FORMATION OF CANYON COUNTY

October 1976

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PREFACE

Proposition F on the November ballot proposes that a triangular section in northwest corner of Los Angeles County secede and form a new county, called Canyon County.

The Economy and Efficiency Commission believes that as a citizens commission charged with the responsibility to make recommendations directed toward improving the effectiveness of County government, it should evaluate this proposition and present its conclusions to the public. This report contains the results of our analysis.

I. INTRODUCTION

The Canyon County area lies in the northwest corner of Los Angeles County. On the west the area extends along the Ventura County boundary from the foothills south of Newhall to north of Gorman. From Gorman the boundary runs southeast to the southern mountains east of Acton. (See Maps, pp. 3-4)

The area, with minor exceptions, coincides with the Santa Clara River drainage basin. There are no incorporated cities in the proposed County, but it would include the unincorporated communities of Newhall, Saugus, Valencia, Canyon Country, Aqua Dulce, Acton, Val Verde, and Gorman. The population is 67,000. The assessed valuation is $261 million. The area totals 761 square miles.

The proposal to form the new County was initiated in July, 1975, when 25% of the 27,000 registered voters in the area signed a petition as required by State law. In April, 1976, the Governor appointed a County Formation Review Commission which conducted a study in accordance with the law to determine the feasibility, evaluate the financial impact on the remainder of the County, prescribe a plan for transition of governmental functions, divide public property and debt, and set a maximum tax rate for the new County.

The conclusions of the Formation Review Commission are contained in its final report released in August, 1976, and summarized in the voter's pamphlet. The new County will be formed if a majority of voters in the Canyon County area and a majority in the remainder of Los Angeles County approve the proposition.

Proponents of Canyon County formation have cited several reports of the Economy and Efficiency Commission in support of their position. They reason that our commission's criticism of the County's internal administrative machinery supports the creation of a new County. They also state that creation of Canyon County would improve the financial condition of the remainder of Los Angeles County by eliminating a source of growing demand for costly services.

It is true that the Economy and Efficiency Commission has been critical of the internal operations of County government. During its existence the Commission has made over 180 recommendations to the Board of Supervisors. Of these, the Board has approved over 150 generally after conducting a public hearing. Most recently, the Board has acted on our recommendations to eliminate automatic step increases and reduce the use of supervision.

Formation of Canyon County would intensify the external causes of crisis in local government by further fragmenting the provision of regional services. Therefore the Economy and Efficiency Commission opposes Proposition F. Sections II to IV contain a summary of our reasoning. They contain two recommendations:

1. *Because of the negative impact on the remainder of Los Angeles County we recommend that the citizens of that area oppose the proposition.*

2. *Because of the negative impact on government in the metropolitan region we recommend that citizens in both areas oppose the proposition.*

We also believe that the State law governing formation of new counties is deficient in a number of areas. Section V contains our recommendations for correction.

MAP GRAPHICS AVAILABLE ON HARD COPY

MAP GRAPHICS AVAILABLE ON HARD COPY

II. IMPACT ON THE RESIDENTS OF CANYON COUNTY

Local Control

The principal argument in support of Canyon County formation, its proponent's state, is that it would improve local control. The citizens of the area are now taxed by a County government, which conducts its major decision-making fifty miles away from them. County government is to them remote and inaccessible. They have little opportunity to conduct public scrutiny of the government or to share control by participation in its functions.

Historically, those in need of County services have had to travel to Los Angeles, the San Fernando Valley, or Lancaster. Now, however, because of recent growth, more services are available locally. Further, telephone contact with elected officials often involves the cost of long distance. Meetings of the Board of Supervisors and key commissions, such as the Regional Planning Commission and the Zoning Board, take place in downtown Los Angeles. Often, a single trip to attend a meeting is not sufficient to resolve a matter, since the Board and the commissions often defer hearings and action beyond the first scheduled date.

In particular, those supporting Canyon County want the citizens of the area to gain control over land use and development, environmental quality, and those functions of County government, which affect the quality of life in their area.

Alternative means of gaining local control do not appeal to proponents of Proposition F. City formation in the area has been attempted in the past and failed in its earliest stages. Proponents of the new County believe that city incorporation could not succeed without additional taxes. They also believe that creation of a County Service Area in the near future is likely and would raise taxes significantly.

Financial Viability

Proponents believe that County formation could result in decreased taxes and would not have a negative financial impact on the remainder of Los Angeles County. This belief is supported by the findings of the Formation Review Commission that the new County would be economically viable. However, Los Angeles County officials disagree. They disagree with some of the facts in the Commission's findings, the analytical methods used, and the conclusions.

Regardless of disputes over facts and assumptions - such as the cost of providing services, the level of service feasible for a given tax rate, potential sources and amounts of revenue and savings attainable through efficiency measures - Canyon County can achieve financial viability, but may not be economically viable. It will be financially viable if taxes and other revenue equal expenditures. Through local control of the government, the people and their elected representatives will decide what they can afford at current market prices, and set the level of service, the organization structure and employee compensation accordingly. If the resulting levels of service are in the people's judgment deficient, the government will be forced to raise taxes to provide for improvement. However, if taxes exceed the citizens' ability to pay, the new County will not be economically viable.

As proponents state, Canyon County if formed, will have opportunities to take creative and imaginative approaches to organization, employee compensation, and service delivery. It is likely that it will have the need, motivation and human resources to achieve economies that so far have not been achieved in Los Angeles County and other public agencies. Innovation in local government could meet fewer obstacles in a newly formed county than it does in an established institution.

Nevertheless, it is important to recognize that formation of Canyon County will not remove the inequities in the present tax structure. The new Board of Supervisors will be legally obligated under the same Federal and State laws that frustrate reform efforts in Los Angeles County. For example, the Federal and State governments will require the new County to provide from its own revenue at least 25% of all direct payments to welfare recipients, at a cost of $396,863 excluding general relief.

The people of the area should also understand that taxes will not decline by much, if they decline at all. The typical total tax rate in the area is $15.23, of which $4.46 is for County services. A $1.00 reduction in the property tax rate will cost the new County $2.6 million, the equivalent of about 210 employees at Los Angeles prices. The saving to the taxpayer will be approximately 6.6% of his current tax bill.

Another important consideration is the implication of proponents' arguments that costs can be controlled by increasing the level of volunteerism used in delivering services. Volunteerism can be made to work when trained volunteers are readily available in emergencies or times of peak demand. It maybe successful in self-contained rural communities. It cannot work when the volunteers are absent for significant amounts of time because they work elsewhere.

The results of a 1974 survey indicate that approximately 64% of the heads of households in Canyon County work elsewhere. Hence, the principal source of volunteer labor for fire and police emergencies and for peak service demand will be the 36% who work in the area, together with housewives and others who are not employed or not seeking work.

In a low-risk area, such volunteerism may be sufficient to supplement a small corps of professionals. Canyon County, however, is a high risk area for fire and other natural disasters. It seems doubtful to us that the community contains sufficient local resources to develop an adequate volunteer force.

It is true that local economic and political forces could result in sufficient industrial and commercial development of the Canyon County area to provide enough revenue to reduce local homeowner taxes in the long run. For example, development of the recreational resources of the area could encourage development of a tourism industry. That, in turn, would increase local employment and increase public revenue from tourist sales. The result would be a long range reduction of pressures on property tax to support further development of recreational resources and basic services to tourists.

In the short run, local taxpayers would have to finance all initial development of the recreational resources or allow economically feasible private development. Any such development will be expensive and will take a long time, because of the requirements of environmental quality legislation.

Proponents estimate that the new County can provide an adequate level of service with a tax rate of $3.43 or $1.03 less than the current Los Angeles County tax rate. They cite the experience of Napa County in support of this estimate.

The Formation Review Commission examined several counties comparable in number of residents to Canyon County. It found that Napa County had the lowest per capita expenditures among these counties. However, the Commission's estimate based upon the average expenditures of all comparable counties was $5.98. The Commission set the legal maximum tax rate for Canyon County at $4.87, the same as the legal maximum for Los Angeles

County. In setting the maximum, the Commission stated:

> "The Commission does not know whether the new County will ultimately be able to have a tax rate lower than the present maximum tax rate."

The use of the average expenditure for several counties of similar population size could be valid, since the effects of variations in geography, weather, income levels and land use could average out. The use of a single county, such as Napa, as a basis for prediction is risky. For example, Napa County consistently averages 25-35 inches of rainfall annually and 45% of its land is devoted to agriculture. In contrast, the Canyon County area may get 15 inches in good years and has little agricultural land. Thus, Napa County experiences a lower level of fire hazard than Canyon County. Napa County also has more developed roads than Canyon County, and experiences higher expenditures for road maintenance. No one has determined whether the fire comparison is balanced by the road comparison. In neither case is Napa County comparable to Canyon County.

Conclusion

The impact of County formation on the residents of Canyon County is therefore indeterminate. Speculation regarding the means that the new County may use to achieve economies not in effect in Los Angeles County is pointless. In the absence of a firm budget, no one can predict the levels and quality of service that could feasibly be purchased in this region by a county with the tax base and revenue sources of Canyon County.

Both the proponents and opponents of Proposition F in the Canyon County area have stated responsibly that residents should support the proposition only if they are convinced that the potential improvement in local control outweighs the risk that services will be inadequate, taxes higher, or both.

The Economy and Efficiency Commission agrees. However, citizens of the area should understand that action to form a new county will be difficult to reverse. In addition, there are other considerations which the residents should recognize before making a decision to support the proposition. These considerations are discussed in the next two sections.

III. IMPACT ON THE REMAINDER OF LOS ANGELES COUNTY

On the surface, formation of Canyon County is primarily a local control issue. As we have stated, if the new County is formed, the new Board of Supervisors will establish levels of service, organizational structure, and employee compensation so that the resulting tax rate is acceptable to the citizens of the new County. Concern over tax increases or service decline affecting those citizens is properly their concern, and no one else's.

However, the impact on the remainder of Los Angeles County is a proper concern of the residents of that area. Our conclusion is that the formation would have a negative impact on the remainder.

Transfer of Assets

Los Angeles will retain certain important facilities within the boundaries of the new County, including a prison, some probation facilities, and a fire protection facility. The new County will not reimburse Los Angeles County for any of the other public property within its boundaries, but will relinquish its interest in public property in the remainder of the County. According to the Chief Administrative Officer, the net value of debt and property transactions will involve a $14.7 million loss of assets to the remainder of Los Angeles County.

There is therefore some doubt that the division of property and debt is entirely equitable to the citizens of the remainder.

Subsidy

Los Angeles County will be required to subsidize the new County

by providing a full range of services at current levels during a period of transition, without full compensation from the new County. The Chief

Administrative Officer estimates the cost to Los Angeles County taxpayers will be approximately $15 million.

Proponents state that Los Angeles County now spends $10 million in the Canyon County area in excess of revenues generated there. They reason that the temporary $15 million loss is negligible by comparison to this permanent subsidy of $10 million.

This statement is not correct. The $10 million figure came from an estimate by the Chief Administrative Officer that the expenditures of the new County, if formed, would exceed its revenues by $10 million. This does not mean that Los Angeles County now spends $10 million to benefit the citizens of the Canyon County area in excess of revenue generated there.

It is a mistake to attempt to isolate the costs and benefits of regional services to apply to a segregated geographical area. Most of the residents of the Canyon County area benefit directly from services delivered in other parts of Los Angeles. For example in the 1974 survey of households there, approximately 64% of the respondents stated that they were employed elsewhere in the region. Most of these people benefit, and will continue to benefit from regional services of Los Angeles County. These services include police and fire protection, emergency medical aid, recreation and culture, road maintenance, and environmental control. If Canyon County is formed, its residents will no longer be taxed to pay for these Los Angeles County services.

While it is true that Los Angeles County residents may also benefit from services of Canyon County, the level and quality of these

services will depend entirely on taxation decisions of the new Board of Supervisors. It is unlikely that the new County could reciprocate with an equivalent level of benefits.

Thus, in addition to the $15 million subsidy, Los Angeles County will also lose a tax base which generates $11.6 million to pay for regional services. Nevertheless, the citizens of Canyon County will continue to benefit from these services.

Loss of Revenue

It should be recognized that the Canyon County area represents significant potential for future revenue increases in Los Angeles County. It is at present one of the fastest growing areas in the region, and also may develop into a center of recreation and tourism. Los Angeles County citizens have contributed to investment in the area's development. It is difficult to see why they should give up the potential of the area as a future producer of revenue.

Proponents of Canyon County say that the new Board of Supervisors can raise additional revenue by charging for the use of recreation and park facilities. If this is done, users from Los Angeles County will be paying again for facilities in which they have already made a substantial investment.

Recommendation

For these reasons we recommend that the residents of the remainder of Los Angeles County oppose Proposition F.

IV. IMPACT ON THE REGION

Formation of a new county has major regional implications beyond questions of the potential financial health of the new county and the potential financial impact on the remainder of the old county.

It also has impact on the entire metropolitan region, which includes Los Angeles and Orange Counties and portions of Riverside, San Bernardino and Ventura Counties.

Impact on Local Control

The precedent of secession, if followed by other successful attempts, could lead to the intensification of social problems through the creation of political boundaries segregating socio-economic classes.

Such fragmentation will intensify the external causes of crisis in local government. Many analysts agree with David S. Broder's assessment of the principal cause of fiscal crisis in New York City - flight to the suburbs as escape from the social and economic problems of inner-city areas. As Broder put it:

> "The concealed reality is that the basic forces that have pushed New York City to the brink are operating inexorably against other old big cities, and will leave them equally exposed to financial ruin unless we as a country face up to some facts we have spent 25 years ignoring. Most important of these facts is that what we call a city is a legal- geographic trap maintained by the outside majority as a means of isolating problems we are not prepared to face and solve... The real New York City is an area of some 15 million people, spanning three states. The legal New York City is a fraction of that area, with 7.5 million people jammed into its confines." (Los Angeles Times, November 7, 1975.)

The redrawing of boundaries does not necessarily help the people of an area escape problems, although it may help them escape the responsibility for contributing financially and actively to any solutions. The problems crime and violence, air pollution, disease, drug and alcohol abuse, earthquake, fire and flood - do not respect political boundaries.

Authorities on local and regional government such as Donald G. Hagman, Chairman of the County Formation Review Commission for Canyon County, have called for increased regionalism in government, provided it is accompanied by increased local control of municipal services. That is, Hagman believes, regional governments should provide regional services and collect all revenues; cities should be formed in all developed areas to provide local services financed by revenue distributed by regional government on the basis of need.

The people who live in the Canyon County area work, do much of their shopping, take some of their recreation, and enjoy cultural activities in other areas of the region. Canyon County is thus not a self-contained region. Its citizens benefit from services provided and financed by the remainder of the region. The secession of Canyon County will enable its residents to escape -“externalize” in Hagman's words - financial responsibility for services rendered to citizens of the region. They will be internalizing only some of the more concrete aspects of home rule, such as control over land use regulation and the quality or quantity of County-provided urban services.

Those who support secession because it externalizes socio-economic problems and the financial responsibility for solutions should recognize that formation of Canyon County will further fragment the delivery of regional services in the five county metropolitan region. This situation could in turn lead to complex tax-equity litigation such as Serrano vs Priest and increased State control of public service financing. The Serrano

Priest type of equity litigation is spreading from schools to County-provided social services. In a recent case on local control of general relief payments, Long Delano vs City and County of San Francisco, the Court ordered San Francisco to establish a general relief standard providing for increased payment levels. Similarly, increased State control has been a principal consequence of inter-County fragmentation in air pollution control.

Impact on Regional Services

Reduction in the capacity for such regional services as fire protection, law enforcement, public health, or park maintenance are likely to result from efforts of the new Canyon County Board of Supervisors to reduce taxes. As we explained in the discussion of impact on Canyon County residents, it is impossible to predict what the new Board may do to achieve economic viability. In our judgment, reliance on volunteerism and citizen participation to replace gaps in the financing of such services is unrealistic. While we are not prepared to say which regional services will decline, our expectation is that the new Board will choose to reduce capacity for some services as it assigns priorities and allocates resources. This is likely simply because Los Angeles and neighboring counties presently maintain reserve capacity to handle emergencies. Regional law enforcement, for example, responded in force to the needs created by the Sylmar earthquake of February, 1971. Regional fire suppression resources responded in force to such fire emergencies as the Newhall Refinery fire of 1970, the Malibu fire of 1970, and the Mill fire of 1976.

Since natural disasters, disease, crime, fire and flood do not respect political boundaries, the remainder of the region will be exposed to an increased risk. Consequently, the Los Angeles County Board of Supervisors and other County Boards in this region will face a decision either to replace the missing resources, thus raising taxes, or to allow the people they represent to suffer increased exposure.

Therefore, we believe that formation of a new County in the Los Angeles metropolitan region would have a negative impact on the region and may not improve local control. Formation of Canyon County in particular, if taxes are kept at current or reduced levels, would result in a net loss of capacity to provide regional services unless taxes are raised in the remainder of the region.

Recommendation

Because of the negative impact in the region and the potential erosion of local control, we recommend that the citizens of both the proposed Canyon County and the remainder of Los Angeles County vote NO on Proposition F.

V. CORRECTION OF STATE LAW

Some of the Formation Review Commission's factual determinations are disputed both by Los Angeles County and by a member of the Commission itself, Rosemary Tribulato who filed a minority report. In particular, it is not clear from the Commission's report whether the new County is financially feasible, given the maximum tax rate established by the Commission. It is not clear that the division of property and debt as decided by the Commission will be fair to the remainder of Los Angeles County. It is not clear whether the remainder of Los Angeles County will be taxed unfairly to provide services to Canyon County during the period of transition of governmental functions. Finally, it is not clear that the citizens of the new County, if formed, will have a voice in the election of all officials responsible for services for which they will be taxed. The Commission left with the Los Angeles County Board of Supervisors the responsibility for such County-wide districts as Flood Control and the Consolidated Fire Protection District.

The Formation Review Commission's report is basically consistent with the State law governing it, although this too is disputed by some.

The principal gaps in the information available to the public from the Formation Commission's report, the arguments of proponents, and the arguments of opponents have led to a confused election issue. The principal issues are centered on questions of fact, such as whether the new County is economically viable and whether the remainder of the County will be unfairly taxed. These gaps can be traced to deficiencies in the State law.

Recommendations

We therefore recommend that the Boards of Supervisors of Los Angeles County and other California Counties seek revision of the State law to provide the following:

1. *That the Formation Review Commission be required to construct initial operating and capital project budgets for the new County, and base the determination of financial viability, maximum tax rate, and regional impact on those budgets.*

2. *That the Formation Review Commission be required to determine that citizens of the new County will be properly represented by elected officials of all agencies taxing them, including special districts governed by the Board of Supervisors of the old county.*

3. *That the Formation Review Commission be required to place certain elected officials on the ballot with the formation issue, in addition to the Board of Supervisors.*

4. *That the Formation Review Commission be permitted to include in its report the results of a poll of the commissioners on the question of formation of the new county.*

Discussion

Economic Viability and Tax Rate - In the absence of a budget which is binding on the new Board of Supervisors, the economic viability of a new County is completely indeterminate. Everything depends on the new Board. In one sense, any new County is financially viable a priori. The State Constitution requires counties to balance their budgets.

As we stated in Section II, the people of the new County and their elected representatives will raise taxes if services are inadequate or reduce services if taxes are unacceptable. Therefore, no one can predict whether the new County will be overtaxed or under-served until long after it is formed. That, of course, is too late.

The only sensible way to determine whether a new county is economically sound is to establish its budget in advance. Only then, with specific planned levels of service, known organizational configurations, predicted employee compensation levels, planned economy measures, and assumed revenues from all non-tax sources, is it reasonable to set a tax rate. Such a budget will give the voters of the area basic information regarding the planned levels of service directly affecting them. It will also enable the Formation Review Commission to evaluate economic viability by relating taxes to levels of income in the area.

One may reasonably argue that an appointed Governor's Commission should have no such authority to specify levels of service and financing. That is properly the responsibility of elected officials. We disagree. Any budget is no more than a plan, to be revised and adjusted as warranted by circumstances. A budget devised by the Formation Commission would be in effect only through half of the fiscal year in which a new Board takes office. By June, the opening of the next fiscal year, the Board will adopt its own budget. In the interim, the new Board would have sufficient flexibility to adjust priorities and control actual expenditures.

Therefore, we believe that the Formation Commission should be required to specify a budget and to base its determination of tax rates and economic viability on that budget.

<u>Representation</u> - If Canyon County is formed, it will remain within the service boundaries of the Flood Control District and the Consolidated Fire Protection District. These districts will continue to tax the citizens of Canyon County. They are governed by the Los Angeles County Board of Supervisors and are unaffected by findings of the Formation Review Commission. Until provision is made for transfer or sharing of responsibility, the citizens of Canyon County will be taxed without proper representation.

Mechanisms to provide for continuing service with representation are available. The State law should require Formation Commissions to establish mechanisms or recommend organizational changes to the State Legislature.

Elected Officials - In the case of Canyon County, the Formation Review Commission specified only that a five-member Board of Supervisors would be elected during the formation election. The Board will then organize the new County, consolidating elective offices where desirable and appointing officials to fill the remaining vacant offices. The Commission reasoned that asking the electorate to decide on the formation issue and to elect five Supervisors was enough of a burden. Asking them to fill the other twelve elective offices prescribed by State for general law counties would place an excessive burden on the electorate and preclude the new Board from consolidating offices for efficiency purposes.

However, as a consequence the new Board, rather than the people of the County, will be selecting a Sheriff, a District Attorney and an Assessor as well as nine other elected officials. As incumbents, the will have a substantial advantage over challengers in the next election. Consequently, the Board of Supervisors will have enormous initial and continuing influence over law enforcement, prosecutorial and assessment policies and resources.

As applied to certain County offices, the Commission's reasoning appears to us to be completely valid. Election of 17 officials at the time of formation would indeed place an excessive burden on the electorate.

Certainly election of a Coroner, a Recorder, and a Surveyor would be pointless.

However, independence from the Board of Supervisors is critical for a District Attorney, who may be required to prosecute its members in the future and who supplies investigating staff to County Grand Juries auditing governmental functions. Such independence may also be necessary and desirable for an Assessor, whose policies have a sensitive interaction with taxation activities of the Board. Similar independence may be desirable for a Sheriff. Consequently, we believe that the State law should be modified to specify as a minimum that election of a Board of Supervisors, an Assessor, a District Attorney, and a Sheriff take place during the formation election.

Formation Review Commission Recommendation - A County Formation Review Commission is the most comprehensive source of information and analysis regarding a new county proposal, but the State law currently limits such Commissions to findings and determinations on factual matters. The Formation Review Commission for Canyon County was precluded by law from making any recommendation to the electorate of either area, and from stating in its report its opinion of whether secession would or would not have a net positive effect on the region.

The desirability of such a recommendation will depend on the specific circumstances of any secession effort. The option of making such a recommendation or including an opinion in its report should be available to a Formation Commission as the single most authoritative source on the question. Therefore, we believe that the State law should be modified to enable Formation Commissions to exercise such an option.