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Intergovernmental fiscal policy in California: The 1993 property tax shift

Lynndee Ann Kemmet

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INTERGOVERNMENTAL FISCAL POLICY IN CALIFORNIA:
THE 1993 PROPERTY TAX SHIFT

A Project
Presented to the
Faculty of
California State University,
San Bernardino

In Partial Fulfillment
of the Requirements for the Degree
Master of Public Administration

by
Lynndee Ann Kemmet
December 1994
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THE 1993 PROPERTY TAX SHIFT

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December 1994
Approved by:

Guenther Kress, Ph.D., Chair, Public Administration
Brian Watts, Ph.D., Second Reader
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ABSTRACT

Facing a financial crisis, cities across California have been forced to cut services. Cities that only a decade ago had surplus funds now face financial collapse. In an effort to understand this financial decline, this research project examines the effects of the state property tax shift on the nine cities of the Coachella Valley during the first year of the state tax shift. The Coachella Valley cities, located about 120 miles east of Los Angeles, were chosen because they reflect the diversity of cities in California. They not only vary in financial health and resources, but also in the socio-economic status of residents.

Much of the data for this research project is the result of my years of working as a journalist in the Coachella Valley. Sources include not only city documents and interviews, but also information gathered while attending city meetings and reports from local, state, and federal agencies.

The research indicates that while recession and mismanagement have played some role in the declining financial health of California cities, many have been brought to the crisis stage by the state itself. Rather than reaching out to help cities, state budget actions, namely the shift of property taxes from local governments to schools, has brought many cities to the brink of financial ruin.
ACKNOWLEDGMENTS

I wish to thank the Public Administration faculty at California State University, San Bernardino for their support, not only in helping me complete this project but in helping me go on and pursue my studies further. I would especially like to thank Professor Guenther Kress and Professor Brian Watts for their tremendous patience in seeing this project through to the end. I discovered in working with them that they are both not only dedicated to the field of Public Administration, but also to their students. I feel fortunate to have had the opportunity to work with them.
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INTRODUCTION

As the Coachella Valley's nine cities rounded the final turn toward the end of the 1993 fiscal year, the relief several felt at making it through the fiscal year was quickly overtaken by fears of the coming year. The 1993 fiscal year had been tough. Just how narrowly they survived the year became evident in the spring of 1993 as all nine began preparing budgets for the 1994 fiscal year, set to begin July 1, 1993. For cities such as Indio and Palm Springs, getting through the coming fiscal year would mean deep cuts in personnel, especially in such critical services as fire and police. For these two cities, and many more across California, fiscal 1994 looked to be a further slide into financial ruin.

It was not always this way. Even Indio, which has been struggling with a $1 million deficit for the past three years, had surplus funds just five years ago. Palm Springs, now facing a projected $8 million deficit, was once the Coachella Valley's premier city. For many California cities, the slide down began as the boom years of the 1980s came to a close and recession set in, eroding tax bases as sales tax revenue dropped and businesses failed. Along with the recession, over-extended budgets and poor fiscal management are also factors that have led to current financial difficulties faced by many California cities. While officials
of some cities, such as Indio and Palm Springs, willingly admit that bad decisions played a role in their cities’ financial decline, they are quick to point out the situation of many cities is now at a crisis stage, and those cities have been brought to that stage by the state itself. Rather than reaching out to help cities survive today’s tough times, state budget actions, namely the shift of property taxes from local governments to schools, appears to have brought many cities to the brink of financial ruin.

In an effort to understand the effects of the state tax shift on California cities, this paper examines the situation of Coachella Valley cities during the first year of the state tax shift. Although fiscal 1993 is the focus, mention will also be made of the fiscal 1994 tax shift and the financial loss to Coachella Valley cities. All nine cities will be discussed, but not all will receive equal attention.

This paper begins with a brief look at the situation of each city as the 1993 fiscal year drew to a close and each worked to develop a budget for the coming year. For several, the difficulty of developing a fiscal 1994 budget was compounded by the state’s decision to cut funds to local governments for the second year in a row. Already struggling to deal with the previous year’s cuts, cities now had to deal with the knowledge they would lose property tax funds again.

After presenting the current state of the Coachella
Valley's nine cities, this paper steps back one year and looks at the financial situation of the cities as they adopted their fiscal 1993 budgets and prepared to start the new year. The paper then moves through the 1993 fiscal year and shows the effect of the state tax shift on each city. The final sections of this paper addresses the question of how cities might get out of their current situation, and includes the views of officials with the nine cities. It also includes a comparative look that seeks to show the American way of dealing with cities regarding intergovernmental fiscal relations is not the only way, and perhaps not even the best way.

In developing this paper, I chose to take a case study approach with a bit of comparative methodology added in. This paper does not attempt to solve the fiscal problems of California's cities. The problems are too complex to be dealt with entirely in a paper of this size. My basic aim in this paper was to describe, in-depth, the fiscal situations of a group of California cities and how the state's recent moves to cut funding to local governments affected those cities. I believe the fiscal problems faced by the Coachella Valley's nine cities and the effects of the state's tax shift are similar to what has been experienced by other California cities. A case study approach allows a closer look at the fiscal problems faced by cities in the state. I chose to
examine all nine Coachella Valley cities rather than a select few, because the cities vary greatly in financial health and resources. Thus, using all nine gave me a better representation of the variety found among California's cities. Also, if one thinks of each city as a case, then I felt using more cases better supported any conclusions I might draw from my research.

This research project also includes a comparative approach on a macro-level in the section that takes a look at the American intergovernmental fiscal structure in comparison to that in Canada and Germany. Canada and Germany were chosen for the comparison, because both are also federal systems and are considered developed countries on a par with the United States. The purpose of this section was to put the state-local fiscal relationship in California in a broader perspective. This section also serves as a springboard for further research I am pursuing in comparative fiscal systems.

Much of the data gathered for this research project came from my several years working as a journalist in the Coachella Valley, where I covered city government. Through my work I had access to city documents, such as annual budgets, sat in on many city budget meetings, and conducted numerous interviews with city, county, and state officials regarding fiscal issues of both the cities and the state. At the time of the state's decision to shift property tax money away from
schools, I was covering county government and conducted several interviews with state officials and legislators regarding the state tax shift.

Other data for this research project comes from news stories written by fellow journalists, as well as reports from government task forces, the League of California Cities, and other government agencies.

Finally, I must point out the financial problems of many cities in this study are not entirely the result of the state tax shift. Many started the 1993 fiscal year with problems that had developed over prior years. In addition, recession has taken its toll on most of the cities. However, I believe by examining the situation of these cities a case can be made that the state's actions are exacerbating what for many cities is already a serious financial problem and taking them to the brink of financial ruin. Cities are the closest link, and a vital link, to citizens, providing many of the basic services. Many are in desperate need of financial handouts and can ill afford to give handouts to others.
The Coachella Valley Cities

There is much variety among the nine cities of the Coachella Valley — poor, agricultural communities; working-class communities; professional or middle-class communities; wealthy resort cities; older cities and young cities. Some are grappling with multi-million dollar deficits, some are just getting by, and others have millions of dollars in reserve. For those on the financial brink, fiscal 1992-93 was a tough year. The state, facing a severe budget shortage of its own, found a partial solution for its problem by shifting property tax money, normally allocated to local governments, to schools. The move helped the state maintain its commitment of supporting schools, but forced local governments, many of which were already struggling to keep fiscal 1993 budgets afloat, to cut services, use reserves to bolster budgets, or go to the taxpayers with new or increased fees and assessments.

Despite the financial setback from the state's action, all nine Coachella Valley cities found ways to survive fiscal 1992-93's approximately $1 billion state tax shift. However, the action pushed some of those cities closer to the edge of a financial cliff. The effect of the state's decision to shift taxes to schools again in fiscal 1994 had an even greater impact on cities that still had not recovered from the previous year's tax loss. At the time of this writing,
the Coachella Valley's cities, all of which start their fiscal year July 1, were struggling to find ways to deal with the second year of state revenue losses. Among the tactics city officials were employing were pay cuts, staff cuts, increased fees and assessments, and accepting budgets with deficits. The full effects of the latest state property tax shift will not be known until fiscal 1994 ends. Many cities might face an even darker future in fiscal 1995.

Although California cities have a variety of budget funds, such as redevelopment, capital, and general, it is the general fund with which this paper will be concerned, because that is the fund from which the bulk of city services are supported. Aside from the general fund, all the Coachella Valley cities have redevelopment agency funds. Those funds are managed by the cities' redevelopment agencies, whose board members are also the cities' council members. The Coachella Valley cities use their redevelopment agency funds for a variety of development purposes, the most common being to pay for public works improvements, such as roads, water, and sewers, that help attract new development projects and bring additional tax revenue to the city. Redevelopment money is also used by the cities to make loans to new and existing businesses to spur economic growth. Some of the cities also have shifted costs out of the general fund to the redevelopment agency budgets, which often have surplus
funds. For example, Indio pays the salaries of several administrative employees out of its redevelopment budget by claiming them as redevelopment agency employees. Redevelopment agencies receive much of their revenue from property taxes. Thus, when the state shifted property taxes from local governments to schools, redevelopment agencies also faced major revenue losses. Thus, while the main focus of this paper, when examining cities' financial situations, with be on general funds, some mention will also be made of redevelopment agency funds, because loss of those funds could affect the ability of cities to increase economic development. In addition, since some costs have been shifted to redevelopment funds, loss of revenue in those funds does impact a city's ability to pay personnel and other administrative costs. For that reason, the loss to redevelopment agencies will be mentioned in the section that addresses the fiscal 1993 tax shifts. But it will not go into detail into the workings of redevelopment agencies or their funds.

The Coachella Valley, located approximately 120 miles east of Los Angeles, is nestled against the foothills of the Santa Rosa Mountains in the Southern California desert. It spans a 40-mile stretch along Interstate 10 from Palm Springs to small, unincorporated communities near the Salton Sea. The area has a year-round population of more than 210,000, which
increases to more than 300,000 during the winter months. The year-round population continues to grow each year with retirees attracted to the area’s climate and recreation, and working people by its affordable housing. While some homes go for millions, others can be purchased for less than $100,000.

Known throughout the world as a resort area with hundreds of golf courses, it is an area not only of celebrity residents, but also of middle-class professionals, working people, and immigrant farm workers. Tourism, and the service industry that goes with it, is a major part of the area’s economic base, but not the only part. Agriculture is the valley’s second (or first if one asks growers) economic industry. Ninety-eight percent of dates grown in the United States come from the Coachella Valley. It also has large citrus and table grape crops. In 1992, the latest year for which figures are available at the time of this writing, the valley’s agricultural products were worth $282,515,400.

To present a better understanding of the Coachella Valley’s nine cities, each is listed below in alphabetical order, with a few short paragraphs describing the situation of each as the 1993 fiscal year came to a close in June of 1993, and the cities prepared to start the 1994 fiscal year. The aim of these short descriptions is to give the reader a sense of each city and the variety among them, not only in population and economic base, but also in financial health.
Cathedral City

Although recession has slowed development in this city, as it has with others, Cathedral City is still seeing much growth in both residential and commercial development. A middle-class city of about 35,000 residents, Cathedral City's affordable housing projects have attracted many of the Coachella Valley's professional working families.

However, while it has an expanding commercial base, Cathedral City was not without its financial problems as it headed toward the 1994 fiscal year. The proposed fiscal 1994 budget of $12.5 million was balanced, but it did not account for possible lost revenue if the state voted to shift property tax money to schools during the 1994 fiscal year. The state's subsequent decision to do so, sent Cathedral City officials back to the budget drawing board. The proposed budget had already cut about seven city positions, including a parks and recreation director and a police lieutenant, and frozen wages for all other city employees. Funding for another position was shifted to the redevelopment agency.

Coachella

The eastern most city of the Coachella Valley, Coachella is composed mainly of migrant agricultural workers with a population that ranges from 19,000 to about 30,000 during harvest seasons. It is a poor city currently undergoing tremendous political strain with infighting on the council.
and a constant shift in city management personnel. Several years ago, however, the city did successfully pull out of a $1 million deficit through an intensive campaign to lure new businesses and by tightening its budget.

The budget is still tight. The proposed fiscal 1994 budget of $5.2 million was balanced, a three percent decline from the fiscal 1993 budget. The reduction will cost three city employees their jobs in fiscal 1994. And the budget could be thrown off balance if other city employees do not agree to forego a scheduled four percent raise. City officials are already aware the picture could be worse next year. A five-year fire and police tax that charges residents about $100 a year and raises $755,000 in revenue for the city will end after fiscal 1994. The city tried in November 1992 to get residents to approve an extension of the tax, but residents, claiming tough times themselves, rejected the extension.

Desert Hot Springs

Located north of Interstate 10, the community of Desert Hot Springs, population about 13,000, has been struggling with budget problems for the past few years. Recent lawsuits over a low-income housing project have left this small city facing a legal bill of more than $1 million. Facing a second round of state property tax shifts, which could amount to more than a $100,000 loss to the city, city officials were
overwhelmed by their financial situation, which included a $250,000 deficit, and missed the July 1 start of the 1994 fiscal year. Unable to adopt a fiscal 1994 budget, the city extended its fiscal 1993 budget of $3.5 million into the 1994 fiscal year. Preliminary proposals for a fiscal 1994 budget were about $3.2 million with reductions coming from the elimination of school crossing guards and closure of parks and the city pool. City officials, as of this writing, were also considering a utility user tax of five percent that they estimated could raise about $400,000 for the 1994 fiscal year.

Indian Wells

A city of millionaires, tiny Indian Wells - population 3,000 - faces few of the problems seen by its neighbors. The city has often found itself in the legal arena over decisions to use redevelopment agency money to build golf courses, and its attempts to avoid construction of low-income housing within its borders. The city avoids budget problems through parcel taxes its wealthy residents consistently agree to pay.

Nonetheless, city officials sought to keep their budget under control for the 1994 fiscal year, cutting it 7.5 percent from the previous year for a proposed 1994 budget of about $4.9 million.
Indio

A city of about 40,000 residents, Indio has been struggling with a deficit for years. An old community, the city has witnessed a growing influx of Mexican immigrants who work on the surrounding farms. The Hispanic population now comprise a majority in the city. Indio has been especially hard hit by recession. Businesses have folded and sales tax dollars have plunged. While the city continues to have growth in its middle-income housing market, it has been unable to lure new businesses and has yet to develop a policy aimed at helping current businesses grow.

As it prepared for the 1994 fiscal year, Indio's $1 million deficit had grown another $100,000. However, city officials claimed their proposed 1994 budget of $13.25 million would not add to the deficit. The budget did not, however, account for a second year of state property tax shifts. City officials said the potential loss of about $328,000 in property taxes would result in the loss of another five to eight positions. Two city employees would already lose their jobs under the proposed 1994 budget. Since 1990, the city had cut its staff by 44 positions.

La Quinta

A strong middle-income city with lots of room for development, La Quinta seems to be avoiding some of the financial problems faced by other Coachella Valley cities.
The city of about 15,000 residents, is relatively young — incorporated in 1982 — and receives the bulk of its revenues from hotel occupancy taxes and the tourist business. The city has built up a reserve through the years that totals about $5 million, which seems to be helping it through the current crisis.

Unlike many cities, La Quinta proposed a budget increase for the 1994 fiscal year. The proposed budget of about $6.5 million is roughly $400,000 higher than fiscal 1993. The increase, paid for through anticipated increases in sales tax money and hotel occupancy taxes, would allow for three additional employees in community services.

Palm Desert

With the Coachella Valley's regional shopping mall sitting in the middle of this city of 25,000, Palm Desert officials face few, if any, current financial problems. Still, city officials proposed tightening the city's budget belt for fiscal 1994 as the recession continued. Sales tax money and hotel occupancy tax funds have already been dropping in the city the past few years, cutting into annual revenues. As fiscal 1993 neared its end, city officials projected sales tax money would be about $500,000 short of what was predicted when the fiscal year began July 1, 1992.

The city's proposed fiscal 1994 general fund budget of about $16.8 million, is a bit under the projected revenues of
around $17 million. The proposed budget includes across-the-board cuts of two percent for every department and freezes employee wages. Still, with a more than $10 million reserve, Palm Desert can weather the current financial storm far better than most Coachella Valley cities.

Palm Springs

In contrast, once-rich Palm Springs faced one of its most difficult years ever as it entered the 1994 fiscal year with a projected $8 million deficit. City officials proposed a fiscal 1994 general fund budget of $30 million that would cut 39 jobs, close two city parks (a move that drew strong protests from residents), and tack a five-percent utility user fee on the utility bills of the city’s 41,000 residents. As of this writing, city officials had yet to find a way to deal with the possible loss of another $2 million to $3 million resulting from the second year of state property tax shifts.

City officials are the first to admit poor planning in past years played a major role in the city’s financial crisis. But they also point to the state cuts citing fiscal 1993’s $1.1 million loss due to property tax shifts. In addition, recession has hit this resort community hard with major drops in both sales tax money and hotel occupancy taxes. As fiscal 1993 nears an end, actual revenues for the years are millions of dollars below what was projected when
the fiscal year began.

Rancho Mirage

Palm Springs' loss has, in some ways, been Rancho Mirage's gain. While Palm Springs has seen a drop in hotel occupancy and sales taxes, Rancho Mirage has seen gains in the last years as the city successfully lured major resorts inside its borders. A small city of 10,000 residents, the bulk of the city's commercial base is in its resorts, restaurants, and golf courses.

City officials proposed a 1994 fiscal year budget of $10.5 million. If the budget goes as planned, the city will end the budget year with a $568,629 surplus.

Common Ground

As can be seen, there is much diversity among the Coachella Valley's nine cities - some are struggling financially, others are not. Some are home to elegant malls and shops, while others are watching businesses leave town and buildings go vacant. Yet, despite the diversity, they also have much in common. Through a voluntary joint government - the Coachella Valley Association of Governments, they have begun to work together to solve common problems of the Coachella Valley, such as transportation and environmental issues. They also share another concern - the state's growing insistence on solving its budget problems by
reducing financial support to local governments. When the state first made known its plan to shift property tax money for fiscal 1993 from local governments to schools, officials from all nine cities gathered together at a joint press conference announcing their unity in opposition to the state's proposed action. The nine cities have continued their joint efforts to lobby state legislators to end the tax shifts.
FINANCING COACHELLA VALLEY CITIES

Before describing the effects on the cities of the first year of the state property tax shift, it is necessary to take a look at the main revenue sources for the Coachella Valley's nine cities. Revenue sources for both the state and cities in California have changed dramatically over the years. Prior to the passage of Proposition 13 in 1978, which ruled property taxes could not exceed 1 percent of full property value and limited annual increases to 2 percent, both the state and cities relied heavily on property taxes. With the decrease in property tax money, cities have turned to other sources, such as user fees and charges; transfers from the state such as gas and motor vehicle taxes, some of which the state has also been cutting the past two years; state and federal grants; and sales taxes. California state law allows the state to tell cities how they can raise revenue and also allows the state to set limits on local expenditures.

In California, sales taxes are an important revenue source for many cities. Among Coachella Valley cities, the sales tax is one of the top three revenue sources. California cities, however, cannot set sales tax rates, or increase them when additional revenue is needed. The state sets the sales tax, which during the 1992 fiscal year was six percent. One percent of that money is then redistributed back to local governments. Counties have the option of adding an additional
.5 cents to the sales tax rate and can use that revenue for county purposes. In addition, voters can approve sales tax initiatives that increase sales tax rates with the additional revenue going for a specific purpose. For example, Coachella Valley voters approved a .5 cent sales tax increase for transportation purposes. However, cities have no such authority. Cities in other states do have the authority to raise sales tax rates. For example, in Colorado cities can add a city sales tax on top of the state sales tax and collect their share directly from businesses.

Another feature of the California sales tax system is the amount of sales tax returned to cities is based on point of generation. In other words, cities with businesses that generate lots of sales, and thus taxes, receive large amounts of sales tax money back from the state. This has created intense competition among cities for sales-generating businesses, and calls from some for changes in the tax allocation structure that would require such cities to share with its neighbors whose residents purchase those goods. This is an issue that will be addressed further in the concluding section of this paper.

In the booming economic years of the 1980s, many California cities turned to developer fees as sources of revenue and began to depend on these fees for general operating expenses. Such fees require developers to pay for a
variety of costs ranging from extension of sewer and water lines to new roads and impact fees. Impact fees are amounts cities estimated the developer should pay to cover the cost of providing services to the new development. For example, a housing development meant more costs to a city in terms of police and fire protection, parks, and recreation for those residents. Thus, cities charged developers to pay for those costs. Such fees were, and still are, widely used in the Coachella Valley where growth has been massive in the past few decades, especially in the 1980s. Unfortunately, growth has now slowed, even in this resort area, and many cities are feeling the impact. In addition, competition for new projects has forced many cities to lower the fees, or pay for road, sewer, and water improvements themselves to attract new businesses. Indio, which has failed in its efforts to attract new businesses, has been successful in becoming a mecca for new middle-income housing projects. But, the city has now discovered that once it has used up the developer fees in its budget, it is simply left with more housing projects and more residents for whom it must provide services. And while the city's population is thus increasing, its number of police and fire personnel are decreasing due to budget problems.

For some Coachella Valley cities, especially Palm Desert, home of the valley's regional shopping mall, sales tax dollars are one of the most important sources of revenue.
Palm Desert is still highly dependent on this revenue source, but, like other cities in the area, it has seen dramatic drops in sales tax dollars. City officials were estimating by the end of the 1993 fiscal year, sales tax revenues would be about $500,000 short of what they estimated for the fiscal 1993 budget when that fiscal year began in July 1992.

With property tax money shifted to schools, state and federal grants shrinking as those two levels of government seek to tighten their budgets, developer fees and sales taxes decreasing, what is a city to do? In the past few years many Coachella Valley cities, like others strapped for cash across California, have begun to widely interpret the state's 1972 Landscape and Lighting Act, which allows local governments to create assessment districts to pay for a variety of services. Assessment districts are being used to pay for road improvements and lighting, parks maintenance, even police and fire services. Other cities are shifting costs out of the general fund where possible and covering those costs with other funds, such as the redevelopment agency. Indio is borrowing from richer funds, such as its city water fund, to pay the bills as it waits for better days. Another option available to cities is the creation of user fees or charges, an option widely used by the Coachella Valley cities facing the most severe financial crisis, such as Indio and Palm Springs. The advantage of user charges is cities can adopt
the charges on a council vote, whereas property owners can block the creation of assessment districts, as they did in Indio in the spring of 1992 when the city sought to create a fire benefit assessment district to pay for fire services. Property owners who faced the assessment forced it to a vote in Indio where it was soundly defeated by voters.

Initially successful in many Coachella Valley cities, assessment districts are now coming under attack by residents, who are themselves hard pressed for cash. For example, a five-year fire and police tax in Coachella that raised about $755,000 a year for the city was initially approved by voters. However, when the city sought to renew the tax in November 1992 – one year before it was to run out – it was defeated by voters who felt use of assessment districts had gone to far. They had just been hit with an annual assessment from an independent park district for construction of a recreation center. Residents also fought that assessment and won repeal of it when the city took back the land it had offered the park district for construction of the recreation center.

For a few Coachella Valley cities, tourists are the bulk of their revenues. Hotel occupancy taxes, also called transient occupancy taxes and which average 11 percent in valley cities, are a major source of revenue for the resort cities. For example, of La Quinta’s fiscal 1993 general fund
budget of $6.3 million, hotel occupancy taxes accounted for $1.7 million of the revenue. And it all came from one hotel — the La Quinta Hotel. Some Palm Springs officials claim the city’s financial decline is due to the movement of premier resorts down valley, that is out of Palm Springs and to the newer cities of Rancho Mirage and Palm Desert. Rancho Mirage has the Ritz-Carlton and Palm Desert the Marriott’s Desert Springs Resort, complete with indoor lake and gondola rides.

For a better understanding of the main revenue sources of the Coachella Valley’s nine cities, Table 1 shows the top four revenue sources for each city in fiscal 1993. For a list of the top ten revenue sources see Appendix A. Most of the cities have the same revenue sources, but their importance differs by city. For example, in Table 1, Indio does not show revenue for transient occupancy taxes. That does not mean the city does not have such taxes, only that they are not one of the top four revenue sources. Another example, some cities do not show revenue in Table 1 for motor vehicle in-lieu taxes, which is money transferred from the state to the cities. All the cities receive such taxes, but for some they are not one of the top revenue sources, because they have other sources of income, such as sales taxes or transient occupancy taxes, that are more important. The aim of Table 1 is to show which revenue sources are the most important to each Coachella Valley city.
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<td>Sales and use taxes</td>
<td>$4,430,400</td>
<td>35%</td>
</tr>
<tr>
<td></td>
<td>Transfers in</td>
<td>$1,798,392</td>
<td>14%</td>
</tr>
<tr>
<td></td>
<td>State subventions</td>
<td>$1,143,247</td>
<td>9%</td>
</tr>
<tr>
<td></td>
<td>Transient occupancy</td>
<td>$1,043,600</td>
<td>8%</td>
</tr>
<tr>
<td>Coachella</td>
<td>Sales taxes</td>
<td>$950,000</td>
<td>19%</td>
</tr>
<tr>
<td></td>
<td>User charges</td>
<td>$942,168</td>
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</tr>
<tr>
<td></td>
<td>Motor vehicle in—lieu</td>
<td>$607,713</td>
<td>12%</td>
</tr>
<tr>
<td></td>
<td>Special police tax</td>
<td>$496,745</td>
<td>10%</td>
</tr>
<tr>
<td>Desert Hot Springs</td>
<td>Sales and use taxes</td>
<td>$575,000</td>
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<td></td>
<td>Transient occupancy</td>
<td>$531,500</td>
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<td></td>
<td>Property taxes</td>
<td>$492,938</td>
<td>14%</td>
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<td></td>
<td>Motor vehicle in—lieu</td>
<td>$426,844</td>
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<tr>
<td>Indian Wells</td>
<td>Transient occupancy</td>
<td>$2,524,500</td>
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<td>Interfund transfers</td>
<td>$1,560,669</td>
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<td>Sales taxes</td>
<td>$650,000</td>
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<td>Franchise taxes</td>
<td>$299,000</td>
<td>5%</td>
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<td>Indio</td>
<td>Sales and use taxes</td>
<td>$3,760,272</td>
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<td></td>
<td>Utility user fee</td>
<td>$1,630,000</td>
<td>13%</td>
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<td></td>
<td>Current year secured</td>
<td>$1,389,973</td>
<td>11%</td>
</tr>
<tr>
<td></td>
<td>Motor vehicle in—lieu</td>
<td>$1,320,968</td>
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<td>Transient occupancy</td>
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<td>Sales taxes</td>
<td>$1,015,170</td>
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<td>Redevelopment admin fees</td>
<td>$667,280</td>
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<td>Motor vehicle in—lieu</td>
<td>$497,000</td>
<td>8%</td>
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<tr>
<td>Palm Desert</td>
<td>Sales taxes</td>
<td>$6,400,000</td>
<td>38%</td>
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<td>Transient occupancy</td>
<td>$4,800,000</td>
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</tr>
<tr>
<td></td>
<td>Motor vehicle in—lieu</td>
<td>$850,000</td>
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</tr>
<tr>
<td></td>
<td>Interest income</td>
<td>$800,000</td>
<td>4%</td>
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<td>Palm Springs</td>
<td>Current year taxes</td>
<td>$10,770,000</td>
<td>34%</td>
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<td>Sales and use taxes</td>
<td>$4,600,000</td>
<td>15%</td>
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<tr>
<td></td>
<td>Transient occupancy</td>
<td>$2,775,000</td>
<td>9%</td>
</tr>
<tr>
<td></td>
<td>Franchises</td>
<td>$1,800,000</td>
<td>6%</td>
</tr>
<tr>
<td>Rancho Mirage</td>
<td>Transient occupancy</td>
<td>$3,200,000</td>
<td>32%</td>
</tr>
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<td></td>
<td>Sales taxes</td>
<td>$1,768,000</td>
<td>18%</td>
</tr>
<tr>
<td></td>
<td>Construction licenses</td>
<td>$1,500,000</td>
<td>15%</td>
</tr>
<tr>
<td></td>
<td>RDA reimbursement</td>
<td>$573,000</td>
<td>6%</td>
</tr>
</tbody>
</table>

Table 1: Top Four Revenue Sources Fiscal Year 1993
Source: Fiscal 1993 City Budgets

24
As can be seen from Table 1, revenue sources for Coachella Valley cities vary. It can also be seen that property taxes are no longer the dominant source of revenue, replaced by sales taxes, hotel occupancy taxes, and a variety of fees. Among fees not shown are such things as building permits, business license fees, parcel taxes (used in Indian Wells), and interest on investments (except for Palm Desert). As mentioned earlier, cities also try to cope by shifting costs to other funds. Not shown as general fund revenue sources are assessment districts. Money raised from those are put in special funds for particular uses and help the general fund by freeing general fund monies for other operating expenses.

Property tax money is collected by counties and sent to the state. The state then redistributes the money back to local governments. Due to Proposition 13, property taxes are no longer a main revenue source for cities, as can be seen by looking at the main revenue sources for Coachella Valley cities. So, why are cities up in arms over the state property tax shift? Because in today's tough economic times, for some cities every dollar counts. Already facing reductions in their main revenue sources, such as sales taxes and hotel taxes, Coachella Valley city officials argue they cannot afford to lose thousands of dollars more in state tax shifts, or in the case of Palm Springs, a loss of millions. It has
already been mentioned that Palm Desert has estimated sales taxes decreases for fiscal 1993 of $500,000. Indio officials have also estimated they will be $200,000 to $300,000 short of the sales tax revenue they estimated at the start of the 1993 fiscal year. And La Quinta officials have turned their attention toward expanding the city’s economic base, because the last few years have shown a continuing decrease in hotel occupancy taxes, the city’s top source of revenue, as recession reduces the number of tourists staying in the local resort. La Quinta, like other valley cities with major resorts, has stayed on top of the decrease mostly by raising hotel occupancy taxes, a share of which goes toward a valley-wide marketing program aimed at bringing tourists and conventions to Coachella Valley resorts. However, even though some Coachella Valley cities have been able to stay afloat in the tight fiscal times of the early 1990s, all share the concern over the state’s move to cut their funds and shift the money elsewhere. For some, the state’s action is driving them deeper into deficits, for others, it is draining reserves that could fast disappear if the state continues moves to cut local government funds for the next several years.
TAKING FROM THE CITIES TO GIVE TO THE SCHOOLS:

The First Year of State Tax Shifts

In the early months of 1992, California state officials, facing an approximately $11 billion budget deficit, began developing a plan that would cost local governments millions, but help the state’s beleaguered budget. The plan called for shifting property tax money from local governments to schools. Collected by county governments, property tax money is sent to the state to be redistributed back down the government ladder to subnational governments, such as counties, cities, and school districts. State officials had decided to give local governments and special districts a smaller share of those property taxes for the 1993 fiscal year and shift more property tax money to school districts. According to data gathered by the League of California Cities, the shift allowed the state to cut its own share of school funding and cost Coachella Valley cities a combined total of $1.3 million in revenue for fiscal 1993.

Regardless of whether it was rich or poor, each Coachella Valley city responded with outrage when news of the state’s tax shift plan leaked out in early 1992. The poorer cities were already struggling with the effects of the recession. The wealthier cities were leaning on financial reserves to get them by. As they headed into the 1993 fiscal year, only four of the Coachella Valley’s nine cities had
sizeable reserves on which to draw — Indian Wells, La Quinta, Palm Desert, and Rancho Mirage. Palm Desert had the largest reserve of $11 million. But much of that city’s invested money, as well as La Quinta’s (which had a $5 million reserve), was locked up in a court battle — the result of an investment scandal. The scandal broke in late 1991 when federal investigators discovered that Steven Wymer — a financial investor to dozens of local governments across the United States — had swindled his clients out of millions of dollars. Cities gave Wymer money to invest, which he used to make interest payments to other investors, as well as taking a cut for himself. Although Wymer eventually helped federal investigators trace some of the funds, millions of dollars had already been spent, or lost, by him. The four Coachella Valley cities involved in the scandal — Palm Desert, La Quinta, Rancho Mirage, and Indio — all found some of their invested money in bank accounts under their cities’ names. However, they were unable to withdraw the funds as other Wymer clients filed lawsuits claiming a share of the money. Federal investigators estimated it will take years in court to sort out ownership of the funds. Of the other Coachella Valley cities, Cathedral City also had a reserve of about $1.3 million as it headed into the 1993 fiscal year, but as mentioned earlier, it came out of the year forced to make cuts as it went into the 1994 fiscal year.
While some Coachella Valley cities lost little in the first year of the state property tax shift, others were hit hard. Some turned to reserve funds to get through the year, others just tacked the loss onto their already-growing budget deficits. Table 2 shows the financial loss to each city both in general fund money and in redevelopment agency funds. Redevelopment agency fund losses have been added, because many cities, in an effort to save the general fund budget, are shifting expenses to the redevelopment agency budget. For example, some cities now pay the salaries of such personnel as redevelopment agency directors and secretaries through the redevelopment agency budget. However, as that budget also becomes depleted through state tax shifts, cities will face even more severe problems. In addition, it is the redevelopment agency budget which is most used for economic development projects to expand the local tax base. Thus, cuts in that fund also means less money for economic development.

<table>
<thead>
<tr>
<th>City</th>
<th>General Fund</th>
<th>%</th>
<th>Redevelopment Fund</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cathedral City</td>
<td>$36,483</td>
<td>.3</td>
<td>$1,388,742</td>
<td>9</td>
</tr>
<tr>
<td>Coachella</td>
<td>$20,000</td>
<td>.3</td>
<td>$225,000</td>
<td>4</td>
</tr>
<tr>
<td>Desert Hot Springs</td>
<td>$22,060</td>
<td>.6</td>
<td>$47,753</td>
<td>6</td>
</tr>
<tr>
<td>Indian Wells</td>
<td>$7,000</td>
<td>.1</td>
<td>$1,700,000</td>
<td>43</td>
</tr>
<tr>
<td>Indio</td>
<td>$135,882</td>
<td>1.0</td>
<td>$237,892</td>
<td>3</td>
</tr>
<tr>
<td>La Quinta</td>
<td>$24,000</td>
<td>.3</td>
<td>$1,500,000</td>
<td>5</td>
</tr>
<tr>
<td>Palm Desert</td>
<td>$65,000</td>
<td>.3</td>
<td>$2,856,279</td>
<td>17</td>
</tr>
<tr>
<td>Palm Springs</td>
<td>$950,000</td>
<td>3.0</td>
<td>$777,000</td>
<td>7</td>
</tr>
<tr>
<td>Rancho Mirage</td>
<td>$27,000</td>
<td>.2</td>
<td>$1,600,000</td>
<td>3</td>
</tr>
</tbody>
</table>

Table 2: Loss From Fiscal 1993 State Tax Shift
Source: Riverside County Local Government Task Force
Coachella Valley Cities React

The responses of each Coachella Valley city to the state property tax shift in fiscal 1993 varied, depending upon two main factors — how much the city lost in proportion to its overall budget and how financially healthy it was when it started the year. Five of the nine cities — Cathedral City, Indio, La Quinta, Palm Desert, and Palm Springs — will be examined here in more detail than the other four. These five represent a mix with two being in relatively good financial health — La Quinta and Palm Desert, two in poor financial health — Indio and Palm Springs, and the fifth — Cathedral City — in the middle. The remaining four cities managed to survive the first round of cuts, two because what they lost the first year was minimal, and the other two because they had reserve funds on which to draw. One strategy most every Coachella Valley city, as well as many others across California, used to get through the first year tax shift was to take their rebates from the Public Employee Retirement System and use it as general fund revenue. But this, like many other solutions cities came up with, was a one-time fix not available for future years.

To briefly summarize the remaining four cities, taking Coachella first, that city lost about $20,000 from its fiscal 1993 general fund budget of $5,570,924 when the state initiated the property tax shift. The city was not in
excellent financial health at the time of the tax shift, but had managed to pull itself out of a $1 million debt a few years ago. Thus, it started the year without a deficit. The city managed to survive the tax shift loss, because it was still getting the $755,000 a year from its police and fire tax. It will still receive revenue from that tax during the 1994 fiscal year, which officials have estimated will help them with the second round of state cuts. However, as mentioned earlier, in November 1992 voters did not approve an extension of that tax beyond the fiscal 1994 year. City officials have estimated police and fire service cuts might be in the future.

While Desert Hot Springs' loss of $22,060 from its general fund was a small percentage of its total general fund budget of $3,570,399, it was still a serious blow to the small city that has been struggling for the past few years. Its redevelopment agency also took the smallest hit of any of the Coachella Valley's nine cities — only $47,753. Perhaps more than any other city, Desert Hot Springs' problems can least be blamed on the state action. In the past few years, prior to the property tax shift, the city had already disbanded its police and fire departments, turning those services over to the county, and briefly cut hours at city hall to save money. Large population growth without growth in the economic tax base started the city on the downhill slide.
A 1989 effort to enact a parcel tax was rejected by voters. In addition, the serious financial position the city found itself in at the end of the 1993 fiscal year was more the result of lawsuits than state tax shifts. The city had rejected a bid by a group of developers who wanted to turn a mobile home park into a low-income housing project. City officials said they feared such a project would put an added strain on services and preferred a senior housing project. The developers reacted by suing the city for $7.8 million.

Indian Wells' general fund loss in the first year tax shift was minimal — $7,000 out of a total general fund of $5,409,007. Its redevelopment agency loss was much higher — $1,700,000 — which caused the city to defer several capital projects to later years. As home to mostly millionaires and well-to-do residents, the city has few financial problems, and voters have willingly approved parcel taxes and other fee increases whenever needed.

Rancho Mirage's general fund suffered a loss of $27,000 in the fiscal 1993 state property tax shift. A small percentage of its total general fund budget of $9,729,886. However, its redevelopment agency took a large hit — $1,600,000. It reacted the same as Indian Wells, by deferring several capital improvement projects to later dates. Still, the impact was relatively slight on this city which receives the bulk of its revenue from hotel occupancy and sales taxes.
The city has financial reserves of about $10 million to cover losses and commercial growth is still booming. However, it is heavily dependent on that growth, raising much revenue from construction and other development fees, which it increased for the 1993 fiscal year. Any slowdown in development is likely to have a much greater impact on the city than state property tax shifts.
Within two months after Indio passed its balanced fiscal 1993 general fund budget of $12.9 million, the budget became unbalanced. The city's general fund revenues dropped by $135,882 when the state shifted property tax money from local governments to schools. In addition, its redevelopment agency, where the city had shifted some costs, lost $237,892 in the state tax shift. The city started the fiscal year with a $1 million deficit, which it had hoped to keep from growing. The city was already using its rebate from the Public Employees Retirement System to balance the 1993 budget, leaving it with no way to cover the additional loss from the state action. Thus, the city reacted simply by increasing its deficit. City officials had, as Finance Director Dave Culver put it, run out of ideas.

The city's problems were compounded by decreasing sales tax dollars. In the 1992 fiscal year, sales tax dollars were more than $900,000 less than officials had estimated when the fiscal year began. For the 1993 fiscal year, city officials estimated they were off again by about $250,000. Businesses had been folding or leaving the city. A late 1980s plan to expand the city's shopping mall into a large regional mall fell into lawsuits when the city attempted to wipe out a minority neighborhood for the mall's expansion. The lawsuits cost the city and mall owner millions. Although settled in
the spring of 1993, the project had yet to move forward. Since 1991, the city had already been cutting staff and budgets, including police and fire personnel. Efforts in 1992 to create a fire benefit assessment district to cover fire costs and ease the load on the general fund were blocked by voters. Thus, throughout fiscal 1993, city officials were at a loss on how to deal with the budget problems and the state tax shift other than to continue making cuts and adding on to the deficit. Residents made it clear they would not approve any type of assessment district, and city officials had already increased the utility user fee in January 1992 from three percent to five percent, which was bringing in an additional annual revenue of $750,000. But it was not enough, and officials feared increasing the tax again. According to Culver, city officials are simply hoping the economy picks up and the city can expand its tax base further down the road. Until then, the city plans to continue paying the bills by borrowing from other city funds, a tactic that has already come under attack from some residents, and cutting services.

If Indio officials can see anything positive in their situation its that their city is at least better off then their neighbor at the other end of the Coachella Valley – Palm Springs. This famous city has the misfortune of currently being the valley city grappling with the largest deficit – about $8 million. If there is any silver lining in
its cloud it is that this city does have the resources to pull itself back up when the economy picks up. But its immediate situation is critical, and as one of the Coachella Valley's biggest losers in the state tax shifts, its survival will be an uphill battle.

Palm Springs' 1993 general fund of $30,709,471 lost $950,000 in the state tax shift. Its redevelopment agency lost an additional $777,000. The city reacted to the general fund loss by transferring rebate money from the Public Employees Retirement System and immediately freezing positions and leaving others vacant. The city's financial reserves were completely drained during the 1993 fiscal year. In addition, as the year went on, city officials discovered their revenue estimates were way off – by millions – as the recession continued to cause losses in sales tax dollars and hotel occupancy taxes, two of the city's biggest revenue sources. By January 1993, city officials were panicking as rumors began of a second round of state property tax shifts in the fiscal 1994 budget. As mentioned earlier, the reality of those rumors cost Palm Springs $2.3 million, a loss the city has yet to overcome.

Palm Springs city officials admit poor judgment regarding the recession has played a role in their current problems, but still blame state and federal cuts for two-thirds of their problems. Throughout the first half of 1993, city
officials began developing plans to attack their growing deficit and deal with the possible losses from a second year of state tax shifts. Their strategy included fee increases, job freezes, layoffs, reductions in pay and benefits, and intense lobbying to fight state plans for fiscal 1994 tax shifts. The final one failed. And some of the others also have not been so successful. City officials held a series of public meetings in hopes of getting residents involved in helping find solutions, but the meetings became places where city workers and residents aired their anger and grievances. City employees fought pay cuts. Residents fought cuts in police and fire services, and later staged protests at city parks officials wanted to close, an issue that had still not been resolved by the end of the summer of 1993. City officials did, however, move forward with plans to cut 39 city positions, several of which were already vacant, and passed a five-percent utility user fee that will generate about $3 million for the 1994 fiscal year. In an effort to save critical services, such as fire and police, which also took cuts, the city is still negotiating with neighboring Cathedral City to combine the city's two fire departments to save both cities money and provide adequate levels of fire service. Still, all the actions did not reduce the entire $8 million deficit, nor had city officials found a way to deal with the state tax shift loss in the fiscal 1994 budget,
meaning this city, as with Indio, is merely adding the losses from the state action onto a deficit it hopes to find solutions for at a later date.

Cathedral City is one Coachella Valley city closely watching Indio and Palm Springs. While it has managed to keep itself afloat and cover the losses from the state tax shift, it sits at the edge of a financial cliff worried that continued loss of money from state actions will push it over that edge. Cathedral City's general fund lost $38,483 in revenue during the 1993 fiscal year from the state property tax shift. The redevelopment agency lost more than $1.3 million. The city covered both losses with reserves in each fund. Although reserves helped the city through fiscal 1993, city officials grew concerned as the year went on and rumors emerged of a second year of property tax shifts. The city started fiscal 1993 with about a $1.3 million reserve for its general fund - a reserve that was draining as the year went on. By the end of the fiscal year, the city was cutting personnel and freezing wages in an effort to trim the budget and preserve some of the city's financial reserves. City officials say they are running out of revenue-raising options. With the state shifting funds away from local governments, city officials say one of the few options left is luring businesses to expand the economic base for sales tax dollars. The city has aggressively sought out major
retailors, a strategy it continues. As with many other cities, officials throughout fiscal 1993 considered a variety of assessments and user fees to offset the effects of the recession and state actions, but those options appear to be growing more limited. Residents, who in the past have approved a variety of assessments, including one for police services, are informing officials they are "assessed out" and appear less willing to back any new or increased assessments, leaving city officials to argue their only option left is cutting services, which they did for the 1994 fiscal year.

In contrast to Indio and Palm Springs are the two Coachella Valley cities of La Quinta and Palm Desert. Both lost relatively small amounts of general fund revenue when the state shifted property taxes. And both cities had ample reserves to cover the loss. La Quinta lost $24,000 from its general fund and its redevelopment agency took a $1.5 million hit. The city had about $5 million in reserve heading into the 1993 fiscal year and made it through the year with most of that intact. Palm Desert lost $65,000 from its general fund in the fiscal 1993 state tax shift. Its redevelopment agency lost more than $2.8 million. The city had more than $10 million in reserve throughout the 1993 fiscal year, and though recession is causing major losses in sales tax dollars - the city's main source of revenue - it is still the leading
sales tax-generating city in the Coachella Valley and is likely to have a steady source of income in the near future. Palm Desert never even had to dip into its reserves to cover the state tax shift. The city contracts with Riverside County for police services, and anticipated an 8 percent increase in county charges for the service in the 1993 fiscal year. The county, however, only increased the contract charges by 2.5 percent, but the city had already budgeted for the higher increase. It then shifted the extra money for police services to other areas to cover the loss from the state tax shift.

Although both La Quinta and Palm Desert are far less affected by the state property tax shift than other Coachella Valley cities, officials from both cities are just as quick to condemn the state’s action. And both cities are just as concerned about the losses as other valley cities. Palm Desert officials are actively involved in pushing for changes at the state level that would help California cities out of their financial messes. Palm Desert’s strategy is to stop the continued state cuts to ensure the surplus reserve the city has built up over the years remains intact. In addition, city officials fear the tax shifts could set a dangerous precedent in which the state will cut more and more local government funds as it seeks to solve its own financial problems. In addition, both cities lost heavily in redevelopment revenues. And both are relatively young cities with room to grow that
have been pursuing policies aimed at attracting commercial
development. Continued loss of redevelopment funds due to
state actions could hamper both cities' ability to attract
development projects. La Quinta officials are especially
concerned about redevelopment losses. The city is acutely
aware its major source of revenue is one large business – the
La Quinta Hotel. In terms of residential housing and
commercial development, the city is extremely unbalanced with
large amounts of housing and little commercial development.
The city's strategy for commercial growth aims to use
redevelopment funds for water and sewer improvements to
attract commercial projects – a strategy that recently got it
a small shopping district with a Wal-mart. In addition, the
city is working with two hospitals in the Coachella Valley
interested in expanding into the city.

Thus, while the effects of the state's fiscal 1993
property tax shift affected each Coachella Valley city
differently, leading to different reactions, all cities
united in their belief something is seriously wrong with the
state-local fiscal system. And what is wrong is pushing
California cities into a financial crisis that even the
wealthier cities might one day face if that fiscal system
continues on its present course, which it just might do. Just
when cities thought they might survive fiscal 1993, news from
Sacramento warned a second year of cuts was on the way.
Passage of the state's $52.1 billion fiscal 1994 budget left local governments claiming they were strapped for cash and might not make it through the coming fiscal year. Once again, the budget package included a shift of property tax money to schools - $2.6 billion - to help offset a $2.8 billion state deficit. The shift led the state's counties to file a lawsuit challenging the legality of the shift. Some threatened to withhold the property tax money collected by counties and shipped to the state.

Once news of the second year of shifts broke in the Coachella Valley, city politicians lobbied residents to support the creation of new or increased assessments to raise funds for everything from parks and street maintenance to police and fire services, often with little luck. Some residents blamed cities' fiscal crisis on poor management and high city personnel salaries, especially those of management-level staff. Other residents, though sympathetic to the problems of their cities, argued they faced their own financial shortages and could ill afford increased assessments. With attempts to create new assessment districts often blocked by property owners, city officials resorted to other means such as increased utility-user fees, business licenses and transient occupancy taxes.

Aside from the state property tax shift, other forces have been at work eroding cities' tax bases. In some cities,
poor management and high salaries have had an impact. However, most are simply feeling the effects of a continuing recession that has led to decreased developer fees, reduced transient occupancy taxes, and reduced sales taxes as consumers buy less and some businesses fold.

Several Coachella Valley cities, most notably Indio, Palm Springs, and Desert Hot Springs, reached a critical stage by the end of the 1993 fiscal year as the recessionary impacts mentioned above took their toll. And as they prepared to enter the 1994 fiscal year, all three feared the second round of state tax shifts might just send them over the edge. Other valley cities, such as Palm Desert and Indian Wells, faced fiscal 1994 confident they could make it through the year due to financial reserves. But they, like many wealthy cities, are aware continued tax shifts could eventually deplete their reserves. Cities had yet to determine their exact losses from the state property tax shift for the 1994 fiscal year, but the table below shows estimated general fund losses.

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<thead>
<tr>
<th>City</th>
<th>General Fund Loss</th>
<th>% Total Fund</th>
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<td>Indio</td>
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<td>Palm Springs</td>
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</tbody>
</table>

Table 3: Estimated General Fund Losses From Property Tax Shift
Source: League of California Cities
When looking at Table 3, it must be remembered, these are general fund losses only. Several of the cities, such as Palm Springs, faces losses of a few million more in redevelopment agency funds. It remains to be seen how well Coachella Valley cities survive the fiscal 1994 cuts. However, based on the current financial health of some of these cities, 1994 will be a tough year. And if the state continues to cut funds in future years without providing cities with other revenue options, some might be pushed over a financial cliff. So what is the solution? The answer is far more complex than this paper could possibly address. However, the question is one Coachella Valley officials pondered throughout fiscal 1993. Their own views, as well as a general look at the American intergovernmental fiscal situation as it relates to cities, along with a comparison of the American system with that in two other federal systems, is the subject of the next and final section of this paper.
SEARCHING FOR ANSWERS IN OTHER COUNTRIES

The serious financial crisis confronting several Coachella Valley cities also threatens hundreds of other cities not only in California, but across the United States. The road to financial health will be rough for any American city seeking to travel that way in today's economic hard times. While Coachella Valley city officials admit the state and its recent local government funding cuts are not the sole cause of their financial woes, they believe the state is adding to their misery by placing roadblocks along that already difficult path to financial health. I agree with those officials. However, I believe the attitude of state officials that has lead them to cut money to local governments is a reflection of the overall view in the United States about local governments and the intergovernmental fiscal system. Until that attitude is changed, it will be difficult for local governments to persuade either state or federal officials to show more concern for the problems and needs of local governments.

What is this attitude that lies in the minds of American and state government officials? Perhaps it can best be understood by comparing the American view to that found in two other federal systems – Canada and Germany.
United States

Local governments have played an important role in the American political system since before the nation's creation. It is at the local level that the vast majority of Americans have their only contact with government and where they turn most for help. It is local government that provides such basic services as fire, police, sewer and water. Some also provide recreation programs, parks and trash collection. But important as they are, local governments have no real legal rights under the American system. They are not mentioned in the United States Constitution and only exist in so much as their respective states allow them to exist.

Intergovernmental financing began early in America's history, though on a small scale. Most relations were between the federal government and the states. It was left to states to worry about and care for local governments. The federal government began funneling money to the states by the early 1800s, mostly to help subsidize state militias. Land grants were given to help finance education. After the Civil War, federal-state revenue sharing increased even more under the theory that the federal government, which often had a surplus of funds in the 1800s, could not spend money on purposes the Constitution did not give it power over. Through federal grants, the central government could pay, but leave states to administer grants.
During the early 1900s, the federal government funneled more money to states for a variety of educational and infrastructure programs, such as highways. The central government took on an even larger role during the 1930s depression. With control over the major tax revenues, such as income taxes created in 1913, the federal government was in a better position to draw on funds to create needed programs to pull the nation out of the depression or at least keep it afloat. It was also during this time that direct federal-local relations began to develop as federal funds were sent down to cities, mostly for welfare-type programs. In 1932, the federal government gave $10 million in direct aid to local governments.

In the 1960s, the federal government increased the funding of welfare-type programs in an effort to affect changes on American society in the areas of health and poverty. A variety of federal grant and revenue-sharing programs were developed that funneled money to states and cities with few strings attached. But things changed in the 1980s with President Ronald Reagan’s view that the federal government needed to pull back and allow greater decentralization. Federal general-revenue sharing to states was eliminated by 1981 and cities lost those funds in 1986. The Community Development Block Grant program, still in existence today, was altered in 1981, taking direct federal
grants away from all but the largest cities and funneling them through the states. What few federal funds are left — such as transit and housing funds — come with more strings attached. For many states and cities, taking the grants may make them financially worse off than before.

Even during the Reagan economic boom years, times were tough for American cities. A survey by the Joint Economic Committee of Congress in 1982 found cities of all sizes were projecting a revenue growth for 1983 of only 1.3 percent. When adjusted for inflation, revenues would actually decrease by 6 percent. Meanwhile, expenditures for 1983 were expected to grow by 7.8 percent.

Aside from intergovernmental financial sources the revenue sources available to cities vary greatly from state to state. For example, in California, the sales tax amount is set by the state and cities receive what share the state is willing to give. In Colorado, cities can set a city sales tax rate on top of the state rate and collect their share directly from businesses. In some states, such as Ohio, Iowa and Kentucky, cities are allowed to tax income. For many cities across the country, property taxes are the major revenue source, as it was for California cities before the passage of Proposition 13 in 1978, which limited the amount of property taxes to 1 percent of the assessed value of the property. Prior to Proposition 13, local governments received
a major portion of their revenue from property taxes and almost nothing from fees and charges for services. That has shifted to where local governments have not only been charging fees over the years, but continually raising them. Officials of many California cities say it is because of the loss of property tax revenue that they have fallen on hard times.

According to Census Bureau statistics, the bulk of local funds across the country comes from property taxes. Other sources include income taxes, sales taxes, and fees and charges. While sales and income taxes, as a percentage of local government revenue, have increased only slightly since 1950, the change in property taxes and fees has been dramatic over the past forty years. Property taxes as a share of local revenues had dropped from 50.2 percent in 1950 to 29.2 percent in 1990. Fees and charges, on the other hand, have increased from 11.4 percent in 1950 to 23.5 percent in 1990. Table 4 shows the changes by 10-year intervals. Percentages do not equal 100, because the percentage of local funds from intergovernmental grants is not included.

As stated earlier, the federal government early on funneled money to states. What aid it gave to cities was passed to the states, who were then to send it further down to local governments. Also, as mentioned above, the federal government began more direct dealings with cities during
Table 4: Local Government Revenue From Own Sources

<table>
<thead>
<tr>
<th>Year</th>
<th>Property taxes</th>
<th>Income taxes</th>
<th>Sales</th>
<th>Fees</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>50.2</td>
<td>0.5</td>
<td>3.5</td>
<td>11.4</td>
<td>2.8</td>
</tr>
<tr>
<td>1960</td>
<td>47.8</td>
<td>0.8</td>
<td>4.1</td>
<td>14.6</td>
<td>2.1</td>
</tr>
<tr>
<td>1970</td>
<td>40.7</td>
<td>2.0</td>
<td>3.8</td>
<td>15.5</td>
<td>1.4</td>
</tr>
<tr>
<td>1980</td>
<td>28.2</td>
<td>2.1</td>
<td>5.2</td>
<td>18.8</td>
<td>1.6</td>
</tr>
<tr>
<td>1990</td>
<td>29.2</td>
<td>1.9</td>
<td>6.0</td>
<td>23.5</td>
<td>2.1</td>
</tr>
</tbody>
</table>

Source: Advisory Commission on Intergovernmental Relations' Significant Features of Fiscal Federalism: 1992 Report
(For full list of years see Appendix B)

the Depression years as it sought to send money down for welfare, housing and job programs. Between 1932-36, federal aid to local authorities went from $10 million to $229 million. After World War II, various direct-grant programs were developed for such things as roadways and airport projects. Federal grants to cities for urban programs exploded in the 1960s under the Kennedy and Johnson administrations. But the growth in grants also brought about a growth in the federal government as it sought to administer the many programs. It also put federal agencies in control of many local projects and put city competing against city for the grants. Under President Richard Nixon, the grant programs did not disappear, but, through his general revenue-sharing program adopted in 1972, came with fewer strings attached. Also developed during this time were block grants aimed at specific programs such as employment training.

With President Jimmy Carter, the amount of federal grants to local governments ceased to expand and instead
stabilized. The backward trend began with President Ronald Reagan, who sought to take the federal government out of state and local affairs and thus reduce the federal government’s financial commitment as well. Early in his first term, Reagan consolidated categorial grants into a few block grant programs. Open-ended revenue sharing was eliminated to both states and cities by 1986. Today, the main grant program still available to cities is Community Development Block Grants, which cities have used for such varied things as helping fund programs for seniors and the poor to buying new fire trucks.

For cities, revenue comes not just from the federal government, but also from the state. States not only receive revenue from the federal government, but also from their own sources such as sales tax, cigarette and liquor taxes and income taxes, some of which they then share with cities. Combined federal and state revenue passed to cities once accounted for almost 50 percent of local government revenues - during the high grant period of the 1970s. But, as seen from Table 5, cities have been losing ground in the intergovernmental fiscal system. Much of the loss is probably attributed to cuts in federal aid. Table 6 shows revenue transfers within California from the state government to local governments since 1980. The data show state transfers have increased dramatically in the past decade. However, no
data is available for the past two fiscal years, which would include the recent state property tax cuts.

<table>
<thead>
<tr>
<th>Year</th>
<th>Percent local revenue from IG grants</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>31.6</td>
</tr>
<tr>
<td>1955</td>
<td>30.1</td>
</tr>
<tr>
<td>1960</td>
<td>30.6</td>
</tr>
<tr>
<td>1965</td>
<td>31.9</td>
</tr>
<tr>
<td>1970</td>
<td>36.5</td>
</tr>
<tr>
<td>1975</td>
<td>42.3</td>
</tr>
<tr>
<td>1980</td>
<td>44.1</td>
</tr>
<tr>
<td>1985</td>
<td>39.0</td>
</tr>
<tr>
<td>1990</td>
<td>37.2</td>
</tr>
</tbody>
</table>

Table 5: Percent of Local Government Revenue from State and Federal Transfers
Source: Advisory Commission on Intergovernmental Relations
Significant Features of Fiscal Federalism: 1992 Report (For a full list of years, see Appendix B)

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount transferred to local governments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>$14.873 billion</td>
</tr>
<tr>
<td>1982</td>
<td>$16.928 billion</td>
</tr>
<tr>
<td>1984</td>
<td>$18.734 billion</td>
</tr>
<tr>
<td>1986</td>
<td>$24.080 billion</td>
</tr>
<tr>
<td>1988</td>
<td>$27.824 billion</td>
</tr>
<tr>
<td>1990</td>
<td>$34.047 billion</td>
</tr>
<tr>
<td>1991</td>
<td>$36.092 billion</td>
</tr>
</tbody>
</table>

Table 6: Money California Local Governments Receive From State Transfers
Source: United States Census Bureau Government Finances
Canada

Canadian cities have essentially the same responsibilities as American cities — fire, police, roads, sewer, and water. And, like American cities, they owe their existence to provincial governments. It is also the federal and provincial governments that provide Canadian cities with their main source of revenue.

Canada was established as a federal state in 1867 under the British North America Act. In a reversal of the American system, the 1867 Act gave the federal government the right to delegate powers to the provinces. In the American system, it is the states that gave powers to the central government. Canadian provinces have power over such things as their own constitutions, natural resources, prisons, hospitals, and education. They have a legal right to direct taxation for provincial purposes and have control over cities.

The executive branch of government consists of the ruling monarch, a governor general, and the prime minister, who actually holds the executive power. The legislature consists of a parliamentary system with the Senate and House of Commons. Each of the ten provinces has its own legislature. All of which consist of only one legislative body. Territories are administered by the central government. Forms of local government vary by province and type of municipality, but some form of elected council is the norm.
Under the 1867 Act, the federal government has unlimited taxing power. The provinces are allowed direct taxation to raise revenue for provincial needs and use such sources as income taxes, sales and service taxes. Cities have only what revenue-raising powers are granted them by the provinces. Among their major sources as real estate taxes, permit and license fees, and charges for services. As with many American cities, liabilities far outweigh local assets. In 1987, combined Canadian local assets were 17.5 billion, liabilities were $37.7 billion.

Aside from intergovernmental grants, property taxes are the major source of revenue for Canadian local governments. In 1982, property taxes were 32.1 percent of total local revenues. Business taxes accounted for 3.7 percent and other taxes, such as service taxes, accounted for only 0.8 percent. Property taxes were still the major source of revenue in 1989, accounting for about 30 percent of local government revenues. Sales and business taxes accounted for around 10 percent with another 2 percent coming from investment returns. Remaining revenue sources came from intergovernmental transfers.

Intergovernmental financial transfers are the major source of revenue for Canada’s local governments, accounting for 46 percent of local government revenues in 1989. The entire revenue sharing system operates under the theory that
all citizens have the right to a certain standard of living, regardless of whether they live in a wealthy or poor province. Thus, poorer provinces receive federal funds often collected from wealthier provinces, creating a form of horizontal revenue-sharing. Provinces then transfer funds to cities. Direct federal-local transfers are not common in Canada. In 1982, federal transfers directly to local governments was only 0.9 percent of city revenues. Governments also do not tax other governments. Thus, cities do not tax federal property within city limits. Instead the local government receives a grant in-lieu of property taxes. As with the American federal government, the Canadian central government transfers money down to help fund federally-mandated programs. Provincial transfers to cities are usually earmarked for specific purposes. In 1977, 49.5 percent of local government revenues was from intergovernmental transfers, mostly from the provinces, and of that, 42.6 percent was for special purposes. The remaining 6.9 percent was for general revenue.
Germany

In comparison to other federal systems, Germany's is highly centralized, but there has been a trend in recent years toward greater decentralization. While the federal government sets policy, it is left to the states, or Laender, to administer policy. Thus, the federal government has relatively few agencies or ministries of its own, making it highly dependent on state administrators. Still, the federal government maintains much control. Federal laws guide states in the implementation of policy and state actions are subordinate to federal laws. But states are beginning to challenge the power of the central government and have even taken the issue into the Federal Constitutional Court by refusing to follow federal orders.

Unlike their American or Canadian counterparts, cities have a unique place in the German federal system. Many German cities have a long history of independence. Some were essentially "city-states" with their own ruling monarch and laws. Also unlike cities in the United States and Canada, German cities are granted rights directly from the federal government through the country's constitution - the Basic Law. Article 28, grants them "the right to regulate, under their own responsibility and within the limits of the laws, all the affairs of the local community."

While the style of city governments vary, most all have
some type of elected council ranging in size from six to as many as 75. Like their American and Canadian counterparts, German cities provide such basic services as streets, sewers, water, fire and police protection. But most also have much broader responsibilities including such things as public utilities, public transportation and even city-run banks and markets. They also have responsibilities transferred to them from the federal government such as tax collection, health care and housing. In addition, German cities provide a broad range of cultural services often financed by the federal or state government—operas, theaters, orchestras, etc.

Although legally recognized in the federal constitution, German cities are as dependent upon federal and state financial support as American and Canadian cities. But unlike cities in the other two countries, German cities are also guaranteed a share of national financial resources in the Basic Law. Federal and state levels of government are legally required to share the wealth with cities.

Excluding intergovernmental transfers, German local governments have only two main revenue sources—property taxes and a tax on local business. Unlike American cities, the property tax is not a major revenue source for German cities. The business tax provides a larger share of local revenue, accounting for 40.8 percent of local government revenues in 1984. Property taxes accounted for only about 13
percent of German local government revenue in 1978, and
dropped to 12.5 percent in 1984. Federal law keeps the rates
low as part of a social policy to keep costs of living more
equal. Also, government projects or facilities are exempt
from property taxes. Local revenue is also generated through
fees charged for services.

German cities are heavily dependent upon
intergovernmental financing, which limits their actual
independence. Cities not only receive large amounts of
intergovernmental grants, but also a share of income and
corporate taxes. By 1984, local government's share of the
income tax was the major revenue source for local
governments, accounting for 44.2 percent. Intergovernmental
financing in Germany operates under the same theory as in
Canada— the richer states are to help the poorer. Revenue
not only flows up and down, but horizontally, from one Land
to another. Each level of government, including local
governments, have the responsibility for certain taxes, which
are then shared among all. It is a system that has caused
concern among many western German Länder over the amount of
money they must transfer over to help the new eastern
Länder. As mentioned above, fiscal links between the federal
government and local governments are few. The Länder have
the responsibility of ensuring their local governments have
the financial resources to provide necessary services.
American cities are not alone in facing financially tough times. Cities around the world have been in similar situations. German cities too have had their share of financial difficulties. By the late 1970s, many were heavily indebted and unable to properly provide services. A 1971 financial reform gave cities a larger share of tax revenue that saved some from bankruptcy. But rising costs and increased debts still left many in dire financial straights. Between 1961 and 1974, local government debts increased 400 percent. Two-thirds of local government investment was done with borrowed money and much of tax revenues went toward debt servicing. While local governments were partly to blame for the problems through poor planning and cost overruns, increased demand and costs for services and unequal intergovernmental tax distribution also were major factors.

But while German, American and Canadian local governments have faced similar financing problems at various points of time, there are differences between the three. The situation of American and Canadian local governments is most similar. In both countries local entities have no legal rights under the federal constitutions. They are both dependent upon their state or provincial governments for their existence and financial assistance should their own resources fail. What does differ is the perception of intergovernmental relations, and here Canadian local
governments have an advantage. American federal and state
governments are withdrawing funds from local governments in
an attempt to protect their own budgets and cut expenditures.
The result is cities across America are left on their own to
solve their financial problems with no outside help and few
legal rights to tap into revenue sources. What revenue
sources are there are tapped by state and federal
governments, but not returned to the local entities. In
response, cities and other local governments are not only
charging for services they provide, but charging more to
cover costs. Canadian cities on the other hand, appear to be
facing no such cutbacks. The Canadian view of
intergovernmental relations is the upper two levels of
government have a responsibility to the lower level.
Intergovernmental transfers have remained relatively steady
over the years covering close to 50 percent of local
government revenues.

Still, things could take a turn for Canadian cities. Legally, there is nothing to stop the other two government
levels from cutting funds to Canadian cities. Although it is
unlikely it could happen politically. German local
governments, on the other hand, are in a unique position
compared to their American and Canadian counterparts. As
mentioned above, we have already seen that German cities have
been in the same financial difficulty that some of our
California cities are in today. But German cities are in a far better position to get financial help when needed than American or Canadian cities. German cities have legal rights that cannot be taken away from their Land. Those rights include the right to certain financial resources. While other governmental levels could reduce the amount of some transfers given to local entities, they cannot legally eliminate all of those transfers.

Thus, it appears German local governments are better off in the intergovernmental system. While those in Canada have no more legal rights than American cities and local governments, Canadian local governments have at least had a relatively stable share of intergovernmental funds. Canadian cities have not suffered from political philosophies that one year gives to local governments and the next year takes away. American cities, on the other hand, are left wondering from year to year, whether there will be intergovernmental transfers, and if so, how much. This is the situation California cities are experiencing today. The shift of property taxes from local governments to schools is only one local government revenue source the state has been cutting. Other revenue sources local governments are dependent on that have been lost or are in jeopardy are such things as cigarette taxes and motor vehicle in-lieu fees. Such an inability to predict revenue sources makes it difficult for
American local governments to budget for the services they must provide or to provide the services if the money is not there.

One could argue American local governments should forget about intergovernmental transfers and find ways to fend for themselves. But what options do they have? Their taxing abilities are legally limited. As seen from the examination of Coachella Valley cities, they can turn to greater charges for services or assessment districts. But as can be seen, cash-strapped residents are making it clear they cannot afford the assessments. Higher service charges could further scare away developers and businesses, many of whom are already leaving the state. The upper levels of American government need to learn, what those in some other nations have already learned, everyone is in the system together. If local governments are to provide services, other levels have a responsibility of ensuring they are provided with the funds.
FINDING THE ROAD TO FISCAL HEALTH

Changing the attitude of government officials at the higher levels across the United States will not be an easy task. And, it will take time. Time that some California cities might not have. If finding solutions were left to local government officials, those in the Coachella Valley say they would restructure the state-local fiscal relationship. Interviews with finance directors across the Coachella Valley indicate there are a few key changes local government officials see as the bedrock for any future restructuring of the system. Central to all of their thoughts is a belief that local governments must be seen as an important component of the governmental structure, rather than simply the ignored level at the bottom. Other government levels must end their view that cities will somehow always find a way to cope. Two of the key changes Coachella Valley local officials say they would like to see are an end to unfunded state and federal mandates and changes in state law to give them not only a larger share of revenue generated within their borders, but more authority and control over revenue sources.

Though not addressed in this paper (addressing it would be another paper entirely), unfunded federal and state mandates are a major expense and concern for local governments. Ending such mandates is a goal not only of local governments in California, but also of others across the
United States. City officials say they are all too often stuck providing services they cannot afford with funds they have not got. Coachella Valley city officials point out unfunded mandates take many forms. Some are specific federal or state laws requiring local governments to create certain programs. Common examples today are air and water quality programs and recycling programs. But there are other forms of mandates one could consider veiled mandates that are also not funded. For example, a prime responsibility of cities is providing police services. Facing its own budget problems, Riverside County, home of the Coachella Valley cities, in 1992 began charging cities $110 for every person those cities booked into county jails. While not ‘‘mandated’’ to book people into jails, city police officials feel they have an obligation to do so, since providing police services and protecting the public is their responsibility. Thus, the booking fees increased the expenses of several Coachella Valley cities by tens of thousands of dollars. It also forced some, such as Indio, to avoid booking those arrested who appeared least dangerous in an effort to save the city money.

As much as Coachella Valley city officials would like to restructure the state-local fiscal system, it is unlikely they, or local government lobbyists will succeed in doing so in the near future. Thus, we come then to the key question -
what is the solution for the immediate future? I would argue cooperation in the form of regionalization - a greater sharing of resources among cities joined by a common geographical area such as the Coachella Valley. Many Coachella Valley city officials agree on the need for greater cooperation and have made efforts to combine resources. The region has a joint governing body - the Coachella Valley Association of Governments - that develops policy for regional issues such as transportation and environmental quality. The ongoing discussions between Palm Springs and Cathedral City regarding a merging of their fire departments is another step toward greater cooperation.

However, while Coachella Valley cities are making steps toward regionalization in an effort to stretch scarce resources, the steps are small and progress is slow. Central to any attempt at regionalization is the issue of political power - no city wants to give it up. Talks of merging such services as fire or police inevitably raises the question of which city's fire or police chief will be out of a job - a debate that often stalls talks. In an effort to overcome such roadblocks to cooperation, Coachella Valley business and political leaders joined forces to sponsor a two-day workshop in early 1994 focused on how to restructure local government and reach compromises that will lead to cooperation. While enthusiasm was high during the workshop, as of this writing,
nothing concrete has yet come out of the conference.

The difficulties of regionalization are compounded when there is a large gap in wealth between the cities involved, as is the case in the Coachella Valley. Financially weak cities are more supportive of regionalization. In the case of Indio, that city’s fire chief has willingly offered to give up his job if the city would merge fire services with another city and the other city’s fire chief wanted to keep the position. Indio officials argue the employees who keep the resorts and malls running in wealthier cities live in Indio, which has the more affordable housing. Indio is left with providing services for a growing population, but other cities are reaping the financial benefits from the businesses that employ those Indio residents.

Wealthier cities, on the other hand, are less supportive of regionalization. Palm Desert officials have argued they have a financial reserve due to wise planning and good management and should not have to support poorer cities they claim did not plan ahead. I would warn such cities to be careful. Financial health is cyclical. Palm Springs was once the Coachella Valley’s wealthy city and now has the valley’s largest city deficit. Cities have their ups and downs through the decades. This attitude of wealthier cities is, in a sense, part of the overall individualism of Americans. It is also a part of what drives the American intergovernmental
fiscal system – that simple attitude that each should do for
themselves and those who are successful deserve it.
Transferred to cities, this attitude is the basis of the view
of wealthier cities that they deserve their success and
should not have to share with the less fortunate cities,
which could also be successful if they would only try and
manage themselves properly.

Such an attitude is destined to lead to failure, not only
for poorer cities, but the wealthier, the beginnings of which
can already be seen. Based on his research on the Coachella
Valley, Clifford Young argues cities in the region, unless
they develop a regionalized approach to economic development,
will destroy one another through competition. Young argues
the beginnings of this can already be seen, not only in the
Coachella Valley, but in other areas, where cities
essentially sell their soul to lure large development
projects within their borders. Cities spend so much money
developing land for projects, and give such large tax breaks
to lure developers, they end up gaining little when they get
the project. Examples of such cases, some with disastrous
results, can be seen throughout the Coachella Valley. Indio
put $1 million of redevelopment money into a project to
expand a small shopping mall in the city, only to have the
project stalled by lawsuits from residents the city needed to
displace for the mall’s expansion. La Quinta has spent

46

67
millions paying for new roads and sewer and water lines to lure developers, such as Wal-mart. In addition, Coachella Valley cities are fighting, sometimes in court, over vacant lands along Interstate 10; because all believe their future salvation will be in a commercial corridor along the interstate. Indio has almost doubled its territory in the past decade. The annexations have recently come under attack by Riverside County officials who claim cities are grabbing money-making areas of county property and leaving poorer areas to the county, creating a checkerboard of county parcels sitting in areas surrounded by cities.

If the state fails to come to the aid of cities, and the cities themselves are unable to develop regional solutions, Coachella Valley city officials say residents of their cities could soon see dramatic changes in the structure of city services. And the main change will be fewer services, with residents of poorer cities impacted the hardest. La Quinta Finance Director and Assistant City Manager Thomas Genovese envisions a future where cities are run like a business and residents only get the services they pay for. He argues that under the California system, the only real revenue options left for cities are user fees and assessment districts. City residents, who can block assessment districts, will be forced to chose either to allow for creation of the districts and pay assessments, or watch services be cut to the bone. This
is also the future seen by Cathedral City’s Finance Director Dudley Haines, who believes cities should keep cutting services to balance budgets and hope residents eventually place the blame for cuts where it belongs — at the state level. Palm Springs Finance Director Thomas Kanarr believes the only real solution is a stable revenue source for cities — one the state has no control over and no ability to cut. With that unlikely for the near future, cuts in services seems one of the few options left.

If there is any benefit in the financial crisis facing California cities, Indian Wells’ Finance Director Charlie Francis argues it might lead to more participatory democracy at the local level. As cities find themselves up against the wall financially and with increased fees and assessments one of the few options left, city officials are being forced to go to the people and open up the city’s financial books to close scrutiny by the public, Francis says. Evidence of this was seen when both Indio and Palm Springs began holding town meetings to fully explain the operation and financial situation of their cities to the public. The point, Francis says, is cities have no other option but to ask residents what level of service they want and are willing to pay for. Such a situation is not the future of California cities, it is the present. And while it might seem more democratic, it is extremely unequal. California’s fiscal system, where local
governments have no option left but to provide only the level of services their residents can afford, means lower-income state residents will have the lowest service levels, such as less police protection and fewer recreational services. Meanwhile, upper-income residents will have the best they can buy in city services. For any one who believes one of the roles of government is to work for equality in living standards for residents, California’s current local fiscal system is thus a complete failure.
APPENDIX A:

Top Ten Revenue Sources
Top Ten Revenue Sources for Coachella Valley Cities:
Fiscal 1992

<table>
<thead>
<tr>
<th>City</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cathedral City:</td>
<td></td>
</tr>
<tr>
<td>- sales and use taxes</td>
<td>$4,430,400</td>
</tr>
<tr>
<td>- operating transfers in</td>
<td>$1,798,392</td>
</tr>
<tr>
<td>- state subventions</td>
<td>$1,143,247</td>
</tr>
<tr>
<td>- transient occupancy taxes</td>
<td>$1,043,600</td>
</tr>
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<td>- franchise fees</td>
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Indian Wells:
- transient occupancy tax $2,524,500
- interfund transfers $1,560,669
- sales tax $650,000
- franchise taxes $299,000
- construction permits $238,000
- quasi external charges $126,178
- state shared taxes $110,150
- investment earnings $100,000
- property taxes $96,337
- building regulation fees $60,000

Total Revenue: $5,936,727
General Fund Budget: $5,409,007

Indio:
- sales and use taxes $3,760,272
- utility user fee $1,630,000
- current year secured taxes $1,389,973
- motor vehicle in-lieu $1,320,968
- transfer from water fund $746,900
- transient occupancy tax $580,000
- franchises $406,850
- transfer from mobile equipment fund $400,000
- ambulance service charges $400,000
- business license tax $315,000

Total Revenue: $12,990,755
General Fund Budget: $12,990,755

La Quinta:
- transient occupancy tax $1,763,900
- sales tax $1,015,170
- redevelopment agency administrative fees $667,280
- motor vehicle in-lieu $497,000
- property tax $347,000
- interest $292,000
- building permits $240,000
- franchises $234,500
- plan check fees $200,000
- document transfer taxes $105,000

Total Revenue: $5,862,790
General Fund Budget: $6,345,121

Palm Desert:
- sales tax $6,400,000
- transient occupancy tax $4,800,000
- motor vehicle in-lieu $850,000
-interest income $800,000
-franchises $770,000
-secured taxes $700,000
-business license tax $660,000
-reimbursement redevelopment agency costs $350,000
-building permits $320,000
-interfund transfers in $307,000

Total Revenue: $16,797,900
General Fund Budget: $16,482,367

Palm Springs:
-current year taxes $10,770,000
-sales and use taxes $4,600,000
-transient occupancy taxes $2,775,000
-franchises $1,800,000
-in-lieu property fee $1,668,194
-motor vehicle in-lieu $1,500,000
-administrative service charges $1,371,446
-prior year taxes secured $800,000
-new development tax $620,000
-current year taxes unsecured $500,000

Total Revenue: $31,607,952
General Fund Budget: $30,709,471

Rancho Mirage:
-transient occupancy tax $3,200,000
-sales tax $1,768,000
-construction license tax $1,500,000
-redevelopment agency reimbursement $573,000
-franchises $544,000
-interest income $506,000
-property tax $393,000
-building permit fee $326,000
-motor vehicle in-lieu $270,000
-building plan check $204,000

Total Revenue: $10,031,702
General Fund Budget: $9,729,886

*Includes revenue sources shown here as well as other revenue sources that are not in this top ten list.

Source: Fiscal 1992 budget documents of all cities listed.
APPENDIX B:

U.S. Local Government Revenue Sources
### U.S. Local General Revenue Sources, Percentage Distribution: 1950–1990

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<tr>
<th>Year</th>
<th>Property taxes</th>
<th>Income taxes</th>
<th>Sales taxes</th>
<th>Fees</th>
<th>Other</th>
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Source: Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federalism: 1992 Report
ENDNOTES


4. Charlie Francis, finance director, City of Indian Wells, California. Interview with author.

5. Dave Culver, finance director, City of Indio, California. Interview with author.


11. Culver. Interview with author.


15. Thomas Genovese, finance director/assistant city manager, City of La Quinta, California. Interview with author.


17. Ibid.


20. Culver. Interview with author.

21. Thomas Kanarr, finance director, City of Palm Springs, California. Interview with author.

22. Kanarr. Interview with author.

23. Jere Kersnar, assistant city manager, City of Cathedral City, California. Interview with author.

24. Dudley Haines, finance director, City of Cathedral City, California. Interview with author.

25. Paul Gibson, finance director, City of Palm Desert, California. Interview with author.


27. Genovese. Interview with author.


31. Ibid., 119.


34. Richard Simeon, researcher, Intergovernmental Relations (Toronto: University of Toronto Press, 1985, 194.


36. Ibid., 178.

37. Simeon, Intergovernmental Relations, 196.


41. Ibid., 133.

42. Ibid., 133.


44. Jerry Graves, police chief, City of Indio, California. Interview with author.

45. Ken Hammond, fire chief, City of Indio, California. Interview with author.

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