18 months to fully recover after a national recession ends. For the state of California, it may take longer as it is still lingering in the fiscal stress of the early 2000s, which means even more serious fiscal challenges for California local governments in FY2009-10.

Confronted with mounting economic and fiscal pressures, California county governments have taken, or plan to take, action to deal with the anticipated budget shortfalls. Tables 3 and 4 present the findings for FY2008-09 and FY2009-10 respectively. The measures to address budget problems can be broadly classified into the following groups: tax increases, cutback management, borrowing, and other strategies. Taxes are not popular for Californians as demonstrated by the Special Election in May 2009, and counties are unwilling to raise additional local revenues through tax increases. This is confirmed by the survey results that none of the 16 counties raised taxes in FY2008-09 and only one county plans to do so in FY2009-10. It is clear that county officials do not want to face an angry public again—after the fallout from an outraged electorate in the 1970s when taxes were increased sharply and again three decades later in May 2009 when the people of California conveyed the same message by voting down the special measures to increase taxes.

With tax increases not an option, California county officials instinctively turn to traditional budget control procedures and use standard cutback strategies: personnel control and service cuts. Since the single largest cost for the counties is labor, it comes as no surprise that county governments try to curb personnel spending. As Tables 3 and 4 indicate, California counties attempted to control labor cost by implementing hiring freeze, furloughs, early retirements, salary freeze, labor contract negotiations, and layoffs. Fourteen counties (82.4%) have hiring freeze or restrictions in place for both FY2008-09 and FY2009-10. Surprisingly, layoffs, typically the last resort for government to cope with fiscal stress, became a major strategy for California counties this time. Eleven counties (64.7%) laid off employees in FY2008-09 and it increased to 13 counties (76.5%) in FY2009-10. The numbers for furloughs, early retirement, and salary freeze also grew from FY2008-09 to FY2009-10. A key component of public employee payment is benefits (including employee and retiree health benefits and pensions), which has increasingly consumed much of government budgets and become a target of budget cuts. According to the survey, 8 counties (47.1%) completed labor contract renegotiations in

Table 3: Measures to Address FY2008-09 Budget Shortfalls

	# of Counties that said Yes	# of Counties that said No	Total
Tax increases	− 0 (0%)	17 (100%)	17 (100%)
Debt	− 4 (23.5%)	13 (76.5%)	17 (100%)
Hiring freeze	14 (82.4%)	− 3 (17.6%)	17 (100%)
Furloughs	− 6 (35.3%)	11 (64.7%)	17 (100%)
Layoffs	11 (64.7%)	− 6 (35.3%)	17 (100%)
Early retirement	− 2 (11.8%)	15 (88.2%)	17 (100%)
Salary freeze	− 7 (41.2%)	10 (58.8%)	17 (100%)
Labor contract renegotiations	− 8 (47.1%)	− 9 (52.9%)	17 (100%)
Budget cuts	14 (82.4%)	− 3 (17.6%)	17 (100%)
Service delivery cuts	− 9 (52.9%)	− 8 (47.1%)	17 (100%)
Freezing capital spending	− 5 (29.4%)	12 (70.6%)	17 (100%)
Contracting out services	− 2 (11.8%)	15 (88.2%)	17 (100%)
Incentives for budget savings	− 3 (17.6%)	14 (82.4%)	17 (100%)
Using contingency funds	− 8 (47.1%)	− 9 (52.9%)	17 (100%)
Other initiatives	− 3 (17.6%)	14 (82.4%)	17 (100%)

Note: percentages are in parentheses.

FY2008-09 and it increased to 10 counties (58.8%) in FY2009-10 with another one county considering restructuring their employee retirement benefits. With respect to service cuts, 9 counties (52.9%) cut back on service deliveries (such as health and human services) in FY2008-09 and it increased to 11 counties (64.7%) in FY2009-10. In general, the vast majority of counties cut spending in both FY2008-09 and FY2009-10 and spending cuts were uneven across and/or within the counties, where some were across-the-board, some were targeted, and some were based on program priorities. For instance, one county proposed to lay off 217 employees (of over 9,000 employees) across all departments/programs in FY2009-10 (corresponding to approximately a 2 percent cut), while one program within the county let go 3 of its 6 full-time employees (or a 50 percent cut).

The third way for California county governments to close their revenue and spending gaps was to issue short-term or long-term debt. Four counties (23.5%) reported issuing short-term Tax Revenue Anticipation Notes (TRANs) in FY2008-09 due to cash-flow problems, and 6 counties (35.3%) planed to do so in FY2009-10. In addition, one county expressed uncertainty in short-term borrowing for both FY2008-09 and FY2009-10 depending on state cuts and cash flow. Of the coun-

Table 4: Measures to Address FY2009-10 Budget Shortfalls

	# of Counties that said Yes	# of Counties that said No	Total
Tax increases	− 1 (5.9%)	16 (94.1%)	17 (100%)
Debt	− 6 (35.3%)	11 (64.7%)	17 (100%)
Hiring freeze	14 (82.4%)	− 3 (17.6%)	17 (100%)
Furloughs	− 9 (52.9%)	− 8 (47.1%)	17 (100%)
Layoffs	13 (76.5%)	− 4 (23.5%)	17 (100%)
Early retirement	− 4 (23.5%)	13 (76.5%)	17 (100%)
Salary freeze	− 9 (52.9%)	− 8 (47.1%)	17 (100%)
Labor contract renegotiations	10 (58.8%)	− 7 (41.2%)	17 (100%)
Budget cuts	13 (76.5%)	− 4 (23.5%)	17 (100%)
Service delivery cuts	11 (64.7%)	− 6 (35.3%)	17 (100%)
Freezing capital spending	− 6 (35.3%)	11 (64.7%)	17 (100%)
Contracting out services	− 4 (23.5%)	13 (76.5%)	17 (100%)
Incentives for budget savings	− 5 (29.4%)	12 (70.6%)	17 (100%)
Using contingency funds	− 7 (41.2%)	10 (58.8%)	17 (100%)
Other initiatives	− 3 (17.6%)	14 (82.4%)	17 (100%)

Note: percentages are in parentheses.

ties that reported borrowing as a means of dealing with budget deficits, none of them foresaw any difficulty with the issuance. Different from the state whose bond ratings had been lowered several times and are currently the lowest among the nation's 50 states, many California county governments are fiscally conservative and are highly rated by national rating agencies.

There are also other budgetary belt-tightening strategies and tactics California county officials adopted to balance their budgets.

- Eight counties (47.1%) cited using contingency funds for FY2008-09 and seven counties (41.2%) for FY2009-10;
- Five counties (29.4%) reduced, restricted, or froze capital spending in FY2008-09 and it increased to 6 counties (35.3%) in FY2009-10;
- Counties were also interested in contracting out services to cut costs. For instance, one county contracted out client transportation at the Probation Department and medical center. The number of counties opting for outsourcing increased from 2 counties (11.8%) in FY2008-09 to 4 counties (23.5%) in FY2009-10.
- Further, county officials provided incentives for departments to save more and spend wisely. Three counties (17.6%) reported budget saving strategies and it

jumped to 5 counties (29.4%) in FY2009-10. A good example is a cost containment program that one county has been implementing since the 1990s and has modified several times upon review and evaluation. Overall, the program proved successful in encouraging county departments to control expenditures and economize, increasing the county's general carryover balance, and rewarding departments for good budget management. This program has helped the county tide over many tough budget years.

- County officials also adopted other budget formats or initiatives to prioritize services and improve government operations. Three counties (17.6%) cited using this approach in both FY2008-09 and FY2009-10. One county, for instance, adopted in the early 2000s a strategy, which is similar to performance budgeting, to achieve its long-term vision of a "well-managed county" and has implemented it in a multi-year period. This strategy helps identify and implement the county's priorities, link them to and use performance measures to evaluate department and program operations, allocate resources based on the highest priorities, communicate the results to the community, and make improvements based on the feedback. This tool has helped the county improve performance by addressing organizational and community needs.[4]

In summary, survey results show that during these extraordinary times, California county officials have adopted traditional budget control strategies to grapple with the unprecedented fiscal challenges. They have also become creative and used this opportunity to do innovative things that may not be considered in better times. In addition to using contingency funds, contracting out services, and other tools listed above, they have tried to consolidate programs, work collaboratively with outside agencies, suspend some management benefits (such as deferred compensation match), consider retirement alternatives, borrow from internal trust funds, and many other tools. Underlying these measures is a thoughtful, prioritized process in which county officials reexamine their revenue raising, spending, and management systems, focus on key, essential programs and services, and improve efficiency and effectiveness in government.

Conclusion

The survey of California counties in the summer of 2009 clearly illustrates the impact of the economic downturn on local government budgets. The housing market bust, declining revenues (including reductions in state aid), and increasing expenses have posed an enormous challenge to county governments, forcing them to take drastic actions to cut costs and take this opportunity to innovate and change the way government works. Survey results show budget strategies adopted by Cali-

fornia county governments, including hiring freezes, budget cuts, and many others, are similar to those employed by other state and local governments, as revealed by recent state and local government fiscal surveys (NASBO 2002; NACo 2008; NLC 2008). Just as most strategies adopted by state and local governments during fiscal stress reflect the control orientation of public budgeting, this survey finds that budget control is well and alive in California county governments during this time of fiscal constraints. While budget control cannot "resolve underlying causes of fiscal stress," "the first step toward alleviating resource scarcity may well lie in local governments ability to use control to preserve short-term financial health" (Massey and Straussman 1981, 11).

In these turbulent times there are also hidden opportunities with respect to government finance and administration. One example would be the effort of county officials to preserve the bulk of contingency funds so they can provide buffer against the downturn. Further, some counties have implemented, or consider implementing, innovative strategies, such as "Managing for Results," to reform the way government operates. "Fine-tuning the finances and administration of public agencies and programs will not alone solve the larger problems of stimulating economic growth, but it may contribute—along with other government policies and private-sector initiatives—to restoring the economic growth rates" of early years (Levine 1980, 5). These changes suggest that though budget control is predominant, fiscal challenges have forced county officials beyond their budget control orientation by acknowledging and developing management and planning orientations (Massey and Straussman 1981). Control is not sufficient for sound governance and county governments have taken steps to move towards better management and planning.[5]

With the economic downturn, state budget cuts, local policy and politics, and other forces intertwining and converging to this fiscal storm, many counties expect FY2009-10 to be the "really" bad year. Survey results imply the fiscal outlook for FY2009-10 is worse and more uncertain and as a result, spending cuts are expected to be deeper and budget control tighter in FY2009-10. Reflected, explicitly or implicitly, in the counties' economic and fiscal outlook are several common feelings shared among California county officials:

- Complexity of the current recession. Many counties state this economic slump is longer and more severe than expected and its impact on the state of California is particularly troubling since its revenue collection is vulnerable to viscidities of the economy. They expect to face more challenges and have to be prepared for the worst due to their dependence on the state;
- Frustration about state action. California state budget continues to be fluid and has a great impact on counties' budget outlook. It has been a common practice that the state delays or reduces local aid when it runs into a budget deadlock.

County governments express their deep frustration in the survey about the state's inability to reform its budget structure and politics;

- Growing concern about the burden of employee benefits, particularly health and pension benefits. Rising medical costs and pension contributions have put a major burden on government budgets due to the downturn in the market, and many counties are struggling to deal with employee and retiree health and pension costs.

To address the above concerns, it is necessary to reexamine the way government operates and explore short- and long-term possibilities. First, federal, state, and local governments should work together to stimulate the economy and meet the fiscal challenges. While the federal stimulus package provides assistance to state and local governments for economic recovery, it is not clear at this point if and how it is going to work out. Second, the fiscal storm triggers a look at federalism and remedy of the maladies federalism has cultivated. Research shows that fiscal aid can be a mixed blessing for local governments that may alleviate fiscal stress and compromise local autonomy at the same time (Walker 1980; Merget 1981). For many California county governments, federal and state aid constitutes a significant portion of their budgets, and this fiscal dependency on higher levels of government has constrained their ability to budget, plan, and manage. Some counties stated in the survey that while the federal stimulus package might help offset some fiscal difficulties, they are competitive applications and there are strings attached. At the state level, it has been a tradition for the state to raid local governments during times of fiscal stress, and there have been several lawsuits against the state so far this year. A reform option is for the state to grant more and greater discretion to local governments and provide local officials with the tools they need to govern. Third, this fiscal crisis provides an opportunity to reform the healthcare and pension systems. The state and local governments are struggling to meet their healthcare and pension obligations as the costs are growing faster than state and local revenues. In addition, Government Accounting Standards Board (GASB) has issued a series of statements (including GASB Statements No. 43 and No. 45) that require the public sector to account for Other Post Employment Benefits (OPEB) (including retiree health care, dental care, and other post employment health benefits such as vision and life insurance). While the GASB statements intended to shed light on the long-term liabilities, pensions and OPEB definitely impose a huge burden on the public sector. According to the GAO reports, increasing expenses notably in Medicaid and health-related costs, as well as recent financial and housing market turmoil, will present significant challenges for state and local governments within the next few years, in the absence of substantial policy changes (U.S. Government Accountability Office 2008a, 2008b, 2009). Many counties in this survey voiced this concern and suggested several proposals, considering additional tiers for future employees that increase eligible age of retirees, reduce benefits, and/or increase

employee contributions. Reducing healthcare and pension costs would be a big relief to the state of California and its local governments.

In conclusion, the survey of California's county governments in the context of the current economic environment reveals the fiscal and political challenges they are embracing. On top of that, there are other unknowns confronting them in the years ahead, including the potential impact of national healthcare reform and escalating federal budget deficits and national debt. In light of the pressures and uncertainties, the real question is how California county governments continue to balance their budgets and maintain fiscal sustainability:

> There are no "quick fixes," and all levels of government need to work in tandem to address the complex and interrelated reforms that need to be made. Continuing on this unsustainable path will gradually erode, and ultimately damage, our economy, our standard of living, and potentially our domestic tranquility and national security. This is a challenge that needs to be addressed with a greater sense of urgency by policymakers since time is currently working against us. (U.S. Government Accountability Office 2008a, 2)

Notes:

[1] Details about the California state budget and the state budget crisis timeline are available at http://www.sacbee.com/budget/; accessed August 1, 2009.

[2] In the May 19 Special Election all measures except Prop. 1F were voted down. Propositions 1A through 1E were created to provide additional revenues to close the state's general fund budget gap. Prop. 1A proposes to extend the state's sales and use tax, vehicle license fee, and personal income tax for one or two more years, increase the size of the state rainy day fund and limit state spending. Prop. 1B requires supplemental payments to local school districts and community colleges. Prop. 1C intends to modernize the state lottery to increase its performance and borrow from future lottery profits. Prop. 1D redirects money from the California Children and Families Program to protect health and human services for children. Prop. 1E temporarily transfers funds from Proposition 63 of 2004, Mental Health Services Act, to pay for mental health services. Prop. 1F prevents elected officials from pay raises during budget deficit years. Information about the special election is available online at http://www.voterguide.sos.ca.gov/; accessed July 6, 2009.

[3] CAOs are called County Executive Officers (CEOs) in some counties (such as County of Napa, California) or County Managers (such as County of San Mateo, California).

4. County of Marin: Administrator's Office. http://www.co.marin.ca.us/depts/AD/main/mfr/index.cfm. Accessed July 30, 2009.

5. Details about Allen Schick's classic control, management, and planning functions of budgeting can be found in Allen Schick, December 1966, The road to PPB: The stages of budget reform. *Public Administration Review* 26, no. 5: 243-258.

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Erratum

The article was originally published with the designation: Volume 1, Issue 1 (2009) on the cover-page. This was corrected to: Volume 2, Issue 1 (2010) on Friday, January 29, 2010.

The following was removed from KEYWORDS: “writing a letter to Santa”

Page 7, Table 1 should appear as follows:

Table 1: What Have Caused Budget Shortfalls in FY2008-09?

	# of Counties that said Yes	# of Counties that said No	Total
Housing crisis	10 (58.8%)	7 (41.2%)	17 (100%)
Declining taxes	15 (88.2%)	2 (11.8%)	17 (100%)
Reductions in state aid	9 (52.9%)	8 (47.1%)	17 (100%)
Decreased fees/charges	8 (47.1%)	9 (52.9%)	17 (100%)
Increased expenses	8 (47.1%)	9 (52.9%)	17 (100%)
Increased borrowing costs	1 (5.9%)	16 (94.1%)	17 (100%)

Note: percentages are in parentheses.

Table 2: What Have Caused Budget Shortfalls in FY2009-10?

	# of Counties that said Yes	# of Counties that said No	Total
Housing crisis	11 (64.7%)	6 (35.3%)	17 (100%)
Declining taxes	15 (88.2%)	2 (11.8%)	17 (100%)
Reductions in state aid	12 (70.6%)	5 (29.4%)	17 (100%)
Decreased fees/charges	7 (41.2%)	10 (58.8%)	17 (100%)
Increased expenses	11 (64.7%)	6 (35.3%)	17 (100%)
Increased borrowing costs	1 (5.9%)	16 (94.1%)	17 (100%)

Note: percentages are in parentheses.

Increased borrowing costs	1 (5.9%)	16 (94.1%)	17 (100%)

Note: percentages are in parentheses.

Page 7, Table 2 should appear as follows:

Table 2: What Have Caused Budget Shortfalls in FY2009-10?

	# of Counties that said Yes	# of Counties that said No	Total
Housing crisis	11 (64.7%)	6 (35.3%)	17 (100%)
Declining taxes	15 (88.2%)	2 (11.8%)	17 (100%)
Reductions in state aid	12 (70.6%)	5 (29.4%)	17 (100%)
Decreased fees/charges	7 (41.2%)	10 (58.8%)	17 (100%)
Increased expenses	11 (64.7%)	6 (35.3%)	17 (100%)
Increased borrowing costs	1 (5.9%)	16 (94.1%)	17 (100%)

Note: percentages are in parentheses.

Page 9, Table 3 should appear as follows:

Table 3: Measures to Address FY2008-09 Budget Shortfalls

	# of Counties that said Yes	# of Counties that said No	Total
Tax increases	0 (0%)	17 (100%)	17 (100%)
Debt	4 (23.5%)	13 (76.5%)	17 (100%)
Hiring freeze	14 (82.4%)	3 (17.6%)	17 (100%)
Furloughs	6 (35.3%)	11 (64.7%)	17 (100%)
Layoffs	11 (64.7%)	6 (35.3%)	17 (100%)
Early retirement	2 (11.8%)	15 (88.2%)	17 (100%)
Salary freeze	7 (41.2%)	10 (58.8%)	17 (100%)
Labor contract renegotiations	8 (47.1%)	9 (52.9%)	17 (100%)
Budget cuts	14 (82.4%)	3 (17.6%)	17 (100%)
Service delivery cuts	9 (52.9%)	8 (47.1%)	17 (100%)
Freezing capital spending	5 (29.4%)	12 (70.6%)	17 (100%)
Contracting out services	2 (11.8%)	15 (88.2%)	17 (100%)
Incentives for budget savings	3 (17.6%)	14 (82.4%)	17 (100%)
Using contingency funds	8 (47.1%)	9 (52.9%)	17 (100%)
Other initiatives	3 (17.6%)	14 (82.4%)	17 (100%)

Note: percentages are in parentheses.

FY2008-09 and it increased to 10 counties (58.8%) in FY2009-10 with another one county considering restructuring their employee retirement benefits. With respect to service cuts, 9 counties (52.9%) cut back on service deliveries (such as health and human services) in FY2008-09 and it increased to 11 counties (64.7%) in FY2009-10. In general, the vast majority of counties cut spending in both FY2008-

Page 10, Table 4 should appear as follows:

Table 4: Measures to Address FY2009-10 Budget Shortfalls

	# of Counties that said Yes	# of Counties that said No	Total
Tax increases	1 (5.9%)	16 (94.1%)	17 (100%)
Debt	6 (35.3%)	11 (64.7%)	17 (100%)
Hiring freeze	14 (82.4%)	3 (17.6%)	17 (100%)
Furloughs	9 (52.9%)	8 (47.1%)	17 (100%)
Layoffs	13 (76.5%)	4 (23.5%)	17 (100%)
Early retirement	4 (23.5%)	13 (76.5%)	17 (100%)
Salary freeze	9 (52.9%)	8 (47.1%)	17 (100%)
Labor contract renegotiations	10 (58.8%)	7 (41.2%)	17 (100%)
Budget cuts	13 (76.5%)	4 (23.5%)	17 (100%)
Service delivery cuts	11 (64.7%)	6 (35.3%)	17 (100%)
Freezing capital spending	6 (35.3%)	11 (64.7%)	17 (100%)
Contracting out services	4 (23.5%)	13 (76.5%)	17 (100%)
Incentives for budget savings	5 (29.4%)	12 (70.6%)	17 (100%)
Using contingency funds	7 (41.2%)	10 (58.8%)	17 (100%)
Other initiatives	3 (17.6%)	14 (82.4%)	17 (100%)

Note: percentages are in parentheses.

ties that reported borrowing as a means of dealing with budget deficits, none of them foresaw any difficulty with the issuance. Different from the state whose bond ratings had been lowered several times and are currently the lowest among the nation's 50 states, many California county governments are fiscally conservative and are highly rated by national rating agencies.

There are also other budgetary belt-tightening strategies and tactics California county officials adopted to balance their budgets.

- Eight counties (47.1%) cited using contingency funds for FY2008-09 and seven counties (41.2%) for FY2009-10;
- Five counties (29.4%) reduced, restricted, or froze capital spending in FY2008-09 and it increased to 6 counties (35.3%) in FY2009-10;
- Counties were also interested in contracting out services to cut costs. For instance, one county contracted out client transportation at the Probation Department and medical center. The number of counties opting for outsourcing increased from 2 counties (11.8%) in FY2008-09 to 4 counties (23.5%) in FY2009-10.
- Further, county officials provided incentives for departments to save more and spend wisely. Three counties (17.6%) reported budget saving strategies and it