Why Reform Keeps Failing: What's Actually Pushing Cities Over The Fiscal Cliff

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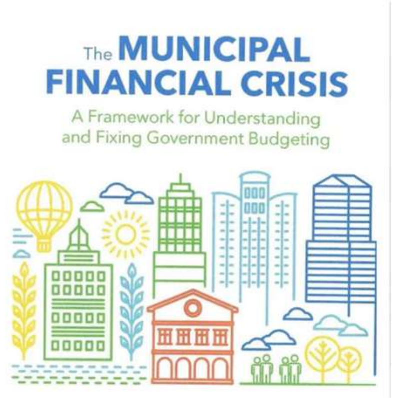
August 15, 2026
SHIFT



Putting November in Perspective

- There is a transit tax on your November ballot.
- Winning it would not fix your city or district. Losing it would not save it.
- The decisions that determine your city's finances are made upstream — at creation, not at the budget.
- Today: why reform keeps failing, and where your effort actually changes the outcome.

Something Isn't Adding Up

For decades, better government proponents have advocated for:

- spending restraint
- accountability
- transparency
- efficiency

Yet:

- municipalities remain in chronic budget scarcity
- these financial remedies fall short
- local government scope continues to expand

Why aren't we more effective?

🕵️ Seeing the Problem More Clearly

Why are municipalities stuck in budget scarcity?

Conventional view:

- Wrong people (lazy, inept, corrupt)
- Perverse incentives
- Outdated practices

My view:

- Conventional view identifies some real factors
  —but does not capture the fundamental cause

Broad Missions, Creeping Scope

<u>Local government missions are</u>:

Vague / Broad / Unbounded

<u>Examples of city municipal missions</u>:

- “Our mission is to maximize services…” – Ranson, WV
- “Promotes and supports a high quality of life…” Dublin, CA
- “Our mission is to provide quality service to our diverse community; promote an accessible, safe, healthy, environmentally sound, and culturally rich city; initiate innovative solutions; embrace respectful democratic participation; respond quickly and effectively to neighborhood and commercial concerns, and do so in a fiscally sound manner.” Berkeley, CA

A Purpose Is Not Necessarily a Boundary

One staff. One board. Eleven legal entities.

- • MTC (1970) — created as the region's transportation planning agency
- • Same commissioners now also govern BATA (all bridge tolls), BAIFA (express lanes), BAHFA (regional housing bank — $20B bond ask, 2024), BayREN / POWER (energy efficiency; power procurement for 50+ cities, counties, schools and districts)
- • + Public Transit Revenue Measure District (2025) — the eleventh, on your November ballot
- • BART (1957) — a rail operator. Under AB 2923 (2018) it sets zoning — height, density, floor-area ratio, parking — on ~250 acres it owns
- • Where a city's zoning doesn't conform, BART's standards become the city's zoning
- • BART's own adopted goal: 20,000 homes and 4.5M sq ft of commercial space by 2040
- **"Its newest 'hat' in a widely expanding portfolio." — MTC, describing BAHFA, in its own executive recruitment brochure**

Source: BART Transit-Oriented Development Policy; AB 2923 (2018); MTC executive recruitment brochure.

How Mission Drives Cost

Mission → Goals → Activities → Costs

A delimited mission is the only way to stop the proliferation of goals, activities, and costs.

What Shapes a City's Choices?

…the goals it pursues?

…the activities it takes on?

…the priorities it funds?

These choices flow from the organization's mission.

But missions shouldn't be created in a vacuum.

To decide a city's mission, we need to understand what a city is.

What Is a City?

A city is the legislative authority with enforcement powers in a defined geographic area.

Because government possesses powers that individuals do not, the use of those powers requires justification.

The justification establishes a city's proper role—and its limits.

What Activities Require Special Powers?

- Defining rights
- Protecting rights
- Adjudicating legal disputes

THEREFORE:

- Commercial activity is properly private
- Charitable activity is properly voluntary

When Government Goes Beyond Those Functions

- When cities provide commercial services
- When cities engage in social / charitable activities

Consequences:

- Private investment is crowded out
- Private innovation is suppressed
- Scope of government expands
- Fiscal pressure increases

Conventional Remedies

We advocate for:

- Better budgeting (e.g., zero–based, priority-based)
- Better accounting
- Operational efficiencies
- Privatization
- Transparency
- Changing incentives
- Community outreach

Why do these conventional remedies fail?

- Fixing the *how* without examining the *what* is not enough
- These remedies address means—not ends
- They do not address the right level

These remedies do not reach the source of the problem:

They assume government's mission and activities are appropriate.

We have decided what government should accomplish without asking what government is.

A Better Place to Start

An open-ended mission cannot be managed administratively/budgetarily

Thus,

a city's mission must be defined and delimited—or it cannot be managed.

Ask:

What <u>should</u> a city do?

What can <u>only</u> a city do?

Inside Insight: The Perspective of Municipalities

- Tax revenue is treated as a given
- Any activity that benefits anyone is a valid government function
- The municipality is an end in itself

The Perspective We Need...

- Tax revenues come at the expense of residents and businesses
- Cities should protect the market, not monopolize local services
- Government is a means to the ends of the residents and businesses

We’re Rearranging Deck Chairs

We say we want change… but we keep recycling the same false fixes:

- Replace the leadership
- Revise the org chart
- Tighten oversight
- Adjust incentives
- Increase transparency
- Reduce spending (not scope)

What we’re actually conceding:

- The mission, goals, and activities are appropriate
- Government’s scope is not a serious problem

We’re not fixing the problem—we’re empowering its source.

The Framework Behind Municipal Growth: Goals / Assumptions / Methods

Every municipal budget decision is made within a framework.
Every framework contains...
goals / assumptions / methods

We've accepted the wrong goals...
...built on the wrong assumptions...
...pursued through the wrong methods.
The dominant framework takes a municipality's goals and scope for granted.

What does it look like when we get the goals, assumptions, and methods right?

Why Goals, Assumptions, and Methods Matter

GOALS — Establish the standard by which success is judged. Determine whether meaningful limits can be set.

ASSUMPTIONS — Determine what we believe is possible. Shape how facts are interpreted and which options are considered.

METHODS — Determine whether government expands by default or justification. Shape how alternatives are evaluated and what activities government performs.

BOTTOM LINE: If the goals are unbounded, the scope cannot be contained.

Status Quo vs. Freedom Framework – Goals

Status Quo

Pursue collective outcomes

Preserve community character

Maximize services

Subordinate individual interests to community goals

Government as the end

Freedom Framework

Protect people, property, and trade

Preserve freedom of action/association

Enable residents to pursue values

Respect individual agency

Government as a means

Status Quo vs. Freedom Framework – Assumptions

Status Quo	Freedom Framework
Resources Scarcity / zero-sum world	**Resources** Wealth and resources are created
Problem Solving Residents can’t solve significant community problems on their own	**Problem Solving** Residents can think and solve problems through voluntary cooperation
Values Community values can be legitimately identified and advanced	**Values** Values originate with individuals

Status Quo vs. Freedom Framework – Methods

Status Quo	Freedom Framework
Action bias Government must "do something"	**Restraint** All options—including abstaining—on the table
Government power as a tool Treat coercion as incidental to policy goals	**Such powers require justification** Voluntary and coerced action are fundamentally different
Biased thinking Focus on intended, visible effects	**Full context thinking** Consider all effects, including unseen
Outcome-centered thinking Judge policies by desired results	**Justification-centered thinking** Ask whether the use of special powers is justified

Getting the Framework Right

Goals
Use a pro-freedom standard to delimit goals and make scope manageable.

Assumptions
Recognize the capacity of individuals to create value and solve problems.

Methods
Require justification for government action and consider all effects.

A pro-freedom framework is the only approach that is both morally right and practically effective.

Unbounded Mission, Guaranteed Existence

A government whose mission is unbounded can’t be made sustainable at any level of revenue,
because the mission generates obligations faster than any revenue base can grow —
and an entity whose existence is guaranteed independent of demand will never discover that on its own.

CLAUSE ONE — THE CITY. **CLAUSE TWO — THE DISTRICT.**

The city is a scope problem. The district is an existence problem.

The Cliff Isn't Just the City

Nobody can tell you how many governments you pay for.

Contra Costa County: 19 cities • 73 special districts — 43 independent, 30 dependent.

Source: Contra Costa LAFCO, Directory of Local Agencies, June 2025.

Alameda County: 14 cities • 29 special districts — 16 independent, 13 dependent.

Source: Alameda LAFCO, Directory of Local Agencies, 2022. Current sphere-of-influence page: 15 independent, 18 dependent — 33.

Neither count includes school districts, community college districts, or joint powers authorities.

1,895 independent special districts with data available on the State Controller's website — $21.5 billion in revenue, 90,461 employees, nearly $6 billion in payroll.

Little Hoover Commission, Report #239, "Special Districts: Improving Oversight & Transparency," August 2017, n.15, citing written communication from the Office of the State Controller, May 24, 2017.

2,071 independent special districts — the universe the Commission reviewed. Same report, n.2, citing the California Special Districts Association, July 2017.

3,158 special districts — 183,160 positions. State Controller, Government Compensation in California, 2024 reporting year. Includes dependent districts, joint powers authorities and nonprofit corporations; counts positions, not people.

More than 4,800 special districts file annual revenue and expenditure data. State Controller, ByTheNumbers.

"The State Controller combines information on independent special districts, joint powers authorities and nonprofit corporations making it difficult to assess trends in the aggregate." — Little Hoover Commission, 2017

Recommendation 10: "The State Controller's Office should disaggregate information provided by independent special districts from dependent districts, nonprofits and joint powers authorities."

Every one of these numbers is correct. They count different things. A resident who wants to know how many governments he pays still cannot get one answer.

Two Questions, Not One

A CITY	A DISTRICT OR AUTHORITY
Many activities, one set of powers	One activity, many privileges
Mixed portfolio — sort it	Nothing to sort
The question is SCOPE: which of these require the power to compel?	The question is EXISTENCE: should this entity exist at all?

Never answer an existence question with a scope answer.

What It’s Like Inside

In a market, a demand collapse threatens existence. In a district, it becomes a revenue request.

BART: Ridership FY19: 118M → FY25: 52.7M

BART’s operating ratio — fares, parking, advertising and other operating revenue as a share of operating cost: 71% pre-COVID → 30% FY25

~$2B emergency assistance since 2020 • structural deficit $375–400M/yr from FY27

State extended “hold harmless” funding on pre-pandemic ridership

BART Facts 2026: “The current funding model of paying for operations with fares is outdated and doesn’t work.”

Source: BART FY2025 ridership and financial reports; BART Facts 2026.

The entity did not conclude that it should be smaller. It concluded that depending on customers was the mistake.

SB 63 Created a District With One Power and No Function

PUBLIC TRANSIT REVENUE MEASURE DISTRICT — Gov. Code Title 7.85

§ 67710 — five counties; same board as MTC; “a separate legal entity”
§ 67710(c) — formation and boundaries exempt from Cortese-Knox-Hertzberg. No LAFCO review.
§ 67730 — one power: impose a 0.5% / 1% sales tax, 14 years
§ 67734 — may be placed on one ballot only: November 3, 2026
§ 67750(b) — revenues distributed on a legislative formula, with no discretion to withhold, reduce, delay, modify, specify the use of, or condition them

No purpose clause anywhere in the title.

Runs no service. Owns no asset. Plans no route. Levies one tax, once, and hands the money to other agencies.

How It Got on the Ballot

Jan 7, 2026 — The District votes not to place the measure on the ballot. Staff report: October 2025 polling showed 56% support; “it appears unlikely that a District-proposed measure would achieve the two-thirds vote threshold required for passage.”

Jan 16, 2026 — The District receives notice of intent for a citizens’ initiative.

July 1, 2026 — Certified: an estimated 235,503 valid signatures; 205,831 required.

July 24, 2026 — District Resolution 2 asks the five counties to consolidate a special election with the November 3 general election.

A District-proposed tax needs two-thirds. A citizen-initiated tax needs a simple majority. The entity created to place the tax declined to place it — so the same tax could pass with half the votes.

A Maintenance-of-Effort Clause Is Not Accountability

Expanding scope takes a vote. Contracting it takes renegotiating a contract. § 67770 writes that asymmetry into statute.

§ 67770 — each operator must maintain existing operating funding and not supplant existing sources

Sold as: “the measure augments rather than replaces.”

§ 67770(b) — an operator may reduce its own contribution only for changes “based on factors outside the control of the operator”

§ 67788 — maximum sanction: 7%, once a year, no earlier than year three; withheld funds are reallocated to transit in the same counties

A maintenance-of-effort clause is not accountability. It is a commitment to continue.

Five Moves

1. The Scope Question — asked before the numbers
2. The Exclusion Question — and, for a district, the Existence Question
3. The Scope Audit — one department, from documents that already exist
4. Ask for the irreversible step — in the right order
5. Retire the arguments the other side can concede

A promise is reversible. A repurchase is not.

Move 1: The Scope Question

“Does this activity require the city’s legislative and enforcement powers to protect people and property — and if not, who is being prevented from doing it?”

- Get agreement to the principle before you argue the case
- “Is it efficient?” is answered by an audit. “Is it affordable?” is answered by a tax. This one can only be answered by naming a standard.
- This week: “Before we ask whether we can afford it, would you agree we should be able to say why it requires the city?”
- Failure mode: asking it about a program someone in the room loves. Ask it in the abstract first.

Move 2: The Exclusion Question

Don’t ask “what standard do you use?” You’ll get “community need.” It excludes nothing — therefore it authorizes everything.

ASK FOR AN EXCLUSION, NOT A DEFINITION

To a city: “Name one thing this city should not do — and tell me why.”
To a district: “Under what condition would this district cease to exist?”

A city grocery store? A city bank? A city gym? The refusal is the concession.

Ask at creation, not maturity: purpose + termination condition.

Move 3: The Scope Audit

Don’t convert the budget — budgets are organized by department, not activity.

- Master fee schedule — a service catalog with prices
- ACFR, Statement of Activities — governmental vs. business-type activities
- Special revenue fund list — a ledger of past scope decisions made permanent
- Municipal code, table of titles — the scope of compulsion, not the scope of spending

Rules: one department done completely beats one city done halfway. Start with Community Development. Publish a floor, not a census.

The deliverable isn’t the classification. It’s the disagreement.

Move 4: Ask for the Irreversible Step — In the Right Order

An oversight committee is a promise. A divestiture is a fact.

1. Legalize the alternative first — repeal the rules that prohibit private providers (jitneys and commuter buses; private ambulance and refuse service; home-based and mobile commerce). Vehicle: municipal code amendment, council majority.

2. Then divest — non-exclusive competitive contracting, not an exclusive franchise with a fee (that's a monopoly wearing a market's clothes). Vehicle: ordinance for the contracting authority; resolution for the asset sale.

3. Cancel with funds returned — not "delayed." Vehicle: budget amendment reversing the appropriation.

4. Dissolve the entity — Vehicle: repeal the enabling ordinance for a city enterprise; LAFCO dissolution or repeal of the enabling statute for an independent district.

Failure mode: promising fast results. Don't.

Move 5: Retire the Arguments the Other Side Can Concede

One editing rule: Can this line be answered by adding a committee, a report, or an audit? If yes, it isn't your lead.

ALREADY ANSWERED INSIDE SB 63

Efficiency → third-party review; Phase One adopted May 22, 2026
Accountability → independent oversight committee
Waste → county adjudication committee; 7% withholding
"They'll just replace existing funding" → maintenance of effort

- California caps combined local district taxes at 2% per county (Rev. & Tax. Code § 7251.1).
- SB 63 § 67730(b) authorizes exceeding that cap. § 67730(d): the rate "shall not be considered for purposes of the combined rate limit."
- Alameda, Hayward, Newark, Oakland, San Leandro and Union City are at 10.75% today. This takes them to 11.25%.
- The second victim is your own city's next measure — the fire, streets or library measure it will have to bring to the same voters, against the same ceiling, which the region just stepped around for itself.

THE TRADE — name the second victim

The Framework Behind Municipal Policy

Most reform efforts focus on:

- Budgets
- Spending
- Management
- Incentives

But outcomes are shaped upstream:

Framework

Mission → Goals → Activities → Costs

If we want different outcomes, we must challenge the framework itself.

Where Your Effort Changes the Outcome

- This week — sign a ballot argument. 300 words, goes into the voter guide mailed to every household in five counties. County deadlines are set in District Resolution 2; they fall in August.

- This month — ask the Move 1 question at public comment at your own council.

- This quarter — run the Move 3 scope audit on one department. Publish it.

- All year — be in the room when a new activity is authorized, not when it is budgeted.

The election is the cheapest thing on this list and the least of your leverage. Do it anyway.

Questions

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