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Fragmentation, Fiscal Federalism, and the Ghost of Dillon's Rule: Municipal Incorporation in Southern California, 1950–2010

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Abstract

This article seeks to better understand patterns of municipal incorporation in southern California between 1950 and 2010. Existing literature explains municipal fragmentation as a debate about efficiency versus social justice or the result of local conflicts over land use and race. This article explores the dynamics of local-state relations relevant to municipal incorporation in California. The state's role in creating southern California as a 'fragmented metropolis' from 1953–1992 is contrasted with an era of fiscal federalism from 1992–2010, when far fewer cities were created. Recent case studies of incorporation attempts in San Fernando Valley and East Los Angeles are examined. It is argued that state policies—especially in the area of municipal finance—have been critical in shaping patterns of municipal incorporation in southern California.

Keywords: urban fragmentation, fiscal federalism, Dillon's Rule, home rule, southern California, municipal incorporation

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Fragmentation, Fiscal Federalism, and the Ghost of Dillon's Rule: Municipal Incorporation in Southern California, 1950-2010

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Introduction

This article explores the role of the state government in shaping patterns of municipal incorporation in southern California between 1950 and 2010. The five-county region, which includes Los Angeles, Orange, Ventura, Riverside, and San Bernardino counties, contains 183 independent cities, making it an ideal laboratory for studying the political forces that shape urban areas.

The analysis identifies and compares two historical eras: (1) the era of fragmentation (1950–1992), and (2) the era of fiscal federalism (1993–2010). During the era of fragmentation, several state-level reforms, in particular, the Lakewood Plan, the Bradley-Burns Act, and Proposition 13 created powerful new incentives for incorporation. By the 1990s, however, a severe budget crisis led state government to pass the 1992 "revenue neutrality" law, preventing future incorporations from harming county—and ultimately state—revenues. The state's fiscal requirements have had a tremendous chilling effect on incorporation. Since 1993 only 14 mostly affluent communities have incorporated in California—six in southern California. The article also examines two incorporation case studies: a 1996 movement by San Fernando Valley activists to win independence from the city of Los Angeles, and a current effort to incorporate the community of East Los Angeles. Both illustrate the critical role played by state government during the era of fiscal federalism.

It is argued that the urban literature inadequately explains the history of municipal incorporation of southern California. Traditional structural debates over efficiency versus social justice have little to say about the politics of why urban areas

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become consolidated or fragmented, while theories emphasizing the local politics of land use, race, or interest groups fail to account for state-local relations. The paper argues that an older literature emphasizing the role of state government—the ghost of Dillon's Rule—is critical to understanding southern California's political geography.

The Case for Urban Fragmentation

Over the past 50 years, political scientists and economists have debated the political geography of urban areas in terms of service delivery, social justice, and more recently, global economic forces. Political economists in particular have pursued a line of research that emphasizes the efficiencies of highly fragmented metropolitan regions. This school of thought, inspired by economist Charles Tiebout, maintains that urban fragmentation prevents monopoly control over urban service delivery. In this view, fragmentation allows residents to "vote with their feet," naturally sorting residents into the political marketplace according to their service preferences. Because local governments must take into account the preferences of residents and business or risk losing them, services in fragmented metropolitan areas can be delivered with maximum efficiency (Tiebout 1958). Peterson (1981) applied these insights in his analysis of "city limits" where he argued that jurisdictional competition inherent to American federalism militates against the adoption of redistributive policies. Peterson saw urban politics controlled by an inescapable economic logic requiring cities to instead pursue mostly growth-oriented developmental policies. Although Peterson did not explicitly advocate for urban fragmentation, he nonetheless saw it as a determinative characteristic of local politics.

The Case for Regional Government

Advocates of regional metropolitan governments reject most of the arguments made by proponents of fragmentation. Because a large service provider can take advantage of economies of scale by purchasing basic services in bulk, they argue that regional governments are likely to be more efficient. Additionally, regionalists argue that further efficiencies can be gained by not having to duplicate the physical structures, bureaucratic staff, and other essential elements of running a city (Keating 1995). Proponents also argue that fragmented urban areas tend to reinforce social inequality by allowing wealthy enclaves to isolate themselves politically from social problems facing the poor. Rusk (1993) and Dreier, Mollenkopf, and Swanstrom (2004) conclude that consolidated metropolitan areas create political systems that more equitably distribute resources between an urban region's central core and its more affluent suburbs.

The debate between advocates of urban fragmentation and metropolitan government rages on. Some have argued that both views are at least partially correct, with some services benefiting from economies of scale, with others best left to market forces (Oakerson and Parks 1988). While both camps offer valid insights about the advantages and disadvantages of metropolitan fragmentation, neither attempts to shed light on the political forces that ultimately determine whether urban areas become consolidated or fragmented. The debate is mostly theoretical, focusing on an ideal structure rather than explaining the politics of how and why urban areas look the way they do.

Regime and Growth Machine Theories

Growth machine and regime theories are far more attuned to political dynamics. In explaining the political structure of metropolitan areas, growth machine theory would predict that alliances of economic elites seek to create local governments to further their "exchange values"—economic interests in maximizing the productive capacity of land. Growth machine theory also accounts for incorporation efforts led by slow-growth interests—particularly homeowners—who seek to use the tools of municipal government to protect "use values," or quality of life (Logan and Molotch, 1987).

Regime theory would likely explain urban political geography largely in terms of processes of cooperation and conflict between interest groups. Stone's (1989) landmark study of Atlanta highlighted the "social production of power," the informal give-and-take between competing interest groups required in order to overcome inherent obstacles to collective action. Although Stone acknowledged "an imbalance and abilities to contribute to the capacity to govern" (Stone 1989, 233) among various interests, a "coordination of efforts by those who have complementary aims" (Stone 1989, 230) is nonetheless necessary to allow urban regimes to successfully govern (Mossberger 2009).

The urban regime tradition has emphasized a variety of regime types, ranging from "entrepreneurial" and "concessionary" (Fainstein and Fainstein 1983) to "progressive" (Stone and Sanders 1987) and "caretaker." The move to create typologies seems a concession to the difficulty in generalizing about a variety of complex urban settings, conditions, and historical eras. More recently, scholars have applied regime analysis comparatively to other western democracies. Sellers (2002) found that increased globalization has led to greater local and regional competition. Savage and Kantor (2002) studied bargaining in 10 European and American cities, finding both federalism and local-level fragmentation harmful to a city's bargaining position in the global economy.

While useful in understanding internal power dynamics and coalitions within cities as well as offering new insights into global economic forces, regime, growth machine, and globalization theories are less valuable in understanding state government policies that lead urban areas to become either fragmented or consolidated.

Municipal Incorporation and the Politics of Exclusion

The literature emphasizing urban ethnic and class exclusion offers direct insight into the politics of municipal incorporation. These scholars proceed from a different set of questions centering on why political entrepreneurs seek to create new cities. Most highlight urban fragmentation's role in furthering social and economic inequality.

Burns (1994) found that permissive incorporation allows the values of private interests—mostly business—to predominate in American local governments. "By the 1980s," Burns concluded, "walling out higher taxes appears to have been virtually the only reason citizens created new cities" (Burns, 80). Danielson (1976) argued that fragmented authority over land use, local taxation, zoning, and education allowed powerful interests to systematically exclude undesirable groups on the basis of race, ethnicity, and income. Weiher (1991) found less social inequality in nations where planning issues are decided by higher levels of government. Miller (1981) described the formation of Lakewood Plan cities near Los Angeles during the 1950s and 1960s as "essentially white political movements" (135).

Others view incorporation as a possible minority empowerment strategy. Goel et al. (1988) argued that minority communities can employ incorporation to promote cultural identity and win "local control over their government and the creation of conditions for balanced economic development" (Goel et al. 416). Examples of minority incorporation in southern California have been rare, but notable. In 1984, the community of West Hollywood formed its own municipality in part as an expression of gay and lesbian empowerment (Musso 1994). During the 1960s and '70s, the community of East Los Angeles made three unsuccessful attempts to create a majority Mexican-American city to symbolize emergent Chicano pride and political power (Acuna 1984).

However, even within the direct literature on municipal incorporation there is surprisingly little analysis of the impact of state laws governing municipal finance and incorporation. If state rules allow municipal incorporation to promote certain advantages, then removing those incentives will likely alter the incentives for incorporation.

Bringing "The State" Back In: Dillon's Rule vs. Home Rule

Long before debates over efficiency, social justice, urban regimes, and international capital and labor flows, an older tradition of urban scholarship examined sovereignty conflicts between cities and state governments. Baker (1960) noted that prior to the late 19th century, city-state sovereignty conflicts were rare, as sparsely populated and geographically isolated cities managed issues of limited consequence beyond municipal borders. With industrialization, however, cities confronted unprecedented economic, social, and political problems, forcing the first serious appraisal of the institutional role of cities in the American federal system (Baker 1960, Richardson, Gough, and Puentes 2003).

In the 19th century, states began to extend to municipalities taxation powers to pay for new services, infrastructure, public safety, and education. In exchange, state governments sought to assert political and legal authority over increasingly influential cities. State-level boards and commissions and targeted legislation soon began to govern many aspects of urban life, sanctioned by state courts as matters of "statewide concern." In many parts of the United States, the rise of immigrant urban political machines led state Progressive reformers to intervene further in municipal affairs (Baker 1960, Clark 1984).

By the early 20th century, state courts eventually settled on the principle of the legally dependent status of municipal corporations, known as "Dillon's Rule." Under Dillon's Rule, named for 19th-century Iowa Judge John F. Dillon, local governments were considered "creatures of their state government," possessing only those powers specifically granted to them by their state. However, the move toward state interference in local affairs sparked a backlash among advocates of "Home Rule," who argued that local governments should be able to manage their affairs with minimal state interference. In contrast to general law charters, which derive their authority exclusively from state law, home rule charters emerged to grant cities greater authority to manage their own government structures, finances, and other "municipal affairs." When state laws conflict directly with local laws and state laws take frequently precedence, known as "preemption" (Briffault 1992, Richardson, Gough, and Puentes 2003). Today, depending on a number of factors, states are classified as predominantly either "Dillon's Rule" or "Home Rule" states, though power relationships between state and local governments tend to vary over time (Richardson, Gough, and Puentes 2003).

In its 1879 constitution, California emerged as relatively strong home rule state, allowing its cities to create home rule charters. In 1910, a ballot measure known as the "Separation of Sources Act" established the property tax for the exclusive use by California's local governments. In direct defiance of Dillon's Rule subsequent reforms by California Progressives further increased the constitutional authority of

the state's home rule cities. Thus, between 1910 and 1978, California cities—particularly home rule cities—remained largely autonomous with respect to municipal finance (Silva and Barbour 1999). Saxton, Hoene, and Erie (2002) point to 1978's Proposition 13 as a major turning point in state-local fiscal relationships in California: "Proposition 13 and its progeny . . . that were intended to limit the size of government had the additional and unplanned effect of impeding home rule at the local level by reducing local fiscal powers" (Saxton, Hoene, and Erie 2002, 424).

Others have written about Dillon's Rule vs. Home Rule conflicts in the context of efforts to promote state-level growth management (Richardson, Gough, and Puentes 2003) and air quality mandates (Hackney 2010) over local political objections. Payne (2003) argued that Dillon's Rule is an antiquated and unreasonable infringement upon local government power to promote economic development. McHenry (2002) and Briffault (1992) noted that states govern local boundary changes, while local actors have limited control. Sonenshein and Hogen-Esch (2006) found Dillon's Rule to have played a critical role in determining the outcome of secession movements in New York (Staten Island) and Los Angeles (San Fernando Valley) during the 1990s. Burns and Gamm's (1997) study of policymaking in Alabama, Massachusetts, and Michigan from 1871 to 1921 concluded that "local affairs are so thoroughly intertwined with state affairs that each of the two spheres of government cannot and should not be studied without sustained reference to the other" (Burns and Gamm 1997, 2).

This article seeks to apply these insights about state-local relations to understanding municipal incorporation in southern California between 1950–2010. As Burns and Gamm (1997) note, the mainstream urban literature focuses almost exclusively on interest groups, institutions and processes at the local level. As a result, insights that may help to explain one period of municipal incorporation are often inadequate in understanding subsequent eras of incorporation. With respect to municipal incorporation, the most important "city limits" may in fact be those set by state governments.

California State Government: Promoting Fragmentation (1950–1992)

In *The Fragmented Metropolis* (1967) Robert Fogelson studied southern California's rapid growth from the American conquest to 1930. Spurred by local boosters, southern California emerged as one of America's most suburban[1] and politically fragmented metropolitan areas. Fogelson's analysis centers on the cultural impact of Midwestern immigrants who valued private enterprise, ethnic segregation, and above all, suburban autonomy.

Given preferences for fragmentation, the city of Los Angeles's growth from Spanish pueblo to 469 square mile mega-city stands out as a remarkable deviation

from Fogelson's pattern. Rather than any particular concerns about social justice or governmental efficiency, the city is often explained as the product of a legendary growth elite. Bigger and Kitchen (1952), Crouch and Dinerman (1963), Ostrom (1953), Erie (2006), Erie and MacKenzie (2010), and many others have told the story of the infrastructure politics that paved the way for the city's great annexation campaigns from 1915–1927.[2] Near Los Angeles, only cities with reliably independent water sources, such as Beverly Hills, San Fernando, Santa Monica, and Culver City were able to resist Los Angeles's advances. By the 1930s, however, water—the main catalyst for the Los Angeles's territorial growth—became the primary reason halting its expansion. California's 1927 chartering of the Metropolitan Water District (MWD) meant that Los Angeles no longer controlled the faucet. The MWD's governance structure, which assured the participation of all member cities, allowed southern California's suburbs to assert their political independence, blocking the city of Los Angeles's further expansion (Crouch and Dinerman 1963, Miller 1981, Erie 2006).

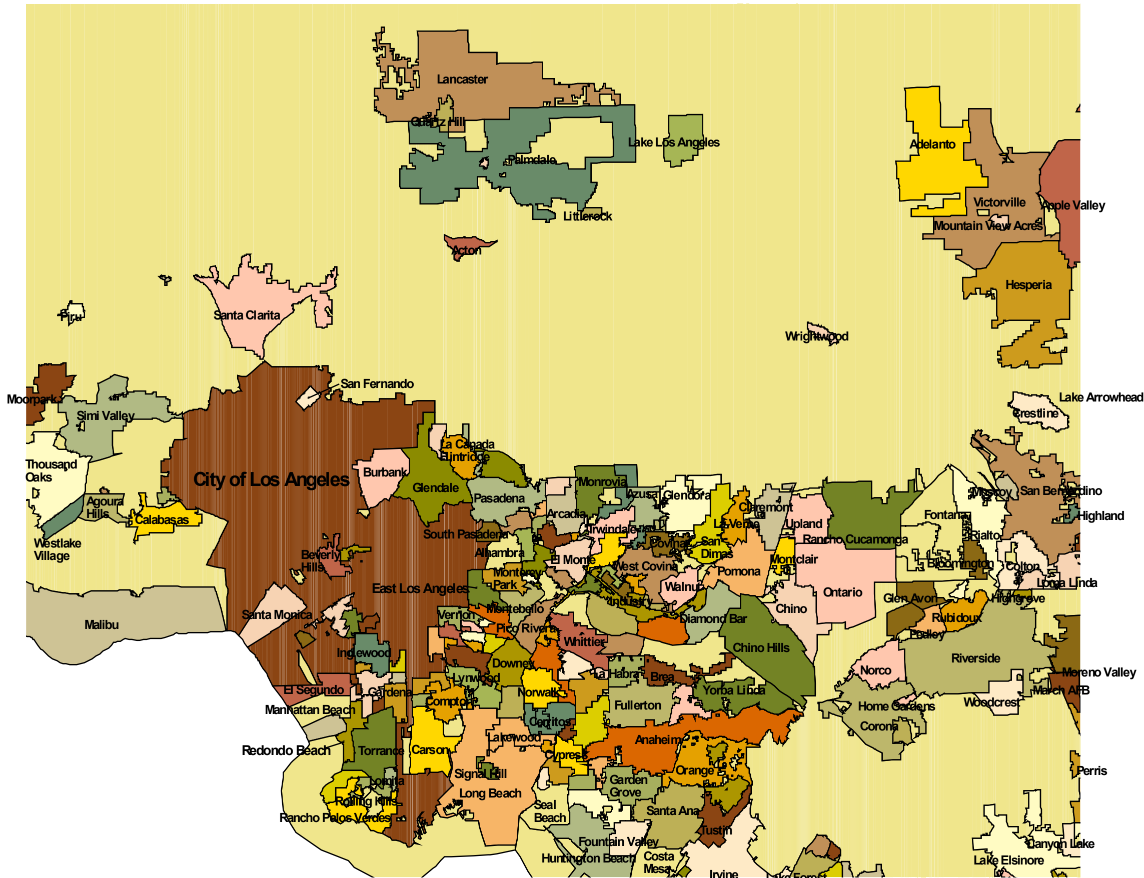
Beginning in the 1950s, state government began to promote urban fragmentation. The Lakewood Plan made incorporation cheaper and easier by allowing cities to contract for services with county governments. The Bradley Burns Act created fiscal incentives for incorporation by permitting California cities to capture a portion of the state sales tax. Local Agency Formation Commissions (LAFCOs) established the first statewide standards for incorporation. Finally, Proposition 13 incentivized municipal incorporation by allowing communities to capture sales tax and other revenue without fear of higher property taxes. Together, these reforms created fiscal incentives for incorporation that were hard for many communities to resist.

The Lakewood Plan and Bradley-Burns

The Lakewood Plan was named for the first southern California city to incorporate cheaply by contracting its municipal services to the county of Los Angeles. During the 1950s and 1960s, the plan sparked a wave of Lakewood-style incorporations on Los Angeles's southern and eastern periphery. The plan sought to take advantage of existing county infrastructure in the provision of police, fire, sewage, and other municipal-type services without having to operate new municipal bureaucracies. The plan was billed as a "win-win" for both the incorporating community and the county of Los Angeles which stood to generate substantial new tax revenues (Miller 1981).

Miller (1981) provided the first systematic examination of the economic and social implications of southern California's Lakewood Plan incorporations. Between 1954 and 1970, 32 new cities were formed in Los Angeles County, all but one relying primarily on Lakewood-style contracting. The primary goal, he found, was to

Figure 1. Fragmented Southern California



protect local tax bases from annexation by Long Beach and Los Angeles, cities with aging infrastructures, shrinking economies, and more service-needy populations. For Miller, Lakewood Plan cities "benefited middle- and upper-income groups at the expense of those low-income individuals who were increasingly concentrated in low resource cities" (196). Since the 1950s the Lakewood Plan has remained a primary strategy for California communities seeking local control of tax revenues and land use. Although not formal actions by state government, allowing counties—administrative agencies of state government—to take on a critical role in urban service delivery provided a major boost to urban fragmentation.

During the 1950s reform to the state's municipal tax structure provided further impetus for incorporation. A decade prior, California's home rule cities had begun to levy their own municipal sales tax. By 1951, 141 California cities had established their own sales tax rates. In response to complaints from retailers, the state

legislature passed the 1955 Bradley Burns Uniform Local Sales Tax Act, creating a site-based uniform state sales tax rate. In doing so, the rules made incorporation more attractive by allowing California cities to siphon local tax revenue away from counties (Silva and Barbour 1999). As Miller (1981) noted, during the 1950s, the Lakewood Plan and Bradley-Burns' combined fiscal incentives proved to be nearly irresistible.[3]

Local Agency Formation Commissions

Between 1940 and 1960 California's economic expansion caused the state's population to more than double to nearly 16 million residents. During the same period, Californians created 76 new cities at a time when the state's incorporation statutes required little more than to have 500 inhabitants[4] (Miller 1981). Concerns about population growth and urban sprawl prompted many observers to blame the state's lack of uniform rules for incorporation. In response, California passed the 1963 Knox-Nisbet Act, delegating the state's power to regulate municipal incorporation and other boundary changes to new government agencies called Local Agency Formation Commissions (LAFCOs), one in each county. A hybrid between a local and state government agency, LAFCOs primary mission was to mitigate urban sprawl and encourage a more orderly formation of local governments.[5]

Although the LAFCO system standardized incorporation, permitting LAFCOs to be run by city and county government appointees did not facilitate regional decision-making (Miller 1981). Pincetl (1999) found LAFCOs to have had only minimal effect on slowing the pace of incorporations or protecting open space from development. For Pincetl, "Instead of solving problems of growth, LAFCOs perpetuated them" (143).[6] However, this retelling of LAFCO history understated the potential of LAFCOs to hinder incorporation under a different set of fiscal circumstances. By the 1990s, budget crises and new state fiscal requirements put the brakes on municipal incorporation.

Municipal Incorporation and Proposition 13

The next major event in California municipal incorporation involved an issue seemingly unrelated to metropolitan fragmentation: rising property taxes. As property values escalated during the 1960s and 1970s, property owners witnessed steep increases in annual property taxes. Led by antitax crusader Howard Jarvis, voters passed Proposition 13 in June 1978 limiting the property tax rate statewide to 1% of assessed value and capping the amount a property's assessed value could increase at 2% per year. The measure also required two-thirds voter approval for many state and local taxes. Subsequent state laws, including Propositions 4 (1978), 62 (1986)

218 (1996), added to California's two-thirds requirements for nearly all state and local tax increases (Schrag 1998, Saxton, Hoene, and Erie 2002). Although not fully appreciated at the time, Proposition 13 created strong new incentives for municipal incorporation (Musso 1994).

Between 1910 and 1978 property tax revenue had been a workhorse for California local government: each jurisdiction—city, county, school district, or special district—had the power to set property tax rates with a simple majority vote of the governing body. More importantly, state law allowed newly incorporated communities to retain whatever additional sales and other taxes generated within their boundaries without having to repay revenue lost to counties. After 1978, as control over property tax revenue shifted to the state, property owners lived with the certainty that their annual property taxes would never go up more than 2%, unless two-thirds of local voters approved. Proposition 13's property tax arrangements thus enhanced already substantial fiscal incentives for municipal incorporation (Musso 1994, 52). Particularly for affluent communities, incorporation became a "net-sum game, enabling residents to improve substantially their fiscal standing" (Musso 58) without increased taxes.

Between 1980 and 1992, 46 communities successfully incorporated statewide, 28 in southern California, including Moorpark (1983) in Ventura County; Westlake Village (1981), Agoura Hills (1982), West Hollywood (1984), Santa Clarita (1987), Malibu (1991), and Calabasas (1991) in Los Angeles County; Mission Viejo (1988), Dana Point (1989), Laguna Niguel (1989), Laguna Hills (1991), and Lake Forest (1991) in Orange County; Big Bear Lake (1980), Twentynine Palms (1987), Highland (1987), Hesperia (1988), Apple Valley (1988), Yucaipa (1989), Yucca Valley (1991), Chino Hills (1991) in San Bernardino County; and Cathedral City (1981), Moreno Valley (1984), Temecula (1989), Calimesa (1990), and Canyon Lake (1990) in Riverside County. In addition to substantial tax advantages under Proposition 13, incorporation came with home rule over land-use decisions, a power that became increasingly important as a slow-growth strategy during the 1990s.[7]

State Government and Fiscal Federalism (1993–2010)

By the early 1990s, a confluence of forces altered the fiscal calculus for municipal incorporation in California. Major cutbacks to California's defense industry and a collapse in housing values combined to create the worst economic downturn in California since the Great Depression. Prior to the 1990s, local governments had been spared the worst effects of cuts resulting from Proposition 13 (Saxton, Hoene, and Erie 2002). But with huge budget deficits, particularly for schools and counties, state government could no longer afford to backfill lost local revenues. The result

Figure 2. Number of California Incorporations by Decade, 1930–2010

Decade	**Southern California**	**California**
2000–2010	5	8
1990–1999	10	17
1980–1989	18	34
1970–1979	11	19
1960–1969	22	46
1950–1959	31	55
1940–1949	3	21
1930–1939	4	9
Total	104	209

Source: California Association of Local Agency Formation Commissions, 2006. Various Media and Government Reports.

has been a series of severe structural budget deficits that have characterized California's politics during economic downturns (DeBow and Syer 2006).

During the 1980s, each new incorporation had deprived tax-starved counties of the revenue needed to pay for services. When relatively well-off communities incorporated, the only practical option for counties was to respond with budget and service cuts (Governor's Office of Planning and Research 2003). In order to mitigate the negative impacts of incorporations on county revenues, in 1992 the state legislature passed SB 1559. The law, which amended the 1985 Cortese-Knox Local Government Reorganization Act,[8] required that that all future incorporations in California be "revenue neutral," meaning that California LAFCOs could not approve any municipal incorporation that would inflict fiscal harm on a county or other affected agency. Negative fiscal effects were permitted only through tax sharing agreements or other payments by mutual agreement.[9] The legislature's explicit intent for SB 1559 was to end incorporation done for "primarily for financial reasons." By preventing newly incorporated communities from capturing tax revenues that would otherwise have gone to counties and other agencies, SB 1559 significantly changed the fiscal calculus for incorporation in California.

In reducing fiscal incentives for cityhood, the state's 1992 revenue neutrality requirement essentially transformed municipal incorporation from a net-sum game into a zero-sum game. As seen in Figure 3, since 1993, only 14 cities have successfully incorporated in California, six of them in southern California: Aliso Viejo (2001), Rancho Santa Margarita (2000), and Laguna Woods (1999) in Orange County and Wildomar (2008), Menifee (2008), and Eastvale (2010) in Riverside County. The combined state requirements for fiscal viability and revenue neutrality

Figure 3. Incorporations in California, 1993-present

City	County	Incorporation Date	Population at Incorporation
East Los Angeles	Los Angeles	--	135,000*
Eastvale	Riverside	October 2010	42,233*
Menifee	Riverside	June 2008	67,705*
Wildomar	Riverside	February 2008	27,000*
Rancho Cordova	Sacramento	July 2003	54,627
Goleta	Santa Barbara	February 2002	47,106
Aliso Viejo	Orange	July 2001	40,166
Elk Grove	Sacramento	July 2000	72,687
Margarita Oakley	Contra Costa	July 1999	26,217
Laguna Woods	Orange	March 1999	16,725
Citrus Heights	Sacramento	January 1997	86,794
Truckee	Nevada	March 1993	10,000*
Shasta Lake	Shasta	July 1993	9,800

*Figures an estimate by various media and government reports.
Source: "City Fact Sheet," *California Senate Local Government Committee*, July 2006.

have meant that incorporations in California are increasingly limited to relatively affluent areas with relatively low service needs and/or communities where significant commercial and retail activity generates sufficient sales tax.

Case Study: San Fernando Valley Secession

During the 1990s, a group in the San Fernando Valley revived a decades-old idea to break away from the city of Los Angeles and incorporate as a separate city. Valley Voters Organize Toward Empowerment (Valley VOTE), a coalition of Valley business and homeowner associations made the usual incorporation arguments: lower taxes, local control, and better services and representation (Purcell 1997). Valley activists were attempting something unique in modern California history: simultaneously breaking away from one municipal government, and forming a new one.[10] Standing in the way was the Municipal Organization Act of 1977, a state law that gave city council's veto power over secession proposals.

In 1996, Valley VOTE recruited state assemblymen Tom McClintock and Robert Hertzberg to sponsor AB 62 to remove the city's veto power over secession. In October 1997 Governor Pete Wilson signed the bill into law. AB 62 required that any "special reorganization"[11] be approved by a dual majority of voters, both in the seceding area, and at the urging of Valley VOTE, in the city as a whole including

the Valley.[12] LAFCO's comprehensive fiscal analysis then found that the special reorganization could be both fiscally viable and fiscally neutral, paving the way for an election (Sonenshein and Hogen-Esch 2006, Hogen-Esch 2010). On November 5, 2002, residents in the city of Los Angeles voted on two secession proposals, Measure F for San Fernando Valley and Measure H for the community of Hollywood, a simultaneous effort that had piggybacked on the Valley's effort. Although 51% of Valley residents approved, the measure failed, receiving 20% support in the rest of the city, and 33% citywide (Hogen-Esch and Saiz 2003).

In important ways, Valley secession became a political conflict fought and determined at the state level. By petitioning state government to lower the legal threshold for secession, supporters of Valley cityhood were able to mount a credible campaign as well as pressure the city of Los Angeles to devolve greater authority to communities through charter reform.[13] However, the city of Los Angeles was successful in maintaining a relatively high threshold for secession in state law. During the secession campaign, opponents, including city business, labor, and political elites, successfully leveraged voter fears about the San Fernando Valley's fiscal impacts and viability, factors characteristic of California's postfiscal neutrality incorporation politics (Sonenshein and Hogen-Esch 2006).

Case Study:The Incorporation of East Los Angeles

In 2007, a group known as the East Los Angeles Residents Association revived a long-standing dream of creating a city of East Los Angeles. Proponents argued that cityhood for the working-class community of 135,000 mostly Hispanic residents would ignite economic development, provide a training ground for future Latino leadership, and serve as a Mexican-American cultural center (Burr Consulting 2007).

East Los Angeles has made several previous attempts to incorporate.[14] In 1961, a group known as Citizens Committee to Incorporate East Los Angeles argued that incorporation would provide better services and representation to a community excluded from the political process. Supporters argued that cityhood could be achieved under the Lakewood Plan without an increase in taxes (East LA Incorporation Advantages Outlined, *Los Angeles Times,* March 1, 1960). However, middle-class homeowners expressed concern that the area's high proportion of low-income residents and few industrial or commercial properties would burden homeowners with future property tax increases (Salazar 1961, L1). On April 25, 1961 the measure lost by a few hundred votes. In addition to tax concerns, newspaper accounts cited low voter turnout and opposition from unions as reasons for defeat (Incorporation Defeat Factors Under Study, *Los Angeles Times*, April 27, 1961, B1).

In 1972, activists began the process anew under the new LAFCO procedures. Local control and enhanced services again formed the basis of the movement. Proponents also complained that the community had been gerrymandered into five state Assembly, three state Senate, and three congressional districts, depriving Latinos of political representation. At the time, Latinos were not represented either on the Los Angeles County Board of Supervisors or the Los Angeles City Council (Del Olmo 1973, B1). The 1973–74 incorporation effort was spearheaded by The East Los Angeles Community Union (TELACU), a key social service provider and emerging force for political mobilization. The 1974 effort also drew from the Chicano Rights movement in East Los Angeles, marked by student and community protests over schools, housing, and civil rights issues. Additionally, advocates cited numerous urban renewal projects that had negatively impacted the community as a reason to assert community control over land use and development[15] (Acuna 1984, Marin 1991, Raigoza 1977, Hogen-Esch 2010).

According to reports at the time, incorporation exposed divisions within the Mexican-American community, particularly along class and generational lines. Many Hispanic residents did not identify as Chicano, instead seeing themselves as assimilated into the dominant culture (Castro 1974, C1). On November 4, 1974, Proposition X garnered only 42% of the vote. Postelection analyses revealed that opposition was again strong among tax-averse homeowners (Del Olmo 1974, A3).

In late 2007, a group called the East Los Angeles Residents Association (ELRA) again revived the idea of cityhood. ELRA hired a consulting firm to perform the state's recommended Initial Fiscal Analysis (IFA). The exploratory study found the community's sales tax base to be "relatively small . . . due to extensive tax exempt land, such as county [government] facilities and cemeteries" (Burr Consulting 2007, 1). The report estimated that 19% of the community's parceled land area is tax exempt. Because of contracting arrangements, the IFA nonetheless concluded that East Los Angeles could be incorporated while meeting the state's rules for fiscal viability and neutrality (Burr Consulting 2007). In 2009, Los Angeles's LAFCO certified that incorporation proponents had collected signatures from more than 25% of the registered voters in the area. As of early 2011, East Los Angeles Residents Association was in the process of raising the necessary funds to pay for the required LAFCO Comprehensive Fiscal Analysis to determine the proposal's financial viability and revenue neutrality. If these conditions are met, a measure could be placed on the ballot, possibly in 2012 or 2013. As with previous attempts to incorporate East Los Angeles, it is almost certain that the fate of cityhood will likely hinge on issues of financial viability.

The case illustrates both the rising political aspirations of Latinos in southern California as well as the impact of California's fiscal requirements on incorporation. Opponents, including members of the East Los Angeles Chamber of Com-

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merce, point to the lack of commercial tax base and current economic recession as reason to doubt the proposal's fiscal viability. Supporters counter that local control over economic development coinciding with the recent extension of the Metropolitan Transit Authority's Gold Line into East Los Angeles will allow the city to generate sufficient tax revenues (Miller 2007).

Municipal Incorporation and the Ghost of Dillon's Rule

Between 1950 and 1990 the Lakewood Plan, the Bradley Burns Act, and Proposition 13 collectively created powerful incentives for municipal incorporation. During this period, Californians created 154 new cities—82 in southern California. By the early 1990s, however, record budget deficits and fiscal constraints resulting from Proposition 13 ushered in a new era of fiscal federalism in California, leading the state to reform its municipal incorporation laws. Combined with pre-existing fiscal viability requirements the state's 1992 "revenue neutrality" standards helped apply the brakes to incorporation in California. Since 1993 only 14 communities have incorporated—six in southern California.

In 1996 San Fernando Valley activists operated in Sacramento to successfully lower the state's threshold for independence from the city of Los Angeles. The article also examined a current effort to incorporate East Los Angeles, the center of Mexican-American politics and culture in Los Angeles. The case illustrates tension between the rising political expectations of Latinos in southern California and the fiscal barriers to incorporation in post-revenue neutrality California.

The analysis suggests that the general literature on metropolitan fragmentation as well as the direct literature on municipal incorporation tell an incomplete story about how and why urban areas are structured. The fragmentation (Tiebout 1956) versus consolidation (Rusk 1993) debate says little about the political processes that lead to particular institutional outcomes. Similarly, scholarship emphasizing class and race (Burns 1994, Danielson 1976, Weiher 1991) or interest group power (Stone 1989, Logan and Molotch 1987), while far more attuned to local political dynamics and motivations, fails to address state level rules by which local interest groups must play. While others have examined the erosion of fiscal home rule in California since the early 1990s (Saxton, Hoene, and Erie 2002, Richardson, Gough, and Puentes 2003, Barbour 2007), this article applies these insights to municipal incorporation. Study of municipal incorporation in southern California suggests a need to reinvigorate the urban politics literature with a better understanding state-local relations generally (Burns and Gamm 1997), and with better awareness of the erosion of fiscal home rule specifically.

Recent events underscore the continuing significance of the new fiscal relationship. In 2011 Governor Jerry Brown proposed abolishing all of California's com-

munity redevelopment agencies, potentially removing one of the most effective redevelopment tools available to California cities. In the wake of the corruption scandal in the city of Bell, California state controller has sought to greater authority to force state audits of city finances. And a pattern of corruption in the insular, industrial city of Vernon south of downtown Los Angeles[16] has led to a bill to allow state government to forcibly disincorporate a city for the first time in California's history.[17] In 1999, state government reduced the vehicle license fee (VLF) as part of a tax relief package, resulting in less funding for local governments. In the early 1990s and again in 2004 state government, under an arrangement known as Educational Revenue Augmentation Funds (ERAFs), drastically reduced the property tax allocation to cities and counties, transferring the revenue to fund the state's cash-strapped schools. Although the state eventually returned a portion of the funds to local governments, the event marked a willingness on the part of the state government to assume control over local government finance (Silva and Barbour 1999).

Recently, local governments have waged a counter-campaign at the state ballot box to win back fiscal home rule. Passage of Proposition 1A in 2004, and Proposition 22 in 2010, attempts to protect local revenue sources from further state raids. And although passage of AB 1602 in 2006 won back a portion of the vehicle license fee for new California cities, the provision's expiration in 2014 again highlights the precarious nature of municipal finance in California (Eastvale Incorporation Study Comprehensive Fiscal Analysis 2009). All of California's newest cities employ contracting arrangements to one degree or another in order to save money. All have incorporated as general law cities making them more dependent upon state law for their exercise of power than home rule cities. And since the onset of the Great Recession in 2008, even more esoteric state laws, such as Proposition 8's requirement for decline in value reassessment, have further shrunk the pool of property tax funds available for both existing local governments and communities hoping to incorporate. And existing cities have been forced to dramatically scale back the kinds of essential services they can provide. Under current fiscal arrangements, even affluent communities may have a difficult time meeting the state's fiscal requirement for incorporation.

Admittedly, geography partially explains the decline in incorporations statewide and in southern California since 1992—limited territory remains for new incorporations in southern California. Most virgin territory for new incorporation lies in the deserts of San Bernardino and Riverside counties far from employment centers. In addition to East Los Angeles, only the communities of La Crescenta, Stevenson Ranch, Rowland Heights, West Ranch, and South Whittier in Los Angeles County, and Rossmoor in Orange County remain realistic candidates for future incorporation.

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Study of southern California's incorporation history since 1950 reveals the importance of state government in shaping the region's system of municipal governance. The analysis argues for the need to fuse an older literature emphasizing the importance of state local-relations with more recent theoretical insights in order to better understand the forces that have driven municipal incorporation in California. Application of this insight to the study of other metropolitan areas may permit wider generalizations about how and why urban areas are structured.

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Notes

[1] Fogelson documents Los Angeles's 1930 housing stock comprised of an astounding 94% single-family homes.

[2] Which included the communities of Westgate, Venice, West Adams, Watts, Highland Park, Bairdstown and most notably, the 224 square-mile San Fernando Valley.

[3] Numerous observers have noted that California's site-based sales tax system has encouraged the "fiscalization of land-use," which discouraged the construction of affordable housing, as well as led to wide fiscal and service disparities among California cities.

[4] Miller (1981) describes the bizarre 1957 incorporation of the City of Industry in which proponents attempting to reach the 500 inhabitant threshold solicited signatures from 169 patients and 31 employees of a local mental hospital. Under the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 incorporating areas require a minimum of 500 registered voters.

[5] Under California law, LAFCOs are required to report on the fiscal viability of proposed cities. A typical California LAFCO has five members: two county supervisors, two city council members, and a citizen member chosen by the four elected officials. Some LAFCOs, such as Los Angeles, have a specially designed statutory membership comprised of nine members: two supervisors, two city representatives, a public member, a Los Angeles City representative, two special district members, and a public member from the San Fernando Valley (See Manatt 1996).

[6] Pincetl's *Transforming California* (1999) also provides a history of other failed efforts at regional land-use control in California. Perhaps the most successful example of regional land-use control has been the California Coastal Commission, created by California voters through Proposition 20 in 1972.

[7] The post-Proposition 13 era in municipal finance has been defined by a dramatic shift toward funding city operations with sales taxes. The resulting "fiscalization of land use" has contributed to widespread reluctance to construct affordable housing (See Fulton 1994).

[8] The Cortese-Knox Local Government Reorganization Act of 1985 consolidated three predecessor laws for local government boundary and organizational changes, the Knox-Nisbet Act of 1963, which first established LAFCOs; the District Reorganization Act of 1965, which concerned special districts; and the Municipal Organization Act of 1977, which concerned city incorporations and annexations. In 2000, state laws governing local government formation were reformed

into the Cortese-Knox-Hertzberg Local Government Reorganization Act (See Knox and Hutchinson 2009).

[9] Known as "alimony payments" (see Fulton 2002).

[10] See Detwiler (1996) for a good overview of the history of urban secession in California. See Hogen-Esch (2001, 2002) for a more detailed history of Valley secession.

[11] The legal term in California for when a community simultaneously detaches and reincorporates as a separate city.

[12] Valley VOTE originally argued for a unilateral secession threshold. As opposed to requiring separate majorities, the dual majority threshold served to double count the Valley.

[13] Despite failing to create a new city, most observers credit the movement for spurring a major political reform movement in Los Angeles. Passed by voters in June 1999, major changes to the new city charter such as the creation of a system of neighborhood councils and area planning commissions, were in direct response to complaints voiced by secessionists.

[14] There were also previous attempts in 1925, 1931, and 1932 (see Acuna 1984).

[15] During the 1950s, the relocation of Mexican Americans from Chavez Ravine to make way for the Los Angeles Dodgers, and redevelopment efforts in the Bunker Hill area of downtown had traumatized the community (See Santillan 1974, C7). In addition, thousands of residents had been displaced during the 1950s and '60s to make way for the construction of the 710, 60, 5, and 10 freeways, which all converged in or around East Los Angeles.

[16] All of Vernon's 91 residents live in heavily subsidized municipally owned housing, leading critics to question the legitimacy of the city's democratic process.

[17] See Knox and Hutchinson (2009) for a history of municipal disincorporation in California.

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