Responding to shifting sentiment: How revenue and spending restrictions distort the delivery of public services

Michael Semler
Sacramento State University
semler@csus.edu

Abstract

This paper examines the political and managerial basis of various special taxes and funds. As governments are increasingly under pressure to "do more with less," governments have come to rely more on special or earmarked revenues. California's annual budget classifies $40 billion or 28% of its total budget as "special funds." Yet not all these funds are structured and operate in identical fashion. Indeed, constitutional and court mandated restrictions on a substantial share of the state's General Fund produces similar political debate over the special funds. After describing different types of special taxes and funds in state and local governments, I develop a typology to compare management behavior and the political fights involved. In many cases government managers are motivated to protect their departments' revenues from external oversight and challenges. What are the political and programmatic consequences of this behavior? Agencies relying more on different types of special funds appear to be less subject to legislative oversight and control while being even more dominated by special interest groups. In other cases, legislative oversight is greater because of beneficiaries engaged in monitoring program spending. Interest groups representing program beneficiaries employ various strategies and tactics to limit changes, i.e. placing the decision in the state constitution or local government charter is ideal.

Presented to the
Annual Meeting of the Western Political Science Association
March 2013

"Why should we help the state?" was a statement delivered by the chief deputy of California's Transportation Department in response to my query about using the department's highway users fund to help balance the state's General Fund. His voice rose, stating that "the state" didn't come to "his" department's aid when the highway users fund did not contain enough money to finance "his" agency's priority spending needs. Many state and local officials argue their departments and activities are so unique that any attempt to alter or transfer funds collected or set-aside for a specific service should be exempt from legislative oversight or shifts in priorities. One attempt to solve California's budget crisis involved a pitched electoral battle to "save" mental health programs; the basis of which was to redirect temporarily a portion of the income tax collected on millionaires to help the state's General Fund shortfall. Interested groups, i.e. those with considerable stake in how these funds were allocated, mounted a strong statewide electoral campaign to maintain the status quo.

State and local governments throughout the United States have transferred a substantial portion of government program from being funded by the general taxpayer to narrower groups of tax or fee payers. This transfer challenges elected executives, legislators and city council members to provide oversight and control. When taxes and fees are generated by program "users," do officials reduce their "watchful eye?" In administering such programs are officials concerned with standards of equity or primarily concerned with efficiency? If equity is a consideration, is it raised by asking who pays or is it perceived as "solved" when both the fee and service are considered as a whole? On the other hand, managers of services relying on specific fees, according to common public administration ethos, should be more sensitive to paying customers; presumably, without the customer, no program. But what occurs when the program receives a continuing stream of funds from a revenue source independent of the program? For instance, do program managers operating a tobacco cessation program alter their activities and priorities because the money comes from a tax earmarked, i.e. allocated principally, just to them?

Theoretically, revenues can be viewed as fungible, i.e. transferable from one account to another. However, are funds really substitutable under law and by practice? Many special funds established through voter initiatives and placed either in statute or state and local constitutions limit transfers, legislative oversight or elimination. On the other hand, when special funds are introduced or expanded, general fund support declines.[1] In any event, groups involved in establishing or maintaining restricted funds carefully monitor them to assure they are not diverted to general fund purposes.[2]

This paper examines these questions by developing a model that examines these questions focused on three issues: Are special or earmarked revenues and associated programs held to different standards than general funded revenues and programs? Do managers control

[1] For example, Jung, 30-31. It is difficult to assess whether there is growth in spending when special funds are enacted or increased. The economics literature makes reference to a phenomenon where the substitution of one tax or fee by another is not one-on-one.
[2] When the California Legislature and Governor passed statutes to lend special fund balances to the state's General Fund, interested groups petitioned the courts to invalidate this action. The courts found the Legislature had the authority to borrow these funds. Tomra Pacific v. Chiang and California Medical Association v. Brown.

expenses and reward staff when funds come from restricted sources in contrast to general taxpayer funds? How do interested parties or beneficiaries influence management behavior?

How did we arrive here?

Since the mid-19th century disagreements over budget control have existed among national and state executives, agencies and legislators. Historically, federal agencies were almost under direct congressional control through the appropriation process. These congressmen acted at the behest of specific interests, effectively bypassing the president. Agency officials operated with little room for discretion as agents of the principal, Congress and the interests which lobbied them. The beginnings of the 20th century saw presidents acquire greater control over federal agencies by centralizing the appropriation process and a concurrent reduction of congressional power. Congressional power became fragmented just as the executive was obtaining greater authority. The same phenomenon was underway in many states and localities, stimulated in large part by political pressures from groups hostile to the rise of strong political parties and unionization. These groups argued for governments to operate in a less partisan manner and adopt business efficiency methods. In their view greater efficiency meant stronger executives, emphasis on procedural control by a central budgeting authority, and hierarchical decision making.

This change in political dynamics had numerous long lasting consequences; many still present. One continuing product is the goal of establishing a method to evaluate program or department efficiency. The search for efficiency, often undefined other than as doing what the political leadership wishes, nevertheless prompted efforts to create measurable and empirically based standards. These standards were developed initially by professionals within in or under the control of the public agencies themselves. However, soon these standards were challenged by experts not employed by government but rather by groups interested in program outcomes. Accompanied by legislators interested in specific activities, finances or programs, considerable pressure was applied to adopt specific efficiency standards. One tactic these groups employed was to highlight the "uniqueness" of specific programs or agencies. Thus rather than battling the chief executive by returning to the older power dynamics these groups and legislative allies sought to authorize spending for narrow activities. The program consequence was the same -- their favored activities obtained funding not through the direct appropriation process but by deliberate manipulation of the management process.

These groups and legislators adopted a strategy whereby programs or unique activities were given special spots in the appropriation or budget process, i.e. they were earmarked or pointed out for attention. This earmarking process, especially in federal and state governments became institutionalized through the application of informal rules of behavior. The process benefited legislators by establishing a camp of followers, enabling them to become involved or gain expertise in a specific project or policy, claiming credit and help in fund raising. But for legislators a one-time allocation does not guarantee that beneficiaries remember your work at subsequent elections and you could become "responsible" should problems arise. Establishing a longer term relationship, however, creates the potential for a tri-part permanent connection between legislator, program beneficiaries, and the public agency.

Making the earmarks permanent by spending money requires legislators to repeat annually the same appropriations process. From the program beneficiaries perspective this dance is expensive and risky. Favored legislators might lose re-election, lose membership on relevant committees, lose status in their body, or simply lose interest in the subject area. Legislators are similarly disinclined to repeat the process for the same beneficiaries. Any of these occurrences require the interest group or beneficiaries to start a costly, new round of lobbying agencies and elected leaders along with mobilizing their supporters. Similarly for legislators they have to acquire new knowledge, establish trusted relationships and promoting themselves with new constituents.

A more permanent process is to shift focus from appropriation measures to linking spending with specific revenue sources. Identifying and linking a unique revenue source, even if it takes the money from an existing tax, eliminates pressures for an annual renewal process. It also reduces the interest group's risk that a changing legislative body or alterations in priority will reduce spending on a favored program. For both legislators and beneficiaries a permanent allocation also minimizes the likelihood of a chief executive or his agent from vetoing or altering a specific appropriation. While legislators claim credit for delivering one-time spending programs, a permanent fix is often harder to claim and electoral benefits may be more diffuse. Of course, if the linkage is too successful whereby the original "deal" is too favorable to a constituency, the legislator might be treated negatively by colleagues and media.

This permanent allocation process takes place through a second tactic; a reliance on special funds. Reinforced by measures like California's Proposition 13, instructions in schools of public administration and public policy, administrators' desire to "make good policy" and a popularly held belief that market based decision calculations produce good outcomes, government leaders began to shift program funding from the general taxpayer to "users." Reliance on user taxes or fees is appealing politically and managerially: programs are perceived as more responsive to customer demand, favored programs can obtain funds without distorting other spending priorities, and these programs can "operate like a business."[3] For instance, a series of presumably linked endeavors (convention center, tourism attraction and retention activities, and neighborhood clean-ups) can be financed through a single revenue source (a transit occupancy tax) appealing to interest groups benefiting from the programs along with government agencies receiving the funds. The beneficiary groups carefully monitor or lobby to preserve the special revenue source while assuring a sufficient source of revenue and "advising" the government agency recipients. In these situations political leaders do not monitor specific programs rather government becomes a conduit or pass-through agent, i.e. using its taxing authority to finance community desired services. Absent a scandal, once such a tax or fee is created and allocated to a specific function, why would legislators or administrators review it in great detail, especially annually?

[3] Increasingly government programs are being operated either by special districts or as distinct enterprises. These institutions clearly are designed to perform as a business where their revenues may or may not produce a fund surplus (known in the private sector as a profit). The analysis here, focusing on special funds, recognizes that many of these activities are similar. Among many government agencies there is a divergence whether or not to count these activities in combined annual statements, i.e. some are included in the category of "public service enterprise funds" others are simply separate agencies. I argue that managers of these programs are more likely to act as private rather than public sector managers.

Thus, state and local governments have developed two means to finance programs each designed to be self-correcting, continuing, and detached from annual review. Both methods gain support from interest group beneficiaries and department managers. Interest groups benefit because they, not the chief executive or legislators, can monitor the program or department's activities. For example, real estate regulators dependent on fees collected from licensees work closely with industry organizations to establish licensing and behavior standards. Absent cooperation from the regulated managers of the department cannot modify fees and obtain sufficient operating funds. Problems arise, however, when funds from one source are linked to external or macro-economic conditions. When building activities decline, for instance, departments relying entirely on building permit fees must alter their operations or seek general taxpayer funds. In such situations, we expect managers to alter their behavior, but this comes at a cost of greater legislative and executive involvement.

Interest groups and managers of departments or programs, therefore, maximize their political control by maintaining special funds, treating them as sacrosanct, and, when opportunities arise, to obtain more funds or alter the fee or tax rate. Accordingly, the more a department can rely on earmarked or special funds, the less management has to worry about legislative and chief executive interference, i.e. interest group influence is maximized.

Given these arguments I hypothesize that public managers treat special fund programs differently than programs financed by the general taxpayer. Indeed, they consider a principal task is keeping linked funds and associated programs separate from general funded programs or policie. They do so by cultivating program beneficiaries. I hypothesize further that elected officials spend very little time and effort reviewing appropriation requests funded by earmarked or special funds. The result of these two activities is an alliance between legislative and executive overseers, beneficiaries and agency officialdom to maintain existing programs and fend off any "raid" designed to capture or reallocate program funds.

What to expect

Special funds are characterized as revenues (taxes, fees or permits) deposited into accounts restricted or designated for specific purposes.[4] In this paper the term excludes funds segregated to provide fiduciary functions (pension and retirement funds), proprietary businesses, bond or capital projects, or cash flow demands. The entire array of special funds can be divided on the basis of their creation or by purpose. Special funds are created either through the legislative or initiative process. They can be placed in state constitutions and local charters or in statutes.[5] Funds created in this manner were likely to have strong public support and enjoy

---

[4] Appendix A describes the difficulty in defining or characterizing the term and its varied usage in government institutions.

[5] Shares of general taxpayer receipts created as a subdivision of pre-existing tax collections are not considered special funds, although many interests consider them as "their own," e.g. set asides for school or recreation programs. Decisions about spending these funds are considered in the budget process as other general fund programs. Clearly, many interest groups seek to have jurisdictions adopt these set-asides or earmarks and wish decisions about programs funded in this manner as distinct. "Earmarking" in the federal appropriation process is also distinctly separate from the "special fund" description in this study. This federal process, which is duplicated in many states, involves having the legislature direct spending for a specific activity. This concept of earmarking does not link a specific revenue source with a one-time spending authorization or appropriation.

backing of special beneficiary interests. Enshrined in constitutions make changes difficult and nurture a continuing "industry" of supporters.[6] Article 19 of California's Constitution, for example, creates programs and allocations for motor vehicle based revenues. California's Constitution limits legislative discretion in using these funds for other purposes, even loans.[7]

Legislatively created statutes are more commonly enacted and subsequently amended. They too, however, depend on a highly organized constituency advocating passage. Legislative battles over the creation of these funds usually are less visible, but directly linked, to conflict over a specific program or agency direction. Interest groups advocating for a program, especially in cases where political leaders are reluctant or constitutionally restricted from raising general revenues to pay for such programs, have increasingly turned to "innovative" revenue sources. A major tactic involves developing a rationale for enactment of the new revenue. A new program without an innovative or specially crafted fee or tax has to battle existing government priorities. Dealing with discarded automobile tires, for example, could be managed by a state and local agencies, but none wanted to undertake the job without enactment of a special fee. And because program advocates and skeptics were concerned with alternative disposal methods, the fee amount and method of collection were subject to continued debate.[8]

As this one example shows, debates over fees not only involves questions of sufficient revenues to operate a government program but the entire array of economic, social and political issues regarding the use of taxes and fees to alter behavior.[9] The creation of a fee, therefore, confronts public concerns about the role of government. Whether to start a program and its scope is often framed by the tax or fee debate, e.g. how best to deal with excessive tobacco usage, assuming a public desire to have government intervene, raised questions whether tobacco users, tobacco producers and sellers, or the general taxpayer should pay for the desired activities. Disagreement about a program's direction and scope are altered by the revenue generating choice – a program funded by the general taxpayer might generate less opposition from parties not wanting to share the cost, become involved in program oversight, or desirous of hiding the true economic cost of their activities. Also arguing against a special tax or fee also raises issues whether the use of general taxpayer funds are appropriative given existing or competitive proposals. On the other hand, program advocates often search for a fee that might be restricted to a particular clientele involved with their goals. They are then confronted not only by the politics of levying a tax or fee linked to a program, but whether the fee size, incidence, volatility, elasticity, and collection or administration are manageable. These concerns are linked to spending priorities (who gets the money and for what restricted purposes), provided the fee is established to fund a program. These issues are more likely to be raised in the context of special taxes or fees rather than general taxpayer funded activities.[10]

---

[6] Matsuska, 254, argues that the initiative has not, counter conventional wisdom, limited California's budget process or its leaders from cutting spending.
[7] See for example the political debate surrounding Proposition 1A (November 2006). While not an initiative, it was the result of negotiations among the governor, legislators and advocates for highway construction and maintenance.
[8] Vogel, Dempster, The fee was established after a similar fire in the 1980s.
[9] This paper does not address questions about the appropriateness of a specific tax or fee to alter behavior, how well a fee accomplishes a specific policy goal, or whether a fee is equitable.
[10] Municipal swimming pools, for example, could be financed by various methods. Choosing one or several different financing plans raise policy and management options. If the goal is to serve everyone, why not have the operations paid by the general taxpayer rather than user. Should all users be treated identically? I hypothesize

When political leaders and the general public consider the use of special funds, fee or taxes, the apparent common debate is over how the funds are to be used or their purpose. Debate over this question tends to be confusing because they mix both purpose and the means of taxation. Nevertheless, for analytical purposes I categorize the funds into four general groups. Each of the four type of special funds deal with a tax or fee linked to how the money will be spent.

First, a fund can be created to receive fees or taxes collected in exchange for a direct service, e.g. obtaining a building permit, entering a museum, paying a bridge toll, or to build and maintain roads. Second, fees may be levied to finance a government program where the service is less obvious or readily apparent to the fee payer, e.g. a permit to monitor underground wells, dispose of unwanted automobile tires.[11] Often a program is created where the government agency simply "passes through" the funds to private sector participants. In one example the amount of money distributed to private firms for recycling soft drink beverages is established by law and agency acts as a conduit. Another purpose would be to finance a program that is not directly linked to the tax or fee. In this case a special fund is created to hold revenues designed to be "passed through" to another agency, e.g. funds to operate a county jail in lieu of maintaining a state prison program. Another illustration demonstrates the political, management and equity battles involved. California once again is considering building a major conveyance to transport water around the Delta. Should general taxpayers or "users" pay for this facility? How best to apportion the cost among users and general taxpayers is a political and management choice. One option has local water agencies "contributing" to the program as they wish. Funds from this "contribution" are passed through to the state and placed into a "public enterprise fund" which the state does not consider a "special fund."[12] A fourth purpose could exist when a fee is collected to pay for indirect or "overhead" expenses. This can occur within a single jurisdiction (inter-agency transfers) or even between agencies. In the later case, for example, county sheriffs were given the authority to establish "booking fees" to pay for county jails.[13] When indirect costs take a substantial share of these fees, payers litigate and advocate for program changes or reduced fees. Building developers have a long history of objecting to exorbitant fees levied by local jurisdictions.

In each of these cases a program or service may be operated either by government directly, a contractor, or an existing private or nonprofit business. How an associated fee is collected and special fund established is not independent of how the program is designed and

---

moving the program into a special fund category treats the program differently. If some portion of a program provides a public good, for example clean air or enjoyment of wildlife, deciding whether the general taxpayer or other constituencies pay a specific tax or fee is not a question of equity or economic efficiency.

[11] The distinction based on public awareness is hard to demonstrate. Public opinion polling is not a good means since, among other methodological issues, asking questions linking specific taxes and programs bias the results. Using economic price signals as an alternative, i.e. evaluating what happens when people are taxed for such services, conflates incidence consequences and public opinion.

[12] When the Department of Water Resources bills local state agencies for water deliveries the money is placed into an enterprise fund. Because this classification involves a political not simply an "accounting" choice governed by GASB directives,and managers in those departments perceive their activity as "apolitical," i.e. "we just manage the fund and don't want to be involved in political debates," I view this activity as analogous to decisions about other special funds.

[13] A "booking fee' could be considered either as a direct service to both those jailed (or in some instances they pay a fee) or indirectly for those, like the local police, who use the service in lieu of providing the services themselves.

managed. The appropriate mix of fee type, purpose and program management is a political choice.

Two related political problems arise when state and local governments "borrow" from special funds because (a) they have volatile general purpose revenues during "difficult" economic times or (b) wish to obtain funds without raising taxes or incurring greater public oversight; a tactic local governments used when borrowing from redevelopment agencies. While some of these funds are not considered "special funds" using conventional criteria, state and local governments have "borrowed" money temporarily and promised to repay with interest. Intense battles have occurred when governments borrowed money, directly or indirectly (temporarily delay payments), from various retirement systems or bond accounts. Clearly, decisions do so are political and managerial, not economic. Managers, program advocates or beneficiaries are protective of existing allocations and reluctant to "share" or "loan," even with interest, money in these funds.[14]

What is observed?

California state government's special funds, according to the Governor's 2013-14 Budget, will account for $41 billion of the state's total $146 billion budget (28% of the total budget).[15] While public attention and political fights focus on the state's General Fund (projected to be nearly $100 million in 2013-14), more than 80% of that amount is earmarked or restricted by constitutional or court mandates. In some respects, therefore, the state's general fund exhibits similar political issues as special funds.

In 1998-99, California classified 353 separate funds as "special funds," containing $14. 7 billion of a $70.6 billion total (20.2% of the total). The total amount masks, as expected, the scope and use of these funds. For instance, 23 of these funds account for 88% of the total, 62% of the amount is restricted for motor vehicle or transportation programs, 9% finance health programs or agencies, and 4% for higher education. By the approaching 2013-2014 fiscal year, the number of special funds has increased to 500 separate funds.[16] Interestingly, 54 separate funds listed in 1998-99 accounts no longer appear in the current listing. The $26 billion growth in special funds can be attributed largely to the introduction of 10 new funds totaling nearly $10 billion. These new special fund accounts were due to programs designed by initiative (mental health programs, law enforcement), shift in program responsibilities (trial courts, prisons, MediCal expansion), repaying the borrowings associated with the state's multiple year budget bailouts, or to benefit from new federal programs (CalWorks). The balance of program growth appears related to increase in program fees, program scope, or introduction of programs simply not as costly.[17] Even with this growth, 15 different special funds each contain less than $20,000

---

[14] Appendix A discusses the measurement issue.

[15] The total budget amount totals special funds, fiduciary and proprietary funds.

[16] This is my count. The Legislative Analyst indicated "over 500," newspaper reports indicate 534, and the State Controller's office lists several thousand funds as "special funds." The California State Auditor assumes the Controller's categories.

[17] Reviewing all existing programs and classifying them and assessing reasons for their growth is a substantial undertaking

while 10 funds contain over $1 billion apiece for an aggregate of $22.9 billion' put another way, 2% of the funds contain 57.5% of the total amount of special funds.

Analyzing these special funds according to their use enables us to better understand the political and managerial behavior of elected leaders and appointed officials. I am arguing that California's special funds (and by extension local government special funds) can be placed into four categories: funds used to operate a single department or program, funds used to finance programs in multiple departments, funds allocated from a single department for multiple programs, and funds transferred to local governments (clearly reserved for state activities).

I've created a table based on this "usage" difference to illustrate and help explain my arguments. This classification scheme tries to make sense of several factors – how the funds are distributed, managed, the political or policy fights involved. The classification scheme is preliminary and placement of illustrative funds in specific divisions is debatable. This fund classification does not differentiate on the basis whether the funds were established by statute or initiative nor does it make a distinction on the basis of how strict is the "earmark" or link. Political combatants might have different goals and use various tactics.[18] For instance, funds established through the initiative process and placed into the state constitution or local charters are highly visible, have well defined and organized constituencies, and are protected generally from change other than through voter action.[19]

I am making the argument that program and department beneficiaries are represented by various interest groups. The groups may be organized to support a single or multiple goals and they utilize numerous tactics. The "beneficiaries" are not always in agreement about program goals or methods. Similarly, the beneficiaries are not always desirous of maintaining a specific program or use of the special funds. They also may wish to eliminate the special funding process altogether. Yet I argue program and department managers are motivated to maintain their departments and programs, i.e. keeping the department and program intact is a primary goal.

In addition, the ability and willingness of legislators directly or through staff to monitor or oversee agency spending is a critical variable in analyzing how these funds are managed. When legislators have little ability and short on staff, we would expect minimal oversight. Even in situations where institutional capacity exist, oversight depends on legislators desirous of acting.[20]

---

[18] The extent of earmarking or use of the initiative process illustrates the complexity of this discussion.
[19] Serkin describes this as a form of government entrenchment. The study of political consequences is extensive but I have not found substantial systematic analysis of the managerial consequences.
[20] Moncrief, et. al. 323-324

Table 1
Distribution of California's Special Funds
By Purpose

Funds Used to Operate a Single Department or Program	Funds Transferred to Multiple Departments	Funds Allocated from Single Department for Multiple Programs	Funds Transferred to Local Governments
Minimal initial competition in one department	Continuing competitiveness between departments	Not competitive between departments	Not competitive between departments
Minimal competition between beneficiaries	Minimal competition between beneficiaries	High initial competitiveness between beneficiaries	High initial competitiveness between beneficiaries
Minimal Legislative Oversight	Extensive initial but lager minimal Legislative Oversight	Extensive Legislative Oversight	Extensive initial Legislative Oversight, later remains extensive
Distributive Politics	Redistributive Politics	Distributive Politics	Redistributive Politics
Illustrated by funds used by boards regulating a specific industry or park entrance fee	Illustrated by Energy Resources accounts, motor vehicle license fee	Illustrated by Container Beverage Account, Highway Trust Fund	Illustrated by funds for Children and Families, Prison Re-alignment, Hospital Quality Assurance

The first category, funds used to operate a single department or function, might be considered as the "original" special funds, i.e. operate a program or programs within one department. These types of funds are widely used in local governments to finance building inspection or recreation programs. But they also may include program like entrance fees for the Department of Parks and Recreation or Fish and Game licenses.[21] I would hypothesize that creating these funds can produce conflict among potential beneficiaries but after they are established conflict is reduced. Similarly, legislative oversight of these programs post creation is minimal, absent a public scandal, as California's Parks and Recreation Department discovered last year.[22]

The second category, where special funds are transferred to multiple departments, has become a common practice. These situations exist either because (a) when a beneficiary group seeks to create a special fund, other potential claimants arise seeking a portion of the new fund, and (b) after a fund is established and "sufficient" funds are raised, other departments seek a share or budget control officers attempt to shift an agency from being solely a general funded activity. In both cases, however, once the decision is made to share a fund between various departments, conflict between interest group beneficiaries is reduced. Unlike decisions establishing the first set of funds, creating these types of funds produce considerable legislative review and this review can remain.

[21] Even though both departments (and many others) receives fund from other special funds, their primary revenue sources are from a specific fund.
[22] A similar problem arose when a department used a newly created fee passed for fire protection but used for purposes not enumerated in legislation. See Yamamura

Another category focuses on programs rather than departments. Here we find the creation of the funds as highly contentious as what occurred when funds were divided into several departments (the second category). But once the allocation is made, department officials appear satisfied, but legislative oversight remains intense, due to political groups desirous of modifying and monitoring program spending decisions, i.e. who gets what and when. Because of the political fights and a need to defend allocations, program managers tend to be protective of their decisions and the funds. In these cases, the program managers operate like those in the first category; they make sure the programs are well funded and legislative changes to the program allocation are similarly resisted. I would expect executive budget officers also are leery of promoting changes in these programs absent elected leaders expressed desire, e.g. a statement to eliminate or alter the program and having the political leader willing to use "political capital" to promote the change.

An example of the contending forces is the continuing battle over California's bottle bill which was first enacted in 1986. The program was first designed to encourage the recycling of various bottles. It does so by levying a fee which can be redeemed. The program is managed by one department (the Department of Conservation) and collects fees from individuals and distributes funds to various private entities and programs.

The initial program was a settlement of a series of political battles involving the appropriateness of the entire program, the size of the fee or bottle deposit, and how the collected funds would be managed and allocated. The political battles, however, did not end with passage of the original statute. Every aspect of the program, including how levies would be established and managed, was reviewed and politically battled almost annually. The battle took a different turn staring in 2002 when the governor's office proposed and the legislature accepted the idea that funds in the account could be lent to the state's General Fund.[23] The idea of inter-fund borrowing was established previously in state law in order to accomplish various goals including cash flow management and a temporary fix in program management. This borrowing, however, was done at the same time groups sought to expand the program to include larger bottles, different types of containers and higher fees. The existing program was also not meeting its own recycling targets causing political conflicts over the previously decided fund distributions. In 2009, the Conservation Department, responsible for program management, proposed reducing amounts distributed to program beneficiaries thereby freeing up funds for the borrowing plans.[24] However, interest groups desirous of program expansion were able to obtain legislative approval of a higher fee and tried to prevent the funds from being lent to the General Fund. The governor vetoed the expansion and continued the borrowing.[25]

In 2010, after the program fund was depleted effectively eliminating program and usefulness of the borrowing, the legislature adopted a plan which Governor Schwarzenegger accepted that replenished the fund and restricted future borrowing. This example illustrates how

[23] Of the $500 million borrowed, $67 million was lent to the Air Pollution Control fund for its programs.
[24] I am not certain how accepting were department managers accepting of this mandate.
[25] See Californians Against Waste v. Department of Conservation, 104 Cal App 4th 317 (2002) and various Legislative Analyst reports on the Beverage Container Recycling Fund, "California Legislature Adopts Bigger Better Bottle Bill," Californians Against Waste press release unknown date in Sept 2009

the creation, application and expansion of a single purpose fee became the subject of extensive legislative oversight and management battles.[26]

Another set of special funds, exhibiting the largest growth in state specific funds, are those transferred to local governments or nonprofits (hospitals). This category is illustrated by programs often established by court order, inducement offered by the federal government, or voter action through the initiative process. These special funds often are the product of a major political fight or policy decision involving the realignment of public services, the introduction of major new policy directions, or an expansion of programs already undertaken by several state agencies. Consequently, the program is the result of a settlement among highly contentious interests. Depending on the settlement terms, i.e. how satisfied are the contending groups, once the program is established, any state agency and managers involved operate in a relatively passive or "pass through" mode. Legislators, however, may become involved, but they do so only when the initial contending parties complain. They do not initiate the oversight activities. Thus, I describe their oversight as perfunctory or minimal.

What can lessons can be learned?

This categorization leads to the question how protective of these special funds are managers and associated interest groups. The political science literature often classifies public policy making and implementation as exhibiting distributive or redistributive politics. I believe that an examination of California's special funds suggests that funds linked to specific programs either in one department or in multiple ones is viewed by political leaders, interest groups and public managers along the lines of "distributive" politics. These funds are being spent for beneficiaries organized to obtain the funds for these groups' goals. Program managers in these programs are highly protective of their funds, i.e. they seek to keep other claimants (legislators, interest groups and budget control officials) away from oversight and redirection.

In contrast, I suggest that funds transferred to either multiple departments or local governments exhibit the characteristics of redistributive based politics. In these cases there are winners and losers. The winners are not always interest groups but can be public agencies or departments. This argument presumes that departments stay in business longer than do their programs. It is in department interests to maintain funding; they will try to "capture" programs to the extent that along with those programs come linked funding. Not engaged in annual battles for funding from the general taxpayer is, therefore, advantageous. Once established, managers in these departments do not need to be so protective as colleagues in the "distributive" agencies.

This examination suggests that the policy decision to adopt a user tax or fee is just the preliminary skirmish in a long running debate about government management and policy implementation. Clearly the common budgetary classification (based on generally accepted accounting principles) perhaps unintentionally masks considerable variation in their use or application. Policy makers may be reluctant to review these funds given the priority outlook department or program officials hold alongside the interests of beneficiaries.

---

[26] This fund, absent the allocation to many programs and distributed to local recyclers, could have been included in the first category.

Appendix A
Defining and Measuring the Application of Special Funds

Assessing and comparing the use of "special funds" across jurisdictions and over time presents a series of difficulties. While a formal characterization of special funds is located in the "Generally Accepted Government Accounting Principles" (GAAP) for government fund accounts, there is a wide divergence in application. Generally, the concept is a generic term referencing the proceeds of specific revenues sources (taxes, permits, fees, and licenses) restricted or committed to expenditures for specific purposes. This is often also described as "earmarked revenues." Most jurisdictions exclude from this term debt service funds, fiduciary, proprietary, working capital and public service or enterprise accounts.

Because classifying a specific revenue source as restricted is a policy choice as much as an accounting question, it is difficult to make comparisons among jurisdictions. Adding or eliminating a specific revenue source in a "special fund" category appears to occur quite regularly. One jurisdiction may treat a fee as available for general government purposes while another does not. In California this choice is further constrained by Constitutional and court requirements. For local governments, for example, Proposition 13 did not define "special taxes" but required them to be enacted by a two-thirds vote of the electorate. Following its passage the Legislature passed a statute and the Supreme Court ruled, somewhat counter intuitively, this provision applied just to taxes going to general government purposes. This encouraged local governments to shift financing of specific programs to earmarked or linked fees and taxes. Accordingly, until passage of Proposition 218 in 1996, local governments could raise taxes, fees and permits for specific programs without 2/3 of the voters approving.

Empirical comparisons are also difficult because local governments and states classify revenues differently. The California Controller's office uses the term "functional" revenues in its annual statement of local government finance to include both taxes and fees generated in delivering "direct services" and other obligations. There is a separate classification for permit fees which are treated as "special funds" by state government.

Similarly, the decision to classify an entire agency or department as removed from general government purposes means that revenues collected and programs delivered are not considered "special funded." One jurisdiction may operate and fund a golf course, public utility, or hospital separately from its general government while still including the enterprise in its annual audit and reports to the state and federal governments. In other communities these operations may operate entirely as separate business enterprises which, in turn, transfer a portion of their revenues to a controlling government. Some jurisdictions collect a net fee from the provision of these services by an outside contractor. The recipient might place the ensuing receipts in either "special" or general revenue accounts. And the choice might vary even in one jurisdiction depending on economic and political circumstances. Comparing two jurisdictions "special fund" accounts, therefore, is difficult as is assessing one community over time.

BIBLIOGRAPHY

Anton, Thomas, "Roles and Symbols in the Determination of State Expenditures," Midwest Journal of Political Science, 11:1, 27-43, February 1967

Bertelli, Anthony and Christian Grose, "Secretaries of Pork? A New Distributive Public Policy," Journal of Politics, 71:3, 926-945, 2009

California Department of Finance, Finance Glossary of Accounting and Budgeting Terms

California Legislative Analyst, "Issues Concerning the Accounting of California's Special Funds," report presented to the Assembly and Senate Budget committees, August 9, 2012 and August 15,2011, respectively

Dempster, Doug, "Tire fire inflates fears of other such blazes," Sacramento Bee, October 15, 1985, B-1

Ferejohn, John, Pork Barrel Politics, Rivers and Harbors Legislation, 1947 – 1968, Stanford University Press, 1974

Franklin, Aimee L. and James Douglas, "Revolving Funds as Budgeting Tools: An Examination of Oklahoma State Agencies," State and Local Government Review, 35:2, 90–101, Spring 2003

Hale, George and Scott Douglass, "The Politics of Budget Execution, Financial Manipulation in State and Local Government," Administration and Society, 1977, 9: 367-378

Joyce, Philip G, "Does More (or Even Better) Information Lead to Better Budgeting? A New Perspective" Journal of Policy Analysis and Management, 27:4, 945- 975, 2008

Jung, Changhoon, "The Effect of Local Earmarking on Capital Spending in Georgia Counties," State and Local Government Review, 34:1, 29-37, Winter 2002

Kasdin, Stuart, "Recipes for Pork and Other Delicious Offerings for the New Administration," Public Administration Review, May/June 2010, 401

Lowry, Robert and Matthew Potoski, "Organized Interests and the Politics of Federal Discretionary Grants," Journal of Politics, 66:2, 513-533, 2004

Matsusaka, John, "Direct Democracy and Fiscal Gridlock: Have Voter Initiatives Paralyzed the California Budget?" State Politics and Policy Quarterly, 5:3, 248-264, Fall 2005

Mayhew, David, Congress The Electoral Connection, Yale University Press, 1974

Moncrief, Gary , Joel Thompson, William Cassie, "Revisiting the State of U.S. State Legislative Research," Legislative Studies Quarterly, 21:3, 301-335, August 1996

Posner, Paul, "The Continuity of Change: Public Budgeting and Finance Reforms over 70 Years," Public Administration Review, 67:6, 1018-1029, Nov. Dec. 2007

Ripley, Randall and Grace Franklin, Congress, The Bureaucracy, and Public Policy Fifth Edition, Brooks/Cole Publishing, 1991

Rose, Shanna, "Do Fiscal Rules Dampen the Political Business Cycle?" Public Choice, 128: 407-431, 2006

Rose, Shanna, "The Political Manipulation of U.S. State Rainy Day Funds Under Rules Versus Discretion," State Politics & Policy Quarterly, 8:2, 150-176, Summer 2008

Rubin, Irene S., Class, Tax and Power, Municipal Budgeting in the United States, Chatham House, 1998

Savage, James, "The Administrative Costs of Congressional Earmarking: The Case of the Office of Naval Research," Public Administration Review, 69:3, 2009, pp. 448-457

Serkin, Christopher, "Public Entrenchment through Private Law: Binding Governments" The University of Chicago Law Review, 78:3, 879-964, Summer 2011

Sheffrin, Steven M., "State Budget Deficit Dynamics and the California Debacle," Journal of Economic Perspectives, 18:2, 205-226, Spring 2004

Stein, Robert and Kenneth Bickers, Perpetuating the Pork Barrel, Policy Subsystems and American Democracy, Cambridge University Press, 1995

Vogel, Nancy, "State lags in handling of scrap tires – as Tracy fire spews smoke, some dall for stronger effort," Sacramento Bee, August 12, 1998

Weintraub, Dan, "Doubled bottle deposits might help balance budget," Sacramento Bee, April 24, 2003, A1

Woods, Neal and Michael Baraowski, "Legislative Professionalism and Influence on State Agencies: The Effects of Resources and Careerism," Legislative Studies Quarterly, 31:4, 585-609, Noveber 2006

Yamamura, Kevin, "Use of California fire fees to collect cash questioned," Sacramento Bee, February 5, 2013

Court Cases Cited:

California Medical Association v. Brown, as governor, 193 Cal App 4th 1449 (2011)
Tomra Pacific, Inc. v. Chiang, 199 Cal App 4th 463 (2011)