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An investigation to determine the impact of public financing on the Joint Powers Authority

Louis M. Jarcho

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AN INVESTIGATION TO DETERMINE THE IMPACT
OF PUBLIC FINANCING ON THE
JOINT POWERS AUTHORITY

A Thesis submitted to
the Faculty of the School of Administration
Department of Public Administration
in Partial Fulfillment of the Requirements of the Degree of
Master of Public Administration

by
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Victorville, California
1978

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AN INVESTIGATION TO DETERMINE THE IMPACT OF PUBLIC FINANCING ON THE JOINT POWERS AUTHORITY

by

LOUIS M. JARCHO

A thesis submitted in partial fulfillment of the requirements for the degree of

MASTERS OF PUBLIC ADMINISTRATION

CALIFORNIA STATE COLLEGE, SAN BERNARDINO

1978
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SECTION I
INTRODUCTION

Scope of Study

The purpose of this research is to determine the impact of public financing on the Joint Powers Authority.

The findings and conclusions are based on in-depth interviews with officials of nine cities in San Bernardino County. The interviews represented a sampling of the city managers, directors of finance, and councilmen.

This research paper not only contains opinions from those public officials elected or appointed to the public sector positions, but also attempts to measure the attitude of the public as to their feelings towards revenue funding through the vehicle of the Joint Powers Authority.

A sampling interview was conducted among the general public in the nine cities considered in the basic inquiry. The cities considered were: Ontario, Fontana, Upland, Montclair, Chino, Colton, Victorville, San Bernardino, and Redlands.

These cities were selected because of the commonality of purpose and the general demographic characteristics within each of the cities, all growing and experiencing the same rate of expansion. Although some cities may now have a smaller percentage of minorities, the integration processes in the past five years indicate what in
the future may be a more uniform demographic development.

All the cities selected for review are making similar efforts to develop a business climate which would make it inviting for a business or industry to settle in their respective areas.

During the course of this study, a review will be made as to how Revenue Sharing, Inter-governmental Transfer System, and Regional Governments may have influenced some Joint Powers Authorities in San Bernardino County.
SECTION II

JOINT POWERS AUTHORITY - WHAT IS IT?

One of the great problems facing state and federal governments today is taxation, its limitations by law, and its rejection by the voters.

The requirements as a result of the population increase in this state are vast and varied; i.e., schools, water systems, sewer systems, flood controls, electric works, airports, harbors, police and fire stations, administration buildings, and park and recreation facilities. All these cost millions and some way to finance them had to be created and developed.

There is an increasing number of people who are voting "no" on any bond issue, no matter how meritorious. Thus the public official knows that taxpayers are less likely to support general obligation bond issues because they add to the tax burden. These same public officials also know that the majority of the voters need and demand certain services from the state, county, and local governments, examples of which were noted earlier. This dilemma has faced the public officials for the past twenty-five years and it is interesting to note how it has been treated and to a large extent, successfully encountered.

One of the biggest problems facing the public officials when financing is required to issue bonds is the State-required two-thirds
The two-thirds requirement was imposed in 1879 after a period of municipal financing disasters brought on by the extravagant issuance of bonds for internal improvements. In recent years, however, the two-thirds requirement has been seriously questioned. With the present level of fiscal sophistication of local agencies and their advisers, such a stringent requirement may no longer be needed. Its avoidance through the use of a Joint Powers Authority has been defended on the grounds that requirement of a two-thirds approval thwarts the will of the majority since it only takes one-third of the voters plus one to defeat any general bond issue. The elected officials feel they are only carrying out the popular mandate by financing projects through other means.

As an example, in the past seven years seventy-two percent of school bond elections have resulted in the failure to win two-thirds approval in order to issue the necessary bonds. Had a simple majority been required, an overwhelming number of elections would have approved the bonds. (Appendix E)

Attempts to remove the constitutional two-thirds vote provision by amendment have been unsuccessful. The United States Supreme Court in 1971 held, "So long as such provisions do not discriminate against or authorize discrimination against any identifiable class, they do not violate the equal protection clause of the United States Constitution."²

Such legislative and judicial solutions to overcome the two-thirds vote requirement have not proved successful, more and more local agencies have turned to the Joint Powers Authority method of
financing to overcome their fiscal problems.

The Joint Powers Authority is a device available to local governments by agreement without the need for further legislation. The manner of creation permitted, coupled with the power of the Authority to issue bonds under the Bond Act, offers great flexibility in the field of local financing. 3

In essence, this code provides for public authority financing as follows:

A public authority may be created by a joint exercise of powers agreement between any two governmental agencies. The authority may be given the power to perform any function which both parties to the agreement are empowered to perform and which will be of benefit to both parties.

The joint exercise of powers agreement sets forth the purpose for which the authority is formed and the manner in which it will accomplish this purpose. Again, it should be noted that the purpose must be one which both parties to the agreement have the power to accomplish and the accomplishment of this purpose must be of benefit to both. The agreement establishes the governing board of the authority and the manner in which its members are to be named, sets forth the specific powers granted to the authority and provides for the conduct of its affairs, including meetings, financial affairs, and the disposition of its assets.

An agency created under a joint powers agreement may be given the power to issue revenue bonds. Under the Government Code, the authority may issue revenue bonds by resolution of its governing board to finance an exhibition building, a sports stadium or arena, or
any other public building plus, in the case of a county with more than 4,000,000 population, parks, and recreation facilities.

A number of such public authority projects have been initiated throughout the State of California. In the Colton area, such projects have been financed by the Ontario-Upland Treatment Plant Authority, created by the cities of Ontario and Upland; the San Bernardino Building Authority, created by San Bernardino County and the County Flood Control and Water Conservation District (County Civic Building acquisition); the San Bernardino Public Safety Authority, created by San Bernardino County and the City of San Bernardino (construction of North Juvenile Hall); and the Upland Civic Center Authority, created by the City of Upland and the San Bernardino County (library and fire station construction). The San Bernardino Public Safety Authority also plans to sell $7,200,000 of bonds to finance a Central Jail. The Victorville Joint Powers Authority built a City Hall.

In each case, the project is leased to one or both of the parties to the joint powers agreement and the bonds to finance the project are secured by the rental revenues due to the authority under the lease. When the bonds have been repaid, the lease terminates, and the agency which has leased the project obtains title to it.

The bonds must be retired within forty years or less.

There is no legal limitation as to the amount of bonds which may be issued by an authority. However, in actual practice, the amount of bonds which can be successfully offered for sale is limited by the amount of rent which the lessor of the project is able to pay. One factor affecting the marketability of the bonds is the maximum tax which can be levied by the lessor to raise funds to meet the annual
rental payment securing the bonds. However, revenues from any available source can be used to pay the rent.

The financing is developed in the following manner for a project to be used by a city:

a) A joint exercise of powers agreement creating the public authority is executed by the city and another governmental agency.

b) The site for the project is leased by the city to the authority by means of a ground lease. The term of the ground lease is for a period extending past the final maturity date of the bonds. If the site is already owned by the city, it may be leased to the authority for a nominal rent of $1. If the site is to be acquired as part of the project, the ground lease may provide for the authority to pay the city an advance rent for the site in an amount equal to the purchase price. The city uses the advance rent to purchase the site. Funds to pay the advance rent are obtained by the authority from bond proceeds.

c) The completed project is leased back to the city by means of a building facilities' sublease. This lease extends for approximately the same period as the ground lease. It provides for the authority to be paid an annual base rental sufficient to meet annual bond service requirements of the bonds issued by the authority, plus an additional rental to meet the limited operating expenses of the authority.

d) The authority governing board adopts a resolution providing for the issuance of the bonds. In the resolution, the authority establishes the terms and conditions of the bond issue and pledges all rental payments and other revenues to the payment of the bonds. In order to make the bonds marketable, the resolution establishes certain other safeguards.
e) Because the city may not begin paying rent for the project until it is completed and ready for use, it is necessary to provide for interest during construction to be paid from bond proceeds. Usually, interest is funded for a period of six months past the expected completion date in order to provide for unforeseeable delays.

A reserve fund is established from bond proceeds and maintained over the life of the bonds to pay principal and interest in case revenues are insufficient for the purpose in any year. A trust fund is set up for an amount to cover expenses for one year. These funds are available in the event an emergency should arise and a normal payment cannot be made. In the event that no emergency should occur, then the funds are used to make the payment for the final year.

Various types of insurance protection are afforded to avoid default on the bonds in case the building is damaged to the extent the city can no longer occupy and pay rent for it. In addition to the normal insurance protection, it is usually necessary to provide business interruption (rental) insurance and insurance against earthquakes. Since the authority receives no rental revenues from the city until the project is completed, funds to pay these insurance premiums must be included in the authority bond issue. After completion of the project, the city pays the authority an additional rental to cover the insurance premiums, or in lieu of this, the city may obtain the insurance itself on behalf of the authority.

A trustee is usually appointed to receive, administer, and disburse all of the funds of the authority. Appointment of a trustee, which is usually a nationally-known bank, gives the bondholder an additional measure of assurance that the funds of the authority will be
properly applied and will be available when required to meet bond service.

General criticism of this process is that it does not allow the taxpayers to participate and make a choice to exercise their normal right to vote on bonded indebtedness used to fund capital improvements. 5
For decades, the prime source of money for capital improvements has been derived from the sale of general obligation bonds by the political agency responsible for its construction. Taxpayers normally have a right to vote on bonded indebtedness used to fund capital improvements. The authority to issue these bonds is the result of two-thirds of all voters favoring the issuance of such bonds.

General obligation bonds are those for which debt service (which includes interest and redemption payments) is either paid from the General Fund or the General Fund is pledged as a guarantee against a possible default in payment from program revenues.

There are three categories of general obligation bonds: 1) General Fund Bonds—those bonds for which the debt service is fully paid from the General Fund; 2) Partially Self-Liquidating Bonds—those bonds for which the debt service is partially paid from the project or program revenues and the remainder from the General Fund, and 3) Self-Liquidating Bonds—those bonds for which the debt service is entirely paid from the project or program revenues. If project or program revenues are insufficient to cover the costs of the partially self-liquidating bonds or self-liquidating bonds, the full faith and credit of the state is pledged to make payment from the General Fund.

Sections 6500 et seq., authorizes California public agencies to enter into contracts with other public agencies whereby an agreement is made to exercise jointly any powers specified in the contract which are held by all parties. Contracts may be entered into with the federal or state government, the government of any adjoining state, a county, city, public district or public corporation, any agency or department of these entities. The agreement may be administered by one or more of the parties to the contract, a commission constituted pursuant to the agreement, or a person, firm, or corporation designated in the agreement.

In addition to other powers, any agency, commission or board provided for by a joint powers agreement pursuant to Article 1, if such entity has the power to acquire, construct, maintain or operate:

(a) An exhibition building or any other place for holding fairs or exhibitions for the display of agricultural, livestock, industrial, or other products;

(b) A coliseum, a stadium, a sport arena or sports pavilion or other building for holding sport events, athletic contests, contests of skill, exhibitions, spectacles and other public meetings;

(c) Any other public buildings;

may issue revenue bonds pursuant to this article to pay the cost and expenses of acquiring or constructing a structure or structures or facility or facilities which may include any or all of said purposes.

Local governments have justified the use of Joint Powers Agencies to construct various capital improvements on the grounds that the state constitutional requirement for a two-thirds vote on general obligation bonds is too restrictive. On many occasions,
local bond issues have reached votes substantially in excess of a majority, but have failed to receive the required two-thirds vote. Therefore, a Joint Powers Agency provides an alternative financing method for various public improvements.

The League of California Cities has indicated to the legislature that it would support legislation which would prohibit the use and limit of Joint Powers Agencies if the legislature, in turn, would propose an amendment to Article XIII of the State Constitution to lower the vote requirement on general obligation bonds to a majority.

The California Real Estate Association and other so-called "taxpayers" groups have consistently opposed any such constitutional amendment.

The Joint Powers Agencies were responsible for the building and development of water treatment plants and flood control development and sewage facilities, which were regional in scope as well as local city-county buildings, parks, and pools.

Prior to the development of this regional concept, the grouping of the cities which are the subject of this study got along for many years as a cluster of little settlements, each with its own character and each with its own self-imposed isolationist thinking and attitude. They finally realized that the regional approach to major problem solving had become the dominant method for effectively developing the whole area. These cities became aware that they had similar problems and common interests. They did not have to sacrifice community pride and identity, nor abandon competitive zeal. They then began to look beyond their community and examine which of their concerns transcended community and might best be viewed as regional.
This system of financing was creative and effective until about 1970 when nation-wide economic recessions hit some of the big industries in California very hard; i.e., aerospace, shipbuilding, and auto assembly plants.

Simultaneously, the taxpayer who became painfully aware that his taxes were rising with each passing year became reluctant to vote for any revenue bond, school bond, or tax override. During this period of five years, 1971 to 1976, a total of sixty money bills were submitted to the voters by the county school boards in San Bernardino County with only 28% passing and 72% failing. The general revenue bonds suffered the same fate. (Appendix E)

The elected officials and city managers reluctantly went to Joint Powers for financing of bonds. The electorate suddenly became aware that they were being left out of the normal political process.

In the past five years, only one city (Chino) has resorted to the use of the Joint Powers, "Chino Civic Center Authority," which was financed in the amount of $4,500,000.

At the same time that there developed a reluctance to use the Joint Powers Agency by all of the nine cities studied, a program of federal revenue sharing and other grants and aid from the federal government became a better source for money. Certainly it was easier and cheaper to acquire.

Total grants from the federal government during the fiscal year 1975-76 amounted to $13,274,851 to nine cities. Grants to total revenue amounted from 4.7 to 27.8 percent of the total budget for the respective cities. (Appendix A)
The cities were recipients of federal revenue sharing, block grants, FAU (Federal Aid to Urban), Comprehensive Training Act, and the Public Works Bill. (Appendices B, C, and D).

On 20 May 1977, President Carter signed two bills into law which are designed to provide 1,100,000 jobs, mainly among construction workers and young people.

One bill authorizes spending $4,000,000,000 on public works projects, such as repairs to and construction of schools and waterworks.

The other bill, part of Carter's economic stimulus program, is a $20,000,000,000 appropriation measure, including $4,000,000,000 for public works projects, $1,000,000,000 for 200,000 youth jobs, $8,000,000,000 for public service jobs over the next 18 months for persons who have had problems in finding work, and $631,000,000 in general aid for state and local governments.

By the $4,000,000,000 public works bill, the Congress hopes to create 300,000 jobs in the construction trades and 300,000 jobs related to them. The $20,000,000,000 appropriations bill included $4,000,000,000 to fund the program.

The public works bill extends and expands a $2,000,000,000 public works bill signed last year by President Gerald R. Ford, which created 141,000 jobs directly in the construction trades.

On May 23, 1977, President Carter signed a bill for water delivery systems to be funded in the amount of $235,000,000 for the western states. General Revenue Sharing and other grants when introduced into cities' revenue pictures can be additive to general funds or substitutive for funds that would have otherwise been raised.
from revenue sources. It is for this reason that raising money through Joint Powers has become less important.

In order to raise the GRS grant, some cities have taken advantage of a bill passed by the California legislature. A report, dated 30 June 1975, on the effects of revenue sharing prepared at the University of California, Riverside, states:

We found one significant development regarding special districts which has occurred as a result of the tax effort provisions of the revenue sharing bill. In the first year of GRS, the California State Legislature passed a bill which created a mechanism through which cities can now get revenue sharing credit for the property taxes paid to various kinds of special districts. Under its provisions, a city, by resolution of its council, may pay to such special districts an amount of money equal to the amount the special district would derive from the imposition of its tax on all the property within the incorporated limit of the city. In turn, the city council, in order to generate the necessary funds, establishes a city tax rate in the amount equal to the amount of the rate set by the governing board of the special district, and the tax is formally collected for the city rather than for the district. The result is an increase in the city's tax effort and, therefore, in the amount of revenue sharing money received, or, to put it another way, the cities are penalized less in the GRS formula for having some of their functions performed by special districts. In each case, the council may decide each year which arrangement it wishes to make, since the legislation allows the authorization to be made on a year-to-year basis.

The cities have also discovered an opportunity, which has existed for some years in the State Water Code, to make the same kinds of arrangements with water districts.

Some cities in the study have taken advantage of these possibilities and have thereby increased their revenue sharing amounts. On the other hand, many cities have not taken advantage of the act. One city in Southern California, for example, has no property tax; however, its residents pay property tax to seven special districts or service areas: a water district, a sanitation district, a fire district, a street lighting district, a parks and recreation district, a flood control district, and an airport service area. The city, although informed of the new law by the Local Agency Formation Commission, has decided against action to return these functions to the city in order to take advantage of the tax effort portion of the GRS formula. In this case, political rather than economic considerations are the deciding factors. The councilmen wish to be able to say that the city has no property tax.
With this as background, the question arises, how Revenue Sharing, Intergovernmental Transfer System, and Regional Governments may have influenced some Joint Powers Authorities.
SECTION IV

INTERGOVERNMENTAL TRANSFER SYSTEM, REVENUE SHARING
AND REGIONAL GOVERNMENTS

Intergovernmental Transfer

The primary form of intergovernmental cooperation is through the transfer of payments. They are directed at specified purposes, usually subject to a measure of supervision and review by the granting government. Recent years have seen a substantial and ever-increasing flow of funding from federal to state and local governments. The transfer of financial assistance from state to local governments has also flourished.

The federal intergovernmental transfer system has continually grown since the early 19th century. The early grants financed by the sale of federal lands were used for road construction and later to establish and operate the land grant colleges. The land grant system was a major factor in the development of the rail system in the latter half of the 1800's. Supervision of these grants was relatively loose but still significant. The few conditions attached to them governed the mode of disposition of the lands and the manner in which the proceeds were to be used for purposes specified.

The amount of the grants was rather modest until the 1930's, when the desperate financial conditions of the state and localities led to the development of a great variety of grants to help finance programs...
in education, health, welfare, transportation, housing, and other fields.

Federal assistance has increased dramatically in the last three decades. National aid, in absolute terms, has risen from $2.2 billion in 1950 to $60.5 billion in 1977. To put these figures in better perspective, national government aid now represents 16% of the total national budget and nearly 22% of the national domestic budget. For many decades, almost all of this funding had gone to the state government, but by 1973, 25% went to local governments. The states receive nearly a quarter of their revenue from the federal government. Local government receives less than 10% of its revenue from the federal government, but this does not include state aid which is funded by the federal government and passed on to local governments.

The federal aid has almost exclusively gone to support basic areas: education, income security, health and hospitals, and highways. More recently, revenue sharing could be added to another significant contribution.

Fiscal difficulties of state and local governments caused by uncontrollable and controllable factors encompassing economic and political considerations have led to their greater financial dependency. Uncontrollable circumstances that face lower levels of government are regional income differences and intergovernmental spillovers that take place whenever any portion of the costs or benefits of a public service that is provided in a jurisdiction is realized by residents of another jurisdiction. The degree of spillover may be categorized by the far-reaching importance of a service in a region. Education and air pollution have a greater spillover than neighborhood
A controllable factor which interrelates with spillovers concerns the jurisdictional financial posture. State governments rely more upon income taxes while local rely significantly upon sales and property taxes. These taxes are more slowly affected by the changing economic conditions. The inelasticity of these state and local revenue sources (property tax) render state and local fiscal measures as unsuited to cover the elasticity in the demand for services. State and local governments have also encountered another difficulty in financing programs. This problem arises from the limited success of gaining voter approval to establish new tax bases or of rate increases on present tax bases. (Appendix E)

The elastic income tax structure of the federal government has thus resulted in a greater revenue capacity but not the parallel advantage to subordinate governments in providing many governmental services. The superior fiscal capacity can thus be used to entice or persuade lower levels of government to provide given services. The federal government has engaged in financial assistance to ameliorate societal discrepancies. Thus, in reality, federal involvement has usually served to stimulate the states' exercise of their own powers, encouraging a great expansion of the scope of state governmental operations. Such was the case with the construction of the interstate highway system. This phenomena is becoming more prevalent at the local level with the increase in direct federal-local assistance.

Federal transfers have striven for the redistribution of income and the increase of service levels provided, thus enabling some localities to rise above substandard service production levels. In
addition to decreasing these inequalities, the Hoover Commission in 1949 declared that grants had raised the level of all aided services without transferring functions entirely to the national government. However, in 1978, the Hoover Commission's conclusion would be violently disputed by local and state governments.

The extent of federal control over these intergovernmental transfers as well as the bypassing of state government to directly finance local governments have been areas of debate. These issues have influenced the composition of the method of transfer. The variations of these tools are reflected in the mood of elected officials by the degree of federal control required, as well as by the segments of society served by grants.

There are numerous transfer tools available to enhance the state and local fiscal outlook, such as vacating specific revenue sources, tax supplements, tax deductions, and tax credits. Also to be included are shared revenue, tax offsets, and grants or contracts awarded to public and private applicants, such as federal grants to universities. Of the transfer tools utilized, the most frequently used, yet controversial, are the instruments of the direct transfer of funds. Included in this group is the most recently implemented transfer system; revenue-sharing whose full impact has not been fully realized. Another set of tools is the more established, categorical and block grants which can be divided into project, matching fund, or formula allocation approaches.

Categorical grants are money transfers to lower levels of government made without conditions of repayment, but exchanged for specifically-defined purposes detailing the use of funds and the
expected benefits. This is intended to result in the elimination of unsound project proposals. Examples of acceptable purposes are a particular type of highway or assistance for graduate programs in speech therapy. Today over 95% of all national grants-in-aid fall into this class.\(^{11}\)

Categorical grants enable the higher level of government to maintain control over the expenditures of lower levels of government, greatly increasing the chance that programs considered important to the national interest are initiated and implemented. They permit the federal government to tailor its assistance to those activities that have the largest spillover effects. Inadequate education, health, anti-poverty, and anti-pollution programs in one area will mean costs inflicted on the rest of the country.\(^{12}\)

To ensure the proper allocation of funds, the federal government maintains controls over the use of the funds. Recipient agencies must supply some of their resources to support the program. These agencies must, in addition, administer the program according to prescribed standards.

The grants can be classified into two groups: 1) grant funds earmarked for expenditures on programs or subprograms, and 2) grant funds earmarked for expenditure on specified inputs to programs or subprograms. The first group would be those which are restricted to particular programs; e.g., unemployment, school lunches, etc. The second group would be those restricted to particular kinds of expenditures related to a specified program or department; e.g., hospital construction, sewage disposal, equipment, etc.\(^{13}\)

Categorical grants are criticized for being focused too
narrowly, in that jurisdictions can only spend monies for specified types of projects. Much concern has centered on the operation and impact of the grants-in-aid program. Critics have expressed fears that these grants skew many local priorities.

Categorical grants have been criticized as making budget planning difficult because many proposals may await judgment for months. In addition, criticism has been leveled at the time and expertise required to complete the complex application process. State and local governments that are well-organized and staffed will win the project grants. Yet they may have a relatively low index of need for the projects or have a relatively high index of fiscal capacity with which to meet their needs.

It is alleged that the federal carrot leads recipients to undertake activities that are not in their own best interest and that requirements are frequently inconsistent with the social or economic problems. Furthermore, agencies must pay some political price in order to receive its benefits.

As the number of categorical grants increased after World War II, administrators began to show concern about the inability to transfer federal aid from one closely-related field to another. This resulted in the creation of the block grant. The block grant is funded for a broad functional area. The block grant at the federal level was implemented as an instrument to consolidate the numerous categorical grant programs. These groupings lead to greater flexibility with specified programs and a more streamlined application process.

The 1968 Omnibus Crime Control and Safe Street Act and the Housing and Community Development Act of 1974 are examples of
major block grants. CETA is another example of such a program in which diverse manpower programs were greatly reduced. CETA represents the legislative compromise between the centralists--those favoring concentration of power in Washington and the proponents of special manpower revenue sharing. The consolidation and decentralization of programs appear to represent the major dichotomy between categorical and block grants.

The great appeal for these grants has stemmed from fear by state and local governments that an increase in categorical grants will result in the concentration of power in the federal government. By instituting broader categories, the federal government is demonstrating more confidence in the competency of lower levels of government.

Criticism of the block grant has centered on the reservations expressed by federal officials that subordinate levels of government are not able to address national priorities. The broader parameters render less efficiency in the distribution of monies.

Other critics pointed out that while state and local officials may gain under block grants, much of the original purpose of categorical grants-in-aid will be lost. That is, block grants will provide stimulus for particular types of functions, narrowly defined. In addition, application has proven to be very difficult because of the opposition of federal and state bureaucracies, of interest groups who wanted earmarked grants, of segmented congressional committees, and by fragmented program administration.

Project as well as formulation and matching fund allocation approaches can be applied to both categorical and block grants. These
components of grants-in-aid significantly impact the thrust of the many federally funded programs.

The federal government can apply different Congressionally-set formulas to the distribution of grants. The amount of the grant might vary with the unit size of the recipient. The subsidy does not necessarily have to be fixed but it can vary inversely with the financial ability of the jurisdictions.

Matching grant funds which apply only to the portion of expenditure that exceeds a specific minimum level are mainly designed to encourage subordinate governments to initiate and implement new programs. Grants for the entire amount can tend to weaken the state or local responsibility motive. Grants without fund requirements are related to the input or performance of the program. To measure efficiency, greater emphasis is being placed on output or the performance standard.

Project grants are now matching fund grants which are distinctive from the formula grants in that a subordinate government must prepare a detailed application for a project grant. Money is allocated among all eligible recipients according to a plan established by law or regulation. Certain Congressional guidelines are outlined, with the discretion for allocation of project grants left to a national administrator who decides the merit of each application.

Project grants are directed to closely defined objectives. These grants are made available for innovative programs and research, not simply for supportive endeavors. In the mid 60's, more money was allocated for formula grants, but the project grants were actually greater in total number.
The impact of categorical and block grants has been unquestionably significant. The proliferation of these grants has generally distorted American federalism. Since the inception of grants, the control of these transfer tools has vacillated between centralized and decentralized. The early sixties reflected a more centralized approach, but by the late sixties and early seventies, decentralization became evident. In pointing out this decentralizing phenomenon, revenue sharing must be acknowledged as an integral part of this process.

Revenue Sharing

Revenue sharing has gone beyond block grants, by not requiring matching, maintenance of effort, or prior project approval. Funds are disbursed to the states on the basis of population, per capita income, urbanized population, tax effort, and income tax collection. The funds are allocated to state and local governments without "strings" attached; however, certain general priorities must be met. These areas include public safety, recreation, etc.

The primary purpose of revenue sharing was to offset fiscal drag in the economy of the nation and in equalizing the fiscal position of wealthy and poor governments. Overwhelming criticism of the program has been that the revenue was spent on public safety instead of on anticipated social service programs, that citizens have had little input in the delegation of funding, and that governments have been provided revenue unequivocally.

Regardless of the transfer tool, whether it be revenue sharing, block, or categorical grants, the impact of each tool has had a major
influence on all four areas of American government—federal, state, county, and local.

Regional Governments

Many political scientists, conservationists, legislators, and local officials have pointed out that California's development over the last three decades has epitomized what has become known as urban sprawl. Traditionally, state laws and community practices in the formation and alteration of local governmental boundaries and jurisdictions have followed the course of least resistance.

What the majority of local people desired, they were able to get. Thus, in suburban areas, it has been easier to incorporate new cities and form special districts than to expand the boundaries of existing cities through annexation or to form regional governments. The effect has been to satisfy subdivision developers and "home rule" advocates at the expense of dealing effectively with government problems which cross city and county boundaries.

Most of what passes for regional government in California today is based upon the Joint Exercise of Powers Act of 1921. That act permits local government (cities and counties) to carry out common functions through the creation of Joint Powers agencies. The popularity of such agencies among local officials is due, in part, to their flexibility. A Joint Powers agency may exercise all the powers and duties of its constituent local governments or it may be limited to single purpose.

Because of the great interest of regional government shown in the San Francisco Bay Area, the Association of Bay Area Governments
was formed in 1961 to provide a vehicle for the development of regional planning for nine bay area counties. In 1961, forty-two cities and five counties signed a Joint Powers agreement, setting up ABAG as "a forum for discussion and study of metropolitan area problems of mutual interest and concern to the cities and counties of San Francisco area and for the development of policy and action recommendations."

As a Joint Powers agency, it had no binding powers. However, during the 1960's and 70's, its role has grown significantly, largely as a result that it began to serve as the regional planning agency responsible for the distribution of federal funds for programs in housing, law enforcement, recreation, and pollution control, refuse disposal, and shoreline development. In 1966 and 1969, there were efforts to expand its authority as a regional home rule vehicle with tax and bond capacity, but this was blocked by the state legislature.

During this period, there were a number of federal actions taken to encourage regional planning and program administration. As the number of federal grant programs multiplied, several federal agencies sought to reduce the number of local jurisdictions and planning districts with which they had to deal.

For many years, the League of California Cities opposed anything that looked at all like a step toward metropolitan or regional government. The League openly stated that special districts that could be controlled by city officials were the only agencies to be trusted to deal with regional problems. In recent years, however, the League's position has changed considerably. In January of 1971, the League formally adopted a policy statement calling for legislation
to create regional organizations throughout the state. These organizations, according to the League's policy statement, should serve as "umbrella" organizations for all other regional agencies, operating with "limited powers and functions with reference to the operation of regional services" and with "such regulatory and taxing powers as necessary to carry out the regional functions." Significantly, the governing bodies of such organizations "shall be composed entirely of city and county elected officials." (Even this was too much for the Los Angeles City Council, however, which promptly went on record opposing the League's policy.)

The County Supervisors Association of California, another longtime opponent of regional government, has also moved somewhat closer to accommodation, but evidently with great reluctance. Noting that several "regional government approaches" to environmental control had been proposed during the 1971 session of the legislature, the association, meeting in October 1971, adopted a resolution stating that "when it is necessary to form regional organizations to solve problems of a regional nature...it is in the best interest of the people of California to compose the governing body of such regional organizations entirely of locally elected officials from units of general-purpose governments--thus assuring local responsiveness and public visibility and avoiding the needless superimposition of a new level of government." 17

It appears that one of the great fears by existing agencies is that regional organizations, as has been proposed in California II which would divide the state into ten regions, would culminate in the development of another layer of government. This plus civic pride
and, in some cases, self-aggrandizement are central to the issue of workable regional governments.
SECTION V

CONCLUSION

The impact of public financing on the Joint Powers Authority can best be determined as a result of a random survey, scientific and literary research performed in the past year.

In a random survey conducted in the following cities: Ontario, Colton, Fontana, Upland, Montclair, Chino, Victorville, San Bernardino, and Redlands during the spring of 1977, seventy-five people were interviewed on the subject of Joint Powers Authority. The survey asked for answers to questions related to taxes and financing of programs through such agencies.

The results are significant for they reflect the attitudes of a cross-section of business men, members of a profession, working class, and city managers, councilmen, and finance directors of nine cities in San Bernardino County. By overwhelming majorities, all interviewed were concerned about high taxes and impersonal government even at the local level.

Question: Do you know what a Joint Powers Authority is?
65% said "no;" 35% said "yes"

Question: Do you believe taxes are too high?
99% said "yes;" 1% said "no"

Question: Do you know what an obligation bond is?
65% said "no;" 35% said "yes"
After an explanation was made as to what an obligation bond was and how a Joint Powers Authority may use them to finance programs, the following questions were asked:

Question: Do you believe you should have an opportunity to vote for or against an obligation bond to finance a public authority program?

90% said "yes;" 5% said "no;" 5% were "undecided"

It is interesting to note that the five percent who said "no" were management employees in local government.

Question: Do you believe that it is possible to get two-thirds of the majority voting to vote "yes" on a bond at the present time?

95% said "no;" 5% "undecided"

To the question asked of those who are management employees in local government:

Do you believe you would favor financing a program through Joint Powers Authority by directly selling obligation bonds without asking consent of the electorate?

100% said "no"

Some comments made by members of local government were:

Although I am in complete accord with the objectives of the Joint Powers Agreement, I would hesitate to use the financing built into such authority.

Joint Powers agreements are one aspect of the entire issue of local financing. The subject is a sensitive one, but it had its use. Government grants and revenue sharing have made the sale of obligation bonds unnecessary.

We used Joint Powers financing one time and we are very proud of the results, but I don't think we would use such financing today.

A militant one-third plus one of the voters can control the sale of
obligation bonds and thwart the will of the majority.

I believe one man was speaking the thoughts of many when he said:

The voter feels isolated, frustrated, and becomes very defiant at the polls when asked to vote for an obligation bond. His vote is no, no matter how meritorious the cause.

It is becoming very apparent that regional approach to government and its vehicle, a Joint Powers agency, is expanding not only in California, but throughout the country. The financing of such agencies has been thriving with the influx of federal funds with the following effects upon Joint Powers Authority and other measures of control and fiscal management:

a) Without revenue grants, sharing programs would have been eliminated or cut in scope.

b) By financing on-going programs with revenue sharing or intergovernment transfer, it frees the jurisdictions own resources to permit a reduction in tax rates or an avoidance of a tax increase.

c) By substituting revenue sharing, grants, and intergovernment transfers, borrowing and use of general obligations bonds, in many cases, are not required.

d) Grants-in-aid and intergovernmental transfers are used by Joint Powers Authorities in regional planning or financing of many functions, as water resources, sewage control, air pollution, and highways.

e) Where Joint Powers Authority was formerly used at a local level; i.e., city, district, and county, revenue sharing grants-in-aid and intergovernmental transfers will now support capital improvements.
This innovative form of public financing which we discussed has given local authorities and regional authorities the flexibility to manipulate and manage funds derived from normal tax sources, which ability they never had before.

The great proliferation of federal and state grants-in-aid, including revenue sharing as well as tax sharing and other intergovernmental transfers, and the development of regional concepts have resulted in a generally cooperative relationship among all parties. While these intergovernmental relationships have flourished at all levels relieving the financial burden incurred by lower levels of government, concern has been prompted by the unparalleled power that the federal government conceivably could impose on subordinate governments.

Many benefits accrue to the state through such federal intervention. The federal programs strengthen the ability of the state to deal with problems generated by those enterprises within their boundaries. Thus, in reality, federal involvement has served to stimulate the state's exercise of its own powers, encouraging a great expansion of the scope of state governmental operations. In some cases, the actual fear of federal involvement has led to the reorganization and improvements of state programs.

In summation, it can be said that the impact on local public financing in the form of intergovernmental transfers, grants, revenue sharing, and the necessity for planning on a regional basis is now having a cumulation impact in popularizing the use of Joint Powers Authorities. As long as this source of funds continues to be available, the sale of general obligation bonds will not be resorted to in San Bernardino to finance a public facility.
### APPENDIX A

#### PERCENTAGE OF GRANTS RELATED TO INCOME

**1975-76**

<table>
<thead>
<tr>
<th>City</th>
<th>Total Grants</th>
<th>Normal Revenue</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ontario</td>
<td>$879,036</td>
<td>$17,825,802</td>
<td>$18,704,838</td>
<td>4.7</td>
</tr>
<tr>
<td>Fontana</td>
<td>537,555</td>
<td>3,073,177</td>
<td>3,610,732</td>
<td>14.9</td>
</tr>
<tr>
<td>Upland</td>
<td>644,438</td>
<td>7,998,405</td>
<td>8,642,843</td>
<td>7.5</td>
</tr>
<tr>
<td>Montclair</td>
<td>1,080,000</td>
<td>5,250,000</td>
<td>6,330,000</td>
<td>17.1</td>
</tr>
<tr>
<td>Chino</td>
<td>482,000</td>
<td>7,700,000</td>
<td>8,182,000</td>
<td>5.9</td>
</tr>
<tr>
<td>Colton</td>
<td>659,166</td>
<td>2,771,400</td>
<td>3,430,566</td>
<td>19.2</td>
</tr>
<tr>
<td>Victorville</td>
<td>304,126</td>
<td>1,638,972</td>
<td>1,943,098</td>
<td>15.7</td>
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<tr>
<td>San Bernardino</td>
<td>7,526,299</td>
<td>21,837,646</td>
<td>29,363,945</td>
<td>25.6</td>
</tr>
<tr>
<td>Redlands</td>
<td>1,162,231</td>
<td>3,025,044</td>
<td>4,187,275</td>
<td>27.8</td>
</tr>
</tbody>
</table>

**Total Grants** $13,274,851

Source: Finance Directors of the above cities
APPENDIX B

CITY OF ONTARIO  
Population 66,000

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue Sharing</th>
<th>Other Grants</th>
<th>Normal Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975-76</td>
<td>$668,980</td>
<td>$386,358</td>
<td>$17,825,802</td>
</tr>
<tr>
<td>1974-75</td>
<td>627,736</td>
<td>160,592</td>
<td>12,722,995</td>
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<tr>
<td>1973-74</td>
<td>790,311</td>
<td>405,874</td>
<td>11,972,256</td>
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<tr>
<td>1972-73</td>
<td>700,517</td>
<td>486,840</td>
<td>11,140,556</td>
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<tr>
<td>1971-72</td>
<td>-</td>
<td>108,906</td>
<td>10,034,915</td>
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</table>

CITY OF FONTANA  
Population 21,000

<table>
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<th>Year</th>
<th>Revenue Sharing</th>
<th>Other Grants</th>
<th>Normal Revenue</th>
</tr>
</thead>
<tbody>
<tr>
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<td>184,408</td>
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<td>1973-74</td>
<td>163,150</td>
<td>131,914</td>
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<td>1972-73</td>
<td>182,884</td>
<td>201,583</td>
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<td>1971-72</td>
<td>-</td>
<td>115,627</td>
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CITY OF UPLAND  
Population 33,000

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<th>Year</th>
<th>Revenue Sharing</th>
<th>Other Grants</th>
<th>Normal Revenue</th>
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<tr>
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<td>$220,000</td>
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<td>1974-75</td>
<td>209,427</td>
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<td>1973-74</td>
<td>199,982</td>
<td>168,984</td>
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<tr>
<td>1972-73</td>
<td>193,465</td>
<td>154,302</td>
<td>4,798,582</td>
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<td>1971-72</td>
<td>-</td>
<td>60,226</td>
<td>3,838,486</td>
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</table>

Source: Finance Directors of the above cities
### APPENDIX C

#### CITY OF MONTCLAIR
Population 23,000

<table>
<thead>
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<th>Year</th>
<th>Revenue Sharing</th>
<th>Other Grants</th>
<th>Normal Revenue</th>
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<tr>
<td>1975-76</td>
<td>$290,000</td>
<td>$790,000</td>
<td>$5,250,000</td>
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<td>1974-75</td>
<td>290,000</td>
<td>360,000</td>
<td>5,250,000</td>
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<td>1973-74</td>
<td>290,000</td>
<td>250,000</td>
<td>4,500,000</td>
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<tr>
<td>1972-73</td>
<td>290,000</td>
<td>100,000</td>
<td>3,300,000</td>
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<tr>
<td>1971-72</td>
<td>290,000</td>
<td>85,000</td>
<td>3,100,000</td>
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#### CITY OF CHINO
Population 21,000

<table>
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<th>Revenue Sharing</th>
<th>Other Grants</th>
<th>Normal Revenue</th>
</tr>
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<tbody>
<tr>
<td>1975-76</td>
<td>$300,000</td>
<td>$182,000</td>
<td>$7,700,000</td>
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<td>1974-75</td>
<td>271,000</td>
<td>165,000</td>
<td>5,800,000</td>
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<td>1973-74</td>
<td>239,000</td>
<td>127,000</td>
<td>5,300,000</td>
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<td>1972-73</td>
<td>243,000</td>
<td>220,000</td>
<td>3,800,000</td>
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<tr>
<td>1971-72</td>
<td>160,000</td>
<td>150,000</td>
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#### CITY OF COLTON
Population 21,000

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<th>Year</th>
<th>Revenue Sharing</th>
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<th>Normal Revenue</th>
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</thead>
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<tr>
<td>1975-76</td>
<td>$322,932</td>
<td>$336,134</td>
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<td>1974-75</td>
<td>359,789</td>
<td>218,842</td>
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<td>1973-74</td>
<td>344,544</td>
<td>202,133</td>
<td>2,619,500</td>
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<td>1972-73</td>
<td>336,577</td>
<td>591,791</td>
<td>2,437,000</td>
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<tr>
<td>1971-72</td>
<td></td>
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<td>2,502,400</td>
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</table>

Source: Finance Directors of the above cities
APPENDIX D

CITY OF VICTORVILLE
Population 13,000

<table>
<thead>
<tr>
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<th>Revenue Sharing</th>
<th>Other Grants</th>
<th>Normal Revenue</th>
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</thead>
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<tr>
<td>1975-76</td>
<td>$124,884</td>
<td>$179,242</td>
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<tr>
<td>1974-75</td>
<td>118,377</td>
<td>104,722</td>
<td>1,492,651</td>
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<td>1973-74</td>
<td>107,041</td>
<td>30,124</td>
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<td>1972-73</td>
<td>117,184</td>
<td>111,350</td>
<td>1,058,376</td>
</tr>
<tr>
<td>1971-72</td>
<td>-</td>
<td>65,935</td>
<td>911,615</td>
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CITY OF SAN BERNARDINO
Population 108,000

<table>
<thead>
<tr>
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<th>Revenue Sharing</th>
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<th>Normal Revenue</th>
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<tbody>
<tr>
<td>1975-76</td>
<td>$1,857,643</td>
<td>$5,668,656</td>
<td>$21,837,646</td>
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<tr>
<td>1974-75</td>
<td>1,913,128</td>
<td>2,238,036</td>
<td>19,605,271</td>
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<td>1973-74</td>
<td>1,892,369</td>
<td>1,717,588</td>
<td>22,831,731</td>
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<td>1972-73</td>
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<td>1,147,164</td>
<td>20,977,842</td>
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<td>1971-72</td>
<td>-</td>
<td>2,225,793</td>
<td>18,551,233</td>
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CITY OF REDLANDS
Population 36,000

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<th>Revenue Sharing</th>
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<th>Normal Revenue</th>
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<tbody>
<tr>
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<td>$324,629</td>
<td>$837,602</td>
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<td>1974-75</td>
<td>319,830</td>
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<td>1973-74</td>
<td>310,919</td>
<td>32,002</td>
<td>3,144,949</td>
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<tr>
<td>1972-73</td>
<td>350,203</td>
<td>138,720</td>
<td>2,774,031</td>
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<tr>
<td>1971-72</td>
<td>-</td>
<td>79,812</td>
<td>2,641,173</td>
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Source: Finance Directors of the above cities

37
APPENDIX E

SAN BERNARDINO COUNTY SCHOOL DISTRICTS

Voters' Response to Bond Issues, etc.

<table>
<thead>
<tr>
<th>Bonds</th>
<th>Year</th>
<th>Elections</th>
<th>Passed</th>
<th>Failed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1971-72</td>
<td>6</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>1972-73</td>
<td>5</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>1973-74</td>
<td>2</td>
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<td>2</td>
</tr>
<tr>
<td></td>
<td>1974-75</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>1975-76</td>
<td>7</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>23</td>
<td>9</td>
<td></td>
<td>14</td>
</tr>
</tbody>
</table>

39% Passed
61% Failed

<table>
<thead>
<tr>
<th>Bonds</th>
<th>Year</th>
<th>Elections</th>
<th>Passed</th>
<th>Failed</th>
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</thead>
<tbody>
<tr>
<td>Tax Override</td>
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<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>1972-73</td>
<td>4</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
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<td>1973-74</td>
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<td>2</td>
</tr>
<tr>
<td></td>
<td>1974-75</td>
<td>6</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>1975-76</td>
<td>5</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>21</td>
<td>5</td>
<td></td>
<td>16</td>
</tr>
</tbody>
</table>

24% Passed
76% Failed

<table>
<thead>
<tr>
<th>Bonds</th>
<th>Year</th>
<th>Elections</th>
<th>Passed</th>
<th>Failed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease Purchase</td>
<td>1973-74</td>
<td>9</td>
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<td>7</td>
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<tr>
<td></td>
<td>1975-76</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>16</td>
<td>3</td>
<td></td>
<td>13</td>
</tr>
</tbody>
</table>

19% Passed
81% Failed

Grand Total 60 17 43

28% Passed
72% Failed
38
1 Revenue bonds have been traditionally defined as bonds which are secured by a "special fund." These bonds are for specific projects in which only the revenue generated from the program is pledged for payment of the bonds. General obligation bonds are those for which debt service (which includes interest and redemption payments) is either paid from the General Fund or the General Fund is pledged as a guarantee against possible default in payment from program revenues.

2 Gordon vs. Luce, 403 U.S. 1.

3 California Government Code, Sec. 6547.

4 California Government Code, Sec. 6500-6514.

5 California Constitution, Article XVI, Sec. 18, and Article XIII, Sec. 40.


10 Maxwell and Aronson, Financing State and Local Governments, p. 74.

11 Glendening and Reeves, Pragmatic Federalism, p. 152.


14 Maxwell and Aronson, Financing State and Local Governments, p. 63.


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