Urban Devolution and Metropolitan Local Governance in California’s Next Half Century of Growth

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From the perspective of an economist engaged in the study of state and local public finance and urban development in California, this paper presents a review of the factors that have driven and will continue to drive local governance and the ultimate look, shape, and desirability of California’s metropolitan areas in the first half of the 21st century. This review is motivated in part by the November 5, 2002, Los Angeles vote on Proposition F, which would have allowed the secession of the San Fernando Valley from the city and the formation of a new, independent city. Though this proposition failed to achieve the necessary majority support among LA’s 3.7 million residents (only 33 percent of voters in favor), it did receive majority support (51 percent of voters in favor) among the 1.3 million residents who would have formed the new city in the San Fernando Valley.

Why break up California’s largest city and the United States’ second largest? The Committee for San Fernando Valley Independence offered the following reasons: getting their fair share, local control over local resources, a tax cut for valley home owners, smaller and more efficient government, more accountability from elected officials, a mayor and council that live and meet in the Valley, better local services at less cost, increased police protection, and first a Valley city then a Valley school district.1 Alternatively, individuals such as current Los Angeles Mayor Hahn, former Mayor Riordan, and Earvin “Magic” Johnson argued that Los Angeles is a stronger city financially when united, and weaker when split apart.2 The premise of this paper is that the conflict in local governance that characterized the San Fernando secession movement, and that has not gone away in Los Angeles after the vote, has existed throughout California for some time and will continue to grow in the state’s future.
Academics have long recognized the pros and cons, which where widely cited in the San Fernando Valley election, of having more local government for a given number of people in a metropolitan area. Likewise, these same arguments are used in more frequently occurring decisions about whether an existing large school district should be divided into smaller ones, or whether a new city should be allowed to incorporate out of a previously unincorporated portion of a county. Given the expected large increases in the size and diversity of California’s population over the next half century, debates about the structure of local governance in the state can only be expected to grow. In addition, given the institutional environment of post-Proposition 13 California, these debates will continue to exhibit a greater fiscal component than similar debates in other states throughout the country. Thus, this paper makes an effort to assist California citizens and policy makers in their taking a side in the local governance issue of breaking up of a large city or school district into smaller ones, or the incorporation of a new city where none existed before.

In four major sections, the following essay offers a tour of demographic projections, institutional facts, academic logic, and my own personal interpretations and expectations on local governance and its impact on urban devolution in California’s metropolitan areas over the next half century. The first section describes the projected demographic changes that California and its metropolitan areas will continue to face. To orient readers, the second section is a summary of academic views on the desirability of population growth and the ways that governance in a metropolitan area can best respond. The third section tempers these idealized views by describing the institutional reality of the system of local governance and public finance in post-Proposition 13 California. The concluding section highlights predictions on the future course of metropolitan devolution and local governance in California—if the status quo prevails. Policy alternatives to alter the expected status quo outcome, which many would consider less than socially optimal, are also proposed.
DEMOGRAPHIC EXPECTATIONS

Growth and Diversity

As reported in Table 1, California’s population grew from 29.8 to 33.9 million, or 13.8 percent between 1990 and 2000. Growth in the state’s population is expected to continue in the foreseeable future. The California Department of Finance (1998) predicts that population will rise to 58.7 million by 2040, or an astounding 73 percent increase from its current level. As a result, population density will rise from 217 to nearly 377 persons per every square mile in the state.

Growth in statewide population is unlikely to be distributed evenly by race and ethnicity. In 2000, approximately 32 percent of California’s residents were of Latino (Hispanic) heritage. By 2040, officials expect that this percentage will rise to nearly 48 percent. In 2000 about 11 percent of Californians were of Asian or Pacific Island heritage, in 2040 this percentage is expected to rise to nearly 16 percent.

Table 1 also offers a 2000 snapshot of socioeconomic diversity across four of California’s metropolitan areas, as well as expected race and ethnicity changes for these same areas. It is interesting to note the predicted demographic differences across the Table’s four metropolitan sectors. As an example, over the next 40 years the percentage of the metropolitan population that is African American is expected to decrease in three out of the four areas. The exception is Sacramento, where the percentage of African Americans will rise by nearly 24 percent. These substantial demographic changes to the state are outlined to make the case that California’s urban areas will grow both in population and diversity of residents. This is likely to exert profound influences on the appearance, livability, and local governance of the state’s metropolitan areas.

Urban Devolution

Between 1970 and 2000, the suburban portions of the Los Angeles-Long Beach, Riverside-San Bernardino, and Sacramento metropolitan areas grew in population, respectively, by 37.5 percent, 205.2 percent, and 145.1 percent; but the central city portions of these areas exhibited smaller population growth rates, respectively, of 31.2 percent, 82.6 per-
<table>
<thead>
<tr>
<th>State/Metro. Area (counties included in 1992 definition)</th>
<th>State of California (all 58 counties)</th>
<th>Bakersfield PMSA (Kern County)</th>
<th>Los Angeles-Long Beach PMSA (L.A. County)</th>
<th>Riverside-San Bernardino PMSA (Riverside and San Bernardino Counties)</th>
<th>Sacramento PMSA (Eldorado, Placer, Sacramento and Yolo Counties)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000 Population</td>
<td>33,871,648</td>
<td>661,645</td>
<td>9,519,338</td>
<td>3,254,821</td>
<td>1,796,857</td>
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<tr>
<td>2040 Expected Population</td>
<td>58,731,006</td>
<td>1,623,671</td>
<td>13,888,161</td>
<td>8,648,429</td>
<td>3,278,119</td>
</tr>
<tr>
<td>% Expected Population Growth</td>
<td>73.4</td>
<td>145.4</td>
<td>45.9</td>
<td>165.7</td>
<td>82.4</td>
</tr>
<tr>
<td>2000 Population Density (people/sq. mile)</td>
<td>217.2</td>
<td>81.3</td>
<td>2,344.2</td>
<td>119.4</td>
<td>333.1</td>
</tr>
<tr>
<td>2040 Expected Population Density</td>
<td>376.6</td>
<td>199.4</td>
<td>3,419.9</td>
<td>317.3</td>
<td>607.6</td>
</tr>
<tr>
<td>2000 Median Age</td>
<td>33</td>
<td>30</td>
<td>33</td>
<td>31</td>
<td>34</td>
</tr>
<tr>
<td>2040 Expected Median Age</td>
<td>33</td>
<td>29</td>
<td>34</td>
<td>30</td>
<td>36</td>
</tr>
<tr>
<td>2000 Median Household Income</td>
<td>47,493</td>
<td>35,446</td>
<td>42,189</td>
<td>42,452</td>
<td>46,153</td>
</tr>
<tr>
<td>2000 % in Poverty</td>
<td>14.2</td>
<td>20.8</td>
<td>17.9</td>
<td>15.0</td>
<td>12.9</td>
</tr>
<tr>
<td>2000 % Homeownership Rate</td>
<td>56.9</td>
<td>62.1</td>
<td>47.9</td>
<td>66.6</td>
<td>61.3</td>
</tr>
<tr>
<td>2000 Retail Sales per Capita</td>
<td>8,167</td>
<td>6,764</td>
<td>7,619</td>
<td>7,199</td>
<td>8,449</td>
</tr>
<tr>
<td>2000 % Foreign Born</td>
<td>26.2</td>
<td>16.9</td>
<td>36.2</td>
<td>18.8</td>
<td>14.4</td>
</tr>
<tr>
<td>2000 % Age 25+ With Bachelors or Higher</td>
<td>26.6</td>
<td>13.5</td>
<td>24.9</td>
<td>16.2</td>
<td>26.6</td>
</tr>
<tr>
<td>2000 % White (not Latino origin)</td>
<td>46.7</td>
<td>49.5</td>
<td>31.1</td>
<td>47.3</td>
<td>63.9</td>
</tr>
<tr>
<td>2040 % Expected White</td>
<td>30.7</td>
<td>30.7</td>
<td>15.9</td>
<td>30.0</td>
<td>52.7</td>
</tr>
<tr>
<td>% Expected Change in % White</td>
<td>-34.4</td>
<td>-38.1</td>
<td>-49.0</td>
<td>-36.6</td>
<td>-17.5</td>
</tr>
<tr>
<td>2000 % Latino</td>
<td>32.4</td>
<td>38.4</td>
<td>44.6</td>
<td>37.8</td>
<td>15.4</td>
</tr>
<tr>
<td>2040 % Expected Latino</td>
<td>47.8</td>
<td>57.7</td>
<td>63.9</td>
<td>54.4</td>
<td>21.1</td>
</tr>
<tr>
<td>% Expected Change in % Latino</td>
<td>47.6</td>
<td>50.2</td>
<td>43.2</td>
<td>43.8</td>
<td>37.0</td>
</tr>
<tr>
<td>2000 % African American</td>
<td>6.7</td>
<td>6.0</td>
<td>9.8</td>
<td>7.7</td>
<td>7.1</td>
</tr>
<tr>
<td>2040 % Expected African American</td>
<td>5.5</td>
<td>5.8</td>
<td>5.5</td>
<td>7.0</td>
<td>8.8</td>
</tr>
<tr>
<td>% Expected Change in % African Amer.</td>
<td>-17.8</td>
<td>-3.1</td>
<td>-43.9</td>
<td>-9.0</td>
<td>23.6</td>
</tr>
<tr>
<td>2000 % Asian or Pacific Islander (P.I.)</td>
<td>11.2</td>
<td>3.5</td>
<td>12.2</td>
<td>4.5</td>
<td>9.4</td>
</tr>
<tr>
<td>2040 % Expected Asian or P.I.</td>
<td>15.5</td>
<td>5.0</td>
<td>14.6</td>
<td>5.9</td>
<td>16.3</td>
</tr>
<tr>
<td>% Expected Change in % Asian or P.I.</td>
<td>38.2</td>
<td>43.7</td>
<td>19.5</td>
<td>30.6</td>
<td>72.6</td>
</tr>
</tbody>
</table>

Table 1. 2000 Data and 2040 Projected Growth for California State and Selected Metropolitan Areas
cent, and 60.0 percent. If these trends continue, it is reasonable to expect that much of California’s new population will choose to live in the suburbs of the state’s urban areas. Much of this suburban territory is comprised of unincorporated areas of counties, in which incorporated city governance currently does not exist.

Urban devolution in California is not a recent phenomenon. It has been driven by real income increases that cause people to want the bigger homes and the lots to place them on that are more available at the urban fringe, transportation and technology changes that make it easier to live and work in the suburbs, and flight from the perceived blight and lower-class populations that are more prevalent in most central cities. These continuing tendencies will be aided by low perimeter land values, mortgage deductibility, low-density/exclusionary zoning that is more likely to be practiced in the suburbs; and subsidized, under-priced suburban infrastructure.

**Summary**

Over the next half century, California is expected to experience a large increase in population and greater racial and ethnic diversity among its population. Furthermore, a majority of this new population will find residence in the state’s existing suburban areas. An academic perspective on the probable effects of these occurrences is offered next.

**ACADEMIC PERSPECTIVE**

**Costs and Benefits of Growth**

Many Californians have come to believe that population growth will necessarily be bad for the state and its urban areas. This belief stems from a focus on the potential costs of population growth. Such costs arise from the expectation that more people can only make worse the state’s existing lack of affordable housing, useable open space, clean air and water, and congestion-free automobile transport. But as discussed in Wassmer and Boarnet (2001), population growth can yield economic-based benefits. These include greater choices for Californians about where and how to reside, shop, and be employed. Population increases
can also bring greater real income, tax revenue, and property values to the state. In addition, population growth allows business to take advantage of economies of scale and consequently sell goods and services at a lower price.

The obvious resolution to the generation of both costs and benefits from California’s projected population increase is directing growth in a manner that mitigates costs while maximizing potential benefits. This strategy is commonly referred to as “smart growth.” As pointed out in Wassmer (2002a), it is my belief that current widespread concern over “urban sprawl” is best understood as objection to growth at the edges of urban areas where the costs to all of society of such periphery growth are more likely to be greater than the benefits. Understanding this, the important question to ask is whether California’s current institutions can be expected to steer the anticipated growth in population and population diversity in a manner in which Californians as a whole benefit. The factors described next prevent me from answering this question in the affirmative.

Optimal Structure of Local Government

The place to begin an understanding of how many economists think about the ideal structure of local governance in an urban area is the model of Tiebout (1958). Tiebout’s model touts the benefits of a greater number of local governments in a metropolitan area through the residential choices it allows and the local government competition it imparts. Just as consumers who wish to purchase, say, an automobile benefit by a wide choice of dealers selling a large number of different types of automobiles, so is it good to have a many local governments offering a variety of types and qualities of local government services when choosing a residence within a metropolitan area.

When a variety of local governments in a metropolitan area offer different local fiscal packages for residents, people “vote with their feet” and sort themselves so that like-minded people, in regard to the desired quantity and quality of locally provided government services, are more likely to be grouped together in the same independent, local government. People who demand high levels of locally provided services ben-
efit from joining others with similarly high levels. When financed by local taxes or fees, the local price paid to provide this high level of local good is subsequently distributed fairly among the high-demanding residents. Lower-level demanders of local services are prevented from “free riding” off payments of the higher-level demanders in a community because the only way they can get the high level of service is to pay the appropriate higher local taxes or fees, pay higher local home prices, or both. Moreover, in an urban area with many local governments, providers are less likely to charge more than what is reasonable for a given level of provision because if they do, residents will migrate to a nearby jurisdiction providing the next most suitable level of provision.

The validity of Tiebout’s thinking is reflected in the reasons given earlier by the Committee for San Fernando Valley Independence, and for that matter, usually in the rhetoric used by any group that seeks to form a new independent local government. A push for greater local control, accountability, and efficiency is most often offered as the motivating factors. On the other hand, the argument that breaking up a large city, or a city incorporated out of the unincorporated portion a county, can result in economically weaker smaller jurisdictions is justifiable. Economists, including Oates (1972), have explored these tradeoffs when thinking about the optimal structure of local government in a metropolitan area.

In an extension of the Tiebout model, Oates added the economic considerations that are usually raised by those opposing the creation of more local governments. Economic arguments against more local governments include the potential loss of economies of scale in the production of local government services (or financial weakness) as well as the locally generated costs or benefits that are more likely to “spillover” a larger number of jurisdictional boundaries. As an example of a negative spillover more likely to be generated in a Tiebout-type metropolitan area, consider that low demanders of public safety services are likely to be concentrated in one community. This offers the potential for concentrated violence and crime in that community. If residents freely accept this fact, in exchange for lower local taxes and fees, many observers
## Table 2:

### 1982 to 1992 Actual and Expected Number of Municipalities and Change in Number of Municipalities for California Metropolitan Areas

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Anaheim-Santa Anna</td>
<td>Orange</td>
<td>Orange</td>
<td>26</td>
<td>30</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>Bakersfield</td>
<td>Kern</td>
<td>Kern</td>
<td>11</td>
<td>26</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Fresno</td>
<td>Fresno</td>
<td>Fresno</td>
<td>15</td>
<td>17</td>
<td>0</td>
<td>8</td>
</tr>
<tr>
<td>Los Angeles-Long Beach</td>
<td>Los Angeles</td>
<td>Los Angeles</td>
<td>82</td>
<td>119</td>
<td>4</td>
<td>39</td>
</tr>
<tr>
<td>Modesto</td>
<td>Stanislaus</td>
<td>Stanislaus</td>
<td>9</td>
<td>6</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Sacramento</td>
<td>Placer, Sacramento, Yolo</td>
<td>El Dorado, Placer, Sacramento, Yolo</td>
<td>12</td>
<td>27</td>
<td>4</td>
<td>17</td>
</tr>
<tr>
<td>Stockton</td>
<td>San Joaquin</td>
<td>San Joaquin</td>
<td>6</td>
<td>8</td>
<td>1</td>
<td>-1</td>
</tr>
<tr>
<td>Salinas-Seaside</td>
<td>Monterey</td>
<td>Monterey</td>
<td>12</td>
<td>15</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>San Diego</td>
<td>San Diego</td>
<td>San Diego</td>
<td>16</td>
<td>40</td>
<td>2</td>
<td>15</td>
</tr>
<tr>
<td>San Jose</td>
<td>Santa Clara</td>
<td>Santa Clara</td>
<td>15</td>
<td>10</td>
<td>0</td>
<td>9</td>
</tr>
<tr>
<td>Santa Barbara</td>
<td>Santa Barbara</td>
<td>Santa Barbara</td>
<td>5</td>
<td>5</td>
<td>1</td>
<td>-1</td>
</tr>
<tr>
<td>Santa Rosa</td>
<td>Sonoma</td>
<td>Sonoma</td>
<td>8</td>
<td>9</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Vallejo-Napa</td>
<td>Napa, Solano</td>
<td>Napa, Solano</td>
<td>11</td>
<td>7</td>
<td>0</td>
<td>3</td>
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<tr>
<td>Visalia-Tulare</td>
<td>Tulare</td>
<td>Tulare</td>
<td>8</td>
<td>15</td>
<td>0</td>
<td>2</td>
</tr>
</tbody>
</table>
would say that the matter is their choice and we should not be con-
cerned about it. But, if the costs of this localized crime spillover the
community’s boundary and affect the quality of life in surrounding jurisdic-
tions, then all may have a right to be concerned.

Furthermore, an equity concern needs to be considered when decid-
ing upon the optimal number of local governments in a metropolitan
area. High-income households are more likely to be high-level demand-
ers of local services, and household income is correlated with race and
ethnicity (i.e., unfortunately, low-income people in the United States are
more likely to be people of color). Therefore, voting with one’s feet
results in spatial segregation by income, race and ethnicity when many
local governments dot a region.\textsuperscript{5} The less diversity that exists in a
community’s household income, the fewer the community’s opportuni-
ties to undertake any form of redistribution between rich and poor. Likewise, when many local governments exist in a metropolitan area, a lo-
cally-based redistribution scheme in a mixed-income community will be
self-defeating in that it serves to drive the wealthy out of that area and
attract the poor.\textsuperscript{6}

**Number of Cities in California’s Metropolitan Areas**

Tiebout’s model predicts that a metropolitan area that exhibits greater
diversity in citizen’s desires for local government services should, hold-
ing other causal factors constant, exhibit a larger number of city govern-
ments. Economists have shown that differences in citizen’s desires for
local services can be accounted for by differences in citizen’s income
and differences in variables that are correlated with citizen’s “taste” for
local services. In previous empirical studies, differences in citizen’s taste
for local services have been measured with differences in variables such
as age, education level, homeownership, and race and ethnicity.\textsuperscript{7}

A reasonable test of the validity of Tiebout’s hypothesis is to check for a positive statistical relationship between the number of
cities in a metropolitan area and variation in both household incomes,
and in variables that proxy for differences in tastes for local services.
The credibility of this statistical test of the Tiebout hypothesis de-
PENDS ON THE ABILITY TO CONTROL FOR OTHER IMPORTANT FACTORS THAT ALSO

\textsuperscript{5} Wassmer / URBAN DEVOLUTION

\textsuperscript{6} CALIFORNIA POLICY ISSUES / NOVEMBER 2002

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determine the number of cities in a metropolitan area (i.e., population, square miles, institutional restrictions on city annexation and incorporation, historical development of central city, freeway patterns, etc.).

Fisher and Wassmer (1998) and Wassmer and Fisher (2000) have performed such statistical tests. In their 1998 study, they used the statistical technique of regression analysis to examine the influence that the previously described causal factors had on the number of cities in the 167 largest metropolitan areas in the United States in 1982. Their 2000 study used the same metropolitan areas, but used regression analysis to statistically determine the influence of the change in the same causal factors on the change in the number of cities in a metropolitan area between 1982 and 1992. Holding other causal factors constant (including a wide variety of political, institutional, economic, and regional characteristics), Fisher and Wassmer (1998) found that greater income and age variations in a metropolitan area exert positive influences on the number of subcounty, general-purpose local governments (municipalities and townships) within a metropolitan area. Further results from these, and similar studies conducted by other researchers, are described in Wassmer (2002b).

For the purpose of this paper, it is fitting to use the Fisher and Wassmer (and Wassmer and Fisher) statistical results to predict the number of cities (and change in the number of cities) in California’s metropolitan areas in 1982 (and between 1982 and 1992). This is done by using the regression results to predict the number of cities (or change in the number of cities) in different California metropolitan areas if they had the same size, institutional, and economic factors; or the same income, education, and race and ethnicity variations, but it instead behaved like the typical, large metropolitan areas in the United States. The results of these simulations are provided in Table 2.

Take the Los Angeles-Long Beach metropolitan area as an example. In 1982, in the county of Los Angeles there were 82 independent cities. Using Fisher and Wassmer’s regression results, we would expect a metropolitan area exhibiting Los Angeles-like characteristics to have 119 independent cities if it was similar to the typical, large metropolitan area in the country. Similarly, given the many changes in population, income,
and household characteristics that the Los Angeles-Long Beach metropolitan area exhibited between 1982 and 1992, the Wassmer and Fisher analysis predicts that 39 new cities should have incorporated over that period if it had acted like the typical metropolitan area in the United States. Instead, only four new independent cities were created.

Of the 15 occurrences in which the 1982 number of cities was forecast for California’s metropolitan areas, there were only 3 (or 20 percent) over estimates of the actual number by the Wassmer and Fisher model. Of the 15 occurrences in which the 1982 to 1992 change in the number of cities was forecast, there were only 2 (or 13 percent) cases in which the change should be more responsive than observed by the Wassmer and Fisher model. These discrepancies are highlighted in Table 2. The clear conclusion from Table 2 is that given the population size and characteristics of citizens in California’s urban areas, the state currently has fewer independent cities in these areas than other areas in the United States with comparable population characteristics.

Lewis (1998) also examined local government structure in California counties between 1972 and 1992 using a political fragmentation index (PFI). His PFI measures the probability that two randomly selected dollars of local expenditure in a county are spent by different local governments. By comparing all California counties’ 1992 PFIs to their 1972 PFIs, Lewis concludes that local political fragmentation in the state increased only slightly over this 20-year period. As previously discussed, understanding the Tiebout model and given the changes in the size and makeup of California’s population between 1972 and 1992, the expectation would be for a greater increase in political fragmentation. Based upon the findings of Fisher and Wassmer, Wassmer and Fisher, and Lewis; California’s metropolitan residents are likely missing out on the benefits to be derived from greater municipal choices enjoyed by other metropolitan residents in the United States.

Summary

We can anticipate that California’s next half century of population growth will impose both costs and benefits upon the people of the state. The obvious goal during this period should be the pursuit of state and local government policies to mitigate the expected costs of growth and to stimulate the expected benefits that can be derived from it. As an
example of institutions that may be failing to put the state on such a path, this section offered evidence that Californians in metropolitan areas enjoy less local government representation than other citizens in similar areas in the United States. Given this general finding, it is not surprising to see the San Fernando Valley secession receive majority support from voters who would be part of the newly formed city. Further information on existing state and local government institutions in California, and their expected relationships to the pursuit of smart growth are discussed next.

INSTITUTIONAL REALITY

To fully comment on the current system of local governance in California’s metropolitan areas, and to forecast its likely impact on achieving smart growth, the idealized economic models described in the past section must be contemplated within the institutional reality of state and local government in post-Proposition 13 California. To do this, this section offers a summary of public finance-based constraints and incentives faced by the state’s municipal and county governments. Also highlighted are the facts of decline in local reliance on property taxation as a discretionary source of revenue and the increase in local fee and sales tax reliance since Proposition 13. In addition, the implications of local land-use decisions that are increasingly “fiscalized,” local government formation for purely fiscal reasons, and county and central city resistance to local secession and incorporation efforts are all discussed.

Pressure to Create New Cities

For at least three reasons, we can expect continued pressure in California to create new cities. The first is the existing pent-up demand for more local government in the state’s metropolitan areas. California currently has fewer cities than economic and political theory would expect it to have. Even if the state’s population stayed the same, we could expect continued attempts to create more cities in the future to satisfy current citizen’s unmet demands for greater local control, accountability, and smaller and more efficient local governments.
The second reason for continued pressure to create new cities is that California’s population is far from expected to stay the same. As described in Section 2, in the next 40 years the size of California’s population will increase by over 70 percent. Residents of the future California will be more racially and ethnically diverse than current Californians, and it is very likely that diversity in household income and educational attainment will also increase. Furthermore, a large portion of the over 20 million new residents calling California home by 2040 will wish to live in the current suburban portions of the state’s metropolitan areas, where currently independent cities are less likely to exist.

To understand the third reason for continued pressure to create new California cities, one must go back to the 1978 passage of Proposition 13. As described by Chapman (1998a and 1998b), Proposition 13 resulted in a major local property tax cut and fundamentally altered the way that local governments raise revenue in California. In the last fiscal year before Proposition 13 went into effect (FY 1977-78), California cities on average raised 16 percent of their revenue from locally set property taxes. By FY 1997-98, this percentage had fallen to less than half that amount (6.8 percent). But, California cities lost more than a long-relied-upon source of discretionary local revenue. Just as detrimental was the fact that Proposition 13 no longer allowed local governments to set a rate of property tax correspondent with resident demand for local services. Since 1978, the rate of local property taxation throughout the state has been fixed at 1 percent of a city’s “acquisition” value of property. Acquisition value means that the base of local property taxation is not its market value, but an amount set on the basis of the value at the last time of a property’s sale, allowing for a maximum 2 percent increase in assessed value per year.

The implementation of Proposition 13, which turned a former, exclusively local tax into a state-administered instrument, required that the state find a way to distribute countywide property tax revenues back to the local governments within a county. The mechanism to do this was created by Assembly Bill (AB) 8. AB 8 requires that the property tax revenue received by a local government be a continuing function of the
property taxes levied prior to the passage of Proposition 13, plus a portion of the additional property tax revenue generated through any year-to-year growth in the locality’s property tax base. This esoteric mechanism was further altered in FYs 1992-93 and 1993-94, when the state mandated the creation of Educational Revenue Augmentation Funds (ERAF) in each county. This action directed auditors in each county to deposit various amounts of countywide property tax revenue, which had once gone to non-school local governments, into a fund that went only to schools.

Revenue-“starved” counties and cities were direct results of Proposition 13, AB 8, and ERAF. With the loss of property tax revenue and direct control over the previously primary source of unrestricted local revenue, counties and cities have increasingly turned to user fees, charges, franchise taxes, and utility-user taxes. In addition, counties and cities in post-Proposition 13 increasingly see local sales tax revenue and the generation of redevelopment activity in tax increment finance (TIF) districts as local revenue sources that they still can control through local decisions. “Fiscalization of Land Use,” the popularized term for the exercise of this control, is the third reason to expect continued pressure in the state for the creation of new cities.

According to the Bradley-Burns Sales and Use Tax Act of 1955, an independent city that generates sales tax revenue within its boundaries, or a county that generates sales tax revenue in the unincorporated portion of its boundary, gets to keep one percent of the value of all sales. Local governments increase their discretionary revenue by local land use decisions that encourage commercial activity, especially “big-box” retail, large volume auto sales, and regional shopping malls, within their boundaries. An additional method of land use fiscalization brought about by Proposition 13 is the creation of a TIF district within a city’s or unincorporated portion of county’s boundary. This district allows the city or county to fully capture the property tax increment, or one percent of the increase in property value that occurs after the TIF district is established, and use it exclusively for projects within the district. If such a district did not exist, the city or county would only get the smaller portion of the property tax increment specified by the AB 8 and ERAF formulas.
So why is this increase in the fiscalization of local land use decisions expected to increase pressure for the formation of new California cities? A few reasons were given by the Committee for San Fernando Valley Independence during its secession effort: getting their fair share, local control over local resources, and a tax cut for Valley homeowners. Currently in Los Angeles, some of the fees, charges, and all of the franchise taxes, and location-based sales tax revenues generated in the Valley go into the City of Los Angeles’ general fund. Such revenues may or may not come back to the Valley in the form of locally provided government services. Furthermore, decisions to establish TIF districts within the City of Los Angeles are decided downtown, and many Valley residents feel that not enough redevelopment activity has been directed to their neighborhoods.

With certainty, the Valley can change both of these occurrences if it secedes from Los Angeles. Secession would allow Valley residents direct control over discretionary revenue sources that are already being generated or that could be generated in their neighborhoods through the use of TIF districts. The same story can be told for a group of residents in a currently unincorporated portion of a California county. A clear way to capture the local revenue generated in their neighborhoods is to carve a new independent city out of the unincorporated portion of the county. As in the case of the San Fernando Valley, there are strong motivators to do this because much of the state’s big-box retail, auto, and regional shopping mall sales are going on at the edges of large cities, or in the unincorporated portions of the state’s counties.

**Institutional Constraints to Create New Cities**

Though Lewis (1998, Appendix C) reports that 54 California cities were newly created in the 20 years after Proposition 13, this fact still leaves the state’s number of cities per 100,000 residents far below the national average. According to the U.S. Census Bureau, in 1997 there were 471 subcounty, general-purpose governments in California. In the United States in 1997, there were 36,001 such subcounty governments. Using the 2000 population figures of 33.9 million Californians and 281 million Americans, one could predict 12.8 city governments per every 100,000 residents.
100,000 people in the United States. The actual level of comparable city government representation for Californians is 1.4 per 100,000 people. This indicates that Americans on average have over nine (12.8/1.4) times the city government representation that Californians have.

Given the existing pressures to create new independent cities in California just described, the following are reasonable questions to ask: Why have there not been more secession efforts like the one undertaken in the San Fernando Valley? Why have there not been more newly created cities in California?

The answers to these questions lie in the severe institutional constraints that California has created to restrict the formation of new independent cities. As Lewis (1998) explains, these restrictions began in the early 1960s under the administration of Governor Edmund “Pat” Brown. His Commission on Metropolitan Area Problems, concerned with the spillovers and diseconomies of scale generated through too many jurisdictions in the state’s metropolitan areas, suggested the formation of a statewide board that would need to approve all local boundary changes. Though such a board was never enacted, in 1963 the Knox-Nisbet Act instead necessitated the creation of Local Agency Formation Commissions (LAFCOs). Each county LAFCO has the statutory power to approve or disprove suggested incorporations of newly independent cities, the annexation of an unincorporated portion of county by an incorporated city, or the creation of a new city through the secession of a portion of a currently incorporated city.

Further hurdles to new city creation in California also exist. The Municipal Organization Act (MORGA) of 1977 allowed any city to effectively veto the secession efforts of citizens within it. This requirement and other legislation on local government activities were consolidated into the Cortese-Knox Local Government Reorganization Act of 1985. The role of LAFCOs in approving the creation of new cities in California was further refined in 1992 under Senate Bill (SB) 1559. This bill reiterated that the creation of a new city in California, either by dividing up an existing city or by forming it out of a previously unincorporated area of county, must be “revenue neutral” for both parties involved. Though property tax revenue neutrality had always been a consideration for
LAFCO approval, SB 1559 clearly states that total local revenue neutrality be considered and that the newly formed city be allowed only the amount of existing city or county revenues necessary to provide services equivalent to those of the area’s former city or county provider.

Finally, in 1997 under pressure from legislators in the San Fernando Valley, the California Legislature passed AB 62. This Assembly Bill removed the power that a current city had to veto a secession effort by residents within its boundaries, but put in place the requirement that a new city can be formed out of a portion of an existing city only if the initial proposal receives the signatures of 25 percent of the existing city’s registered voters, and if it receives majority votes of both the people in the entire existing city and the people in what would be the newly formed city. AB 62 also created a Special Commission on Los Angeles Boundaries under the control of the Los Angeles County LAFCO. The work of this commission (citizen and business groups in the Valley in favor of secession) to gather the required signatures, and the ultimate working out of a revenue-neutral proposal which the Los Angeles LAFCO approved, led to the November 5, 2002, vote on Valley secession. Even after these 5 years of effort, the final–some would say nearly impossible–hurdle of achieving a citywide majority was not met.

Summary

Pressure clearly exists in California for the creation of new cities in the present and even more so in the future. This comes in the form of existing, pent-up demand for greater local representation as well as predicted demographic changes that can be anticipated only to create further demand. Pressure to form new cities has also arisen in California from the local fiscal changes imposed upon the state since Proposition 13. Even so, these forces have not resulted in the formation of many new cities in the state. In fact, since 1992 and the requirement that all new incorporations be truly fiscal neutral, only nine new cities have been formed (Oakley, Truckee, Aliso Viejo, Laguna Woods, Ranch Santa Margarita, Citrus Heights, Elk Grove, Shasta Lake, and Rancho Cordoba). The unmistakable reason is that the institutional constraints to establishing a new city in California are substantial. Cityhood in California
requires the jumping through of many hoops that, from a national comparative standpoint, are all set inordinately high.

**CALIFORNIA’S METROPOLITAN FUTURE: POLICY SUGGESTIONS FOR A DIFFERENT EXPERIENCE**

The picture of California’s metropolitan future I have entertained so far is one of continued strong demand for the formation of new cities, even though much of this demand is suppressed by state-imposed rules and requirements. If one considers only the benefits of greater local control, citizen representation, local government accountability, and local government efficiency that naturally arise from the creation of more cities in the state’s metropolitan areas, then it is reasonable to presume that California currently has fewer cities than is optimal for the size and diverse characteristics of its population. But, before moving to the simple conclusion that California should make it easier for new cities to incorporate, or that existing large cities should be broken up to form smaller ones, the potential costs of such policy changes need to be more fully deliberated.

The Tiebout model taken to its extreme—of a city government for each type of citizen demand for the local government fiscal mix that might be offered in a metropolitan area—would not be costless. Costs would consist of a likely loss of economies of scale, a likely loss in local fiscal stability, the likely generation of greater inequities in a metropolitan area, and the generation of a larger amount of spillovers. A loss in economies of scale would probably occur because the production of most city-government provided services (such as public safety, a library, parks and recreation, waste management, etc.) entail large fixed costs. That is, costs of provision are very similar no matter how many citizens are provided the service. If these high fixed costs are not spread out over an appropriate-sized city, then the cost of city services for a household in a small city could be quite large. But in making this argument for the benefit of highly populated cities it is important to remember that a city can grow so large that the just described “economies of scale” can be overcome by the difficulty of managing a large bureaucracy.10
As well, smaller cities are likely to be less fiscally stable than larger ones. A large city’s employment, retail, property, residential, and business base is more diversified than is a smaller one’s. That is, if one sector happens to be doing poorly in a large city; others in the same large city are more likely doing better. This allows for a more stable stream of local revenue and more opportunities to smooth out cyclical economic fluctuations.

A Tiebout-envisioned metropolitan area would include many small cities, each quite homogeneous in regard to citizens’ demands for city services. The result would be greater spatial segregation within the metropolitan area by household income, education, and race and ethnicity. Some communities would have much lower per-capita tax bases than others, resulting in lower per-capita city expenditure levels. Many consider this result to not be “fair,” especially in regard to city services like public safety, libraries, health programs, and so forth. In addition, this situation would make it difficult to conduct any type of redistribution from the rich to the poor within such a city.

But perhaps the greatest concern that arises from the possibility of California’s metropolitan areas having more cities per person is this: the creation of more fiefdoms in which elected officials make local expenditure, revenue, economic development, transportation, land use, and environmental decisions with only their own jurisdiction’s interest in mind. This would be fine if these choices affected only a particular jurisdiction, but the reality is that many local decision results spillover city boundaries and exert a cumulative impact on the entire region.

Policy suggestions for how to reform governance in California’s metropolitan areas usually do not call for more local governments for the reasons just mentioned. Instead, analyses most often suggest some form of regional dialogue or governance to make decisions on issues that influence an entire region. For example, a 2001 report published at the University of Southern California, *Sprawl Hits the Wall: Confronting the Realities of Metropolitan Los Angeles*, concludes that “[t]he state’s incorporation law has facilitated the creation of small, affluent, Anglo cities through the [LA] region” (p. 39). The report suggests that the Los Angeles Region (consisting of Los Angeles, Orange, Riverside, San Bernardino, and Ventura counties) needs to increase the over-
all supply of affordable housing (p. 48), undertake a regional effort to alter the physical form of local communities (p. 48), link the working poor to employment opportunities (p. 48), invest in older communities (p. 49), stabilize the region’s use of natural resources (p. 50), ensure that all communities have equal access to environmental amenities (p. 51), and so forth. The final conclusion is that the emerging metropolitan Los Angeles of today needs “…a new kind of regional civic dialogue…that cuts across race, class, geography, and institutional turf” (p. 52).

Furthermore, a 2002 study by Orfield and Luce, at the Metropolitan Area Research Council, called *California Metropatterns: A Regional Agenda for Community and Stability in California*, is devoted to illustrating that the problems of California’s segregated metropolitan areas cannot be solved by local governments working independently. Orfield and Luce call for an end to competition among local governments for tax base along with the necessity of greater regional fiscal equity and land-use planning, achieved through some form of regional governance (pp. 44-46).

I conclude this essay with my own suggestion on how to best reform governance in California’s metropolitan areas. This suggestion draws upon both the benefits expected from more city governance in California’s metropolitan areas as well as the need for more regional oversight of issues that appropriately should not be under the control of city governments in a metropolitan region.

**California’s Metropolitan Future Under the Status Quo**

The results of the recent vote by Los Angeles residents on whether to allow the secession of the San Fernando Valley; the many efforts of unincorporated portions of California’s counties to form independent cities; and the limited success of these past incorporation efforts all reveal that many metropolitan residents in the state are dissatisfied with the form of local government representation they currently receive. If the California institutions that regulate city formation remain the same, so will the present level of discontent.

Given the near impossibility of achieving a citywide majority that approves a secession effort, I predict that there will be few additional attempts at secession under the status quo rules. Instead, residents in
large California cities such as Los Angeles who desire their own city will pursue attempts to ease the current secession requirements. Because these are unlikely to be successful, given the statewide political interest in keeping large cities intact, the final option for secessionists may be to “vote with their feet” and move to an already incorporated suburban community or an unincorporated portion of a California county. By moving to an unincorporated portion of a suburban county, the desire for smaller city representation can be more easily achieved in California through incorporation than secession. However, most people would consider such moves as a direct contribution to urban sprawl.

Another alternative to secession, which is currently being discussed within Los Angeles after the passage of Proposition F in the Valley, is to increase neighborhood and geographic representation in a large California city through the creation of a borough system, more city council members, stronger neighborhood councils, or a combination of all these. Nonetheless, a quick cautionary note in regard to a borough system is in order. Some would look to the current system of New York City boroughs as a solution to the demands for greater local control in Los Angeles. In the city of New York, and its five boroughs, revenues are generated on a citywide base and nearly all expenditure decisions are made centrally. Just like in Los Angeles, each borough receives a share of the city’s budget on the basis of politics and allocation formulas. The one exception is that locally-elected borough presidents are each given less than one percent of New York City’s capital budget to spend as they see fit within their jurisdictions. The point to be made is that local political representation without control over locally generated revenue, and control over how to spend this revenue locally, is not what advocates of more city governments in Los Angeles or California are seeking.

I also predict, that under current California institutions there will continue to only be a trickle of new independent cities formed in the unincorporated areas of the state’s counties. These formations will satisfy the desire of affected residents for local control, but the plans of many others for their own city government will be left unfulfilled due to
the strict revenue-neutrality requirements enacted in 1992. Even California residents who eventually create cities out of unincorporated portions of the state will do so only after much time, effort, legal expense, and frustration. One only has to look at the case of Citrus Heights to see why. Plans to incorporate this independent city out of Sacramento County began in November 1984. The city was not finally formed until January 1997. The details of the agonizing political and legal battles fought over the course of 13 years are described at the city’s web site.14

Suggested Policy Changes

Before offering my suggested policy changes, I wish to remind the reader that I am an academic and hence feel it is my responsibility, and perhaps your expectation, that I think “outside the box” and I think big. But by teaching and researching from a public policy program, I also am aware of the need to make suggestions that at least have some political possibility of being adopted. Thus, I offer the following proposal that some may think too far-reaching; but in doing so, I also suggest a political pitch that could build the necessary coalition for support of my proposal.

My proposal has two parts. The first part recognizes the desires of current and future citizens of California to be able to create more independent cities and the private and social benefits that will arise through this creation. Thus, the state of California needs to (1) make it easier for city secession and city incorporation to occur. In terms of both of these occurrences, the major stumbling block is the requirement that the plans for either action need to exhibit total local revenue neutrality. Considering the fragile state of California’s system of state and local public finance after Proposition 13, this is not an unreasonable requirement and should be retained. What is unreasonable, and needs to be changed, is the immense difficulty of satisfying revenue neutrality when citizens within a geographic area that desire cityhood do not have the power to levy broad-based local taxes that would guarantee revenue neutrality after city formation. Thus, a reasonable way that I see in making it easier for city creation to occur in California, and to make citizens of the newly created cities
more satisfied with the local fiscal autonomy achieved after city creation, is partial restoration of the ability of local governments in California to tax property at a rate beyond the 1 percent currently stipulated by Proposition 13.\textsuperscript{15}

Such a restoration of local property taxation requires an amendment to the California Constitution that would allow, at the same time that a popular vote is taken on cityhood, that the residents of the same geographic area could vote on the ability to raise the rate of property taxation in the newly formed city. The property tax increase could be used to satisfy the required revenue neutrality of the split and, if desired, to provide any additional government services in the newly created city. Of course, this constitutional amendment would also allow similar property tax increases in existing cities and counties.

To gain political support for the revival of local property taxation in California, constitutional restrictions on the discretionary property tax increases that local government could enact could also be added. These could include the following: (1) a cap placed on the maximum rate of taxation on any property owner in California (perhaps 2 percent), (2) a requirement that the vote to raise local property taxes passes with only a supermajority, and/or (3) a requirement that local officials “roll-back” the citizen determined local property tax rate to a level that only maintains real (based upon the consumer price index) local property tax revenue during a period of high increases in local property values.\textsuperscript{16}

A consequence of allowing greater local discretion in property taxation is that it would force advocates of the formation a new city to realize that cityhood is not a “free lunch.” If citizens or business people want the advantages an independent city can bring, they need to appropriately pay for it. The protracted, LAFCO-supervised negotiations that currently occur with each new cityhood proposal could be greatly simplified knowing that revenue neutrality can always be achieved through an increase in property taxation in the proposed city. If the threat of higher local property taxes squelches some cityhood efforts in California, then so be it. If cityhood advocates are not willing to pay for the benefits they perceive to gain from the local control that an independent city offers, then the benefits
should not be granted to them. Furthermore, the limited ability to implement new local property taxes allows the option of cityhood to all geographic areas in the state, and not, as currently, to only those that have the sales tax base or other local revenue to support it.

As if the first part of my proposal is not controversial enough, the second will insure its controversy. The state of California also needs to (2) enact legislation that would insure that all of its metropolitan regions have a very limited form of regional governance that extends beyond county boundaries. Given the first part of my proposal, and after reading the arguments put forth in this paper, the necessity of requiring this second part should be obvious. If more cities are formed in California, there will be more local boundaries and greater spillovers. In addition, there will likely be more exclusionary communities and an increase in concern over the inequities that they raise. Finally, a greater number of cities will mean that many of them cannot achieve the desired economies of scale in the production of certain city services within their boundaries, and hence a greater number of cities will need to coproduce these services. Consequently, the only way to mitigate such problems—the majority of which exist in California even without more cities—is to have a geographically-appropriate level of regional government to deal with them.

I believe the state should establish the most limited political infrastructure possible to insure that such a regional governing board exists in all of California’s metropolitan areas. This would consist of defining the counties that make up each metropolitan region in the state, providing rules for the size and establishment of a democratically-elected governing board for each region, and allowing this board to levy local property taxes in the same manner (but on all property in the region) as described in the first part of this two-part proposal. Citizens in a region would vote upon the levying of a new regional property tax only after the governing board offered a plan as to what it would do with the revenue. Because the spillover, equity, and economy of scale issues to be dealt with in each region of California are different, the regional issues to be dealt with should be left to regional political processes alone. As suggested in reports such as Sprawl Hits the Wall and California Metropatterns, an additional benefit of the creation of this elected, re-
gional governing board is a mechanism to deal with existing region-based pollution, congestion, housing, employment, and open space concerns that are currently not getting enough attention even with the existing number of cities.

A Populist Policy Proposal?

Neither a separate proposal to weaken the 1 percent cap on property taxation in California created by Proposition 13, or a separate proposal to establish another layer of government within the state, would receive current majority support among California’s electorate, nor among its legislature, nor from its governor. You may ask, then why do you even bother packaging the two together? If they would fail separately, how can they pass when bundled together? Let me respond with a quote from the recent popular movie Spiderman. I would also recommend this quote as the political slogan for my two-part proposal:

“With Great Power, Comes Great Responsibility”

The idea is that more cities in California would clearly offer more power and benefits to residents of the state. A fair way to ease the creation of these cities would be to allow limited discretion in the further use of local property taxation in California. Though at the same time, the increase in new cities that would result from this would produce additional social costs for which their residents must take additional responsibility. This responsibility would come in the forms of: (1) appropriately paying for the formation of a new city through, if necessary, higher local property taxes, and (2) mitigating the greater spillovers and inequities that the creation of new cities would generate.

Perhaps a coalition of citizen and business supporters of the rights of Californians—to greater local representation, to greater local fiscal control, and to greater concern for regional problems that are now not being handled—could be formed in support of my two-part proposal. In my judgment, the passage of this two-part proposal, as radical as it may seem to many, would put California on a smarter path of growth in its metropolitan areas than currently it is on.
REFERENCES


**NOTES**

3. Population and race/ethnicity predictions for the year 2040 from California Department of Finance (1998); other data in Table 1 available from the U.S. Census Bureau at http://quickfacts.census.gov/qfd/states/0600.html.

5. According to the U.S. Census, in 2000 the median household income in U.S. metropolitan areas for white non-Hispanics was $49,984. For whites (who can be Hispanic) it was $47,353, for Hispanics it was lower at $34,345, and for African Americans it was the lowest at $31,807. This information available at http://www.census.gov/hhes/income/income00/inctab1.html

6. See Wassmer (2002b) for a further description of some of the costs of Tiebout sorting in a metropolitan areas and possible ways to mitigate these costs.

7. See Fisher (1996, Chapter 4).

8. Wassmer (2002c) has empirically shown that such reliance on local sales revenue has generated more retail activity in the suburban areas of western United States than justified by the economics of locating it there.


10. Many of the proponents of Valley secession have made this argument about Los Angeles and the 3.4 million people to which its city government provides services; nevertheless, it is hard to argue that a new Valley city of 1.4 million people would not also face the same diseconomies of scale problems.

11. Interesting to note that the USC report implies that current California incorporation laws make it too easy for new cities to form in the state; quite different than the argument presented here.


13. Information on New York City’s borough system received from December 3, 2002, e-mail exchanges with Professors Amy Ellen Schwartz and Dick Netzer at New York University, and George Sweeney, Deputy Director, New York City Independent Budget Office.

15. Another alternative, though in my mind less preferable, is the allowance of local income taxes.

16. See Fisher (1998, pp. 330-331) for a description of this property tax rate roll-back process. The purpose of this is to prevent local officials from collecting additional revenue due to increases in only property value, and not citizen desires to spend more on local government services. Many (Chapman, 1998a, p. 3) point to this occurrence in pre-Proposition 13 California as a primary reason that Californians supported the 1 percent cap on the rate of property taxation in state.