Senate Democrats
Multi-year Government Restructuring Proposal

Background

California has been mired in budget shortfalls for years. Currently, that shortfall stands at $18 billion. Worse, multi-billion dollar shortfalls are forecast in the 2011-12 fiscal year and beyond. Even if the Legislature adopted the Governor's austere 2010-11 budget plan, which completely eliminates the safety net for children and their families, eliminates mental health services, and makes other untenable cuts, the state would still begin the next budget year over $6 billion in the red. The only alternative in this difficult fiscal environment is to rethink the roles of government at both the state and local levels and shift programs, along with the dollars to run them, closer to the people served.

The concept of devolving services and funds to counties is not new. Counties already operate many state-created and state-funded programs, particularly health and human services programs, on behalf of the state. And, in some cases, counties provide substantially similar services for substantially similar populations as the state (for example, state-funded parole services and county-funded probation services both supervise offenders in the community).

Restructuring Proposals Already on the Table: The Governor's January and May Revision budget proposals have already introduced the notion of restructuring or "realigning" certain state functions to local governments. For example, the Governor's May Revision proposes to modify criminal sentencing laws in a way that would require more convicted felons to serve their sentences in county custody, not state prison. This proposal also includes sharing state funds with counties to help offset the additional costs they would bear.

However, this proposal is an anomaly. Most of the Governor's other budget proposals call for major cuts or eliminations of state-funded programs—particularly health and human services safety net programs—that will shift costs to counties with no way to pay for the services. CSAC estimates that, if enacted, the Governor's proposals would move as much as $4 billion in costs to the counties and result in the loss of even more in federal funds coming to California.

The 1991 Realignment: In 1991, California faced a budget deficit of over $14 billion and the Governor and Legislature enacted a state/local realignment program to shift $2 billion in program expenditures from the state to local government with a dedicated funding source. The state shifted responsibility to counties for planning, managing and delivering a number of programs in health, social services and mental health. The risk for program growth was shifted to local government, but so was the program flexibility to manage this risk, especially in mental health programs. Other, smaller "realignments" occurred in subsequent years, including the 1997 shift of funding for trial courts from counties to the state, and the 2007 shift of major portions of the juvenile justice system from the state to counties.

Nearly 20 years after the original 1991 realignment, assessments of the shift are a bit clearer. On one hand, some of the original flexibilities provided to counties under the 1991 realignment have been whittled away and services have been reduced as inflation and other cost increases have cut into the real cost of delivering those services. On the other hand, the shift probably preserved the programs from total elimination had they continued to rely solely on state revenues for support, given the state's chronic fiscal difficulties.

Benefits of Restructuring

- Eases the state's revenue shortfall and enables smaller increases in state taxes and fewer devastating cuts in programs that serve the state's most vulnerable populations.

- Provides a more stable funding source for programs, opportunities for effective long-range planning, and spending flexibility that will help counties better tailor programs to fit their local needs.

- Places program design and planning decisions at the local level allowing consumers of government services more access to local decision makers.

Principles to Restructuring

Not all programs are good candidates for restructuring because of federal restrictions and other policy reasons. The following restructuring principles are recommended:

1. ***Federal Funds:*** Restructuring should assure continued receipt of federal funds and should allow the State to obtain additional federal funds where possible.
2. ***Fiscal Incentives:*** Counties should have appropriate fiscal incentives to serve clients in a programmatically appropriate manner.
3. ***Transfer of Costs to Other State Programs:*** Restructuring should assure that the state does not assume financial responsibility for clients transferred by counties to other state programs.
4. ***Local Flexibility:*** State administrative responsibilities should be limited to the development and oversight of guidelines regarding program performance outcomes. This should include uniform, simplified, and consolidated data reporting requirements.
5. ***Funding:*** Funds provided for restructuring should benefit the programs to be realigned from the state to local government.
6. ***Future State Costs:*** Realignment should minimize the state's exposure to future mandate claims.
7. ***Fiscal capacity:*** Counties should have sufficient fiscal capacity, through new revenues and/or new revenue-raising authority, to assume program responsibilities from the state.
8. ***Multi-year Endeavor:*** The restructuring of programs should take place over a number of years, in order to allow the state and counties time to prepare for changes and develop service delivery channels and fiscal capacity.

2010 Restructuring Proposal

Part I – Improving Public Safety (Account #1)

Goal: Restore the ability of local communities to provide safe streets and improve outcomes for families impacted by drug and alcohol abuse.

Transfer Community-Based Public Safety Programs from State to Counties (up to $1.6 billion over 4 years):

Public Safety Sub-Account #1:

A. Shift state juvenile parole services to counties (modified version of Governor's May Revision proposal).
B. Shift certain low-level criminal offenders (primarily drug and property crime offenders) to counties for both incarceration and community supervision (modified version of Governor's May Revision proposal).
C. Maintain existing funding for COPS/Juvenile Justice program (set to expire in 2011-12).

Public Safety Sub-Account #2:

D. Shift Drug Medi-Cal programs to counties.
E. Shift Offender Treatment Program to counties.
F. Restore Substance Abuse and Crime Prevention Act Funding to counties.
G. Shift Drug Court Program to counties.

Also, eliminate the Department of Alcohol and Drug Programs (ADP); transfer any necessary remaining functions to other state agencies (such as Department of Health Care Services), and add one ADP oversight position to HHS Agency.

Part II – Improving the Welfare-to-Work Program (Account #2)

Goal: Provide counties with flexibility and incentives to tailor CalWORKs program to address local needs and gain efficiencies.

Increase County Share of CalWORKs and Transfer CalWORKs Child Care to Counties (up to $2.6 billion over 4 years):

A. Increase county share of CalWORKs grants from 2.5 percent to 25 percent.
B. Increase county share of CalWORKs services and administration to 25 percent.
C. Increase county share of county welfare automation to 25 percent.
D. Shift CalWORKs child care to counties.

Part III – Improving Protective and Aging Services for Adults (Account #3)

Goal: Give counties additional fiscal incentives to manage protective and aging services for vulnerable adults and elderly.

Shift Adult Protective Services and Various State-Supported Aging Services to Counties (up to $85 million over 4 years):

A. Realign Adult Protective Services to counties
B. Realign Aging programs to counties

Also, eliminate the Department of Aging; transfer any necessary remaining functions to other state agencies (such as Department of Social Services), and add one Aging oversight position to HHS Agency.

Part IV — Financing the Plan

Goal: Give counties additional revenues to pay for the restructured services. This should take the form of both new revenue streams and authority for counties to raise additional revenues on their own to deliver the services and meet the needs of the community.

Total New Local Revenues Needed: About $3.2 billion in 2010-11, and increasing to about $4.3 billion by 2013-14.

A. Oil severance tax (ongoing, beginning in 2010-11).
B. Transfer VLF funds from DMV to counties (ongoing, beginning in 2010-11)
C. Continue existing VLF rate that is set to expire in 2011, dedicated to public safety programs (ongoing, beginning in 2011-12).
D. Dedicate county savings from federal healthcare reform to restructuring services (ongoing, beginning in 2013-14).
E. Provide “bridge” funding from delay of corporate tax breaks (in 2010-11 and 2011-12 only).
F. Provide a portion of state’s sale tax rate (less than ¼ cent) to counties for realigned services as secondary “bridge” (in 2012-13 only).

Parts I, II, and III: Restructured Programs

(in millions)

		2010-11	2011-12	2012-13	2013-14
Part I: Improving Public Safety (Account #1)					
Sub-Account #1:					
A.	Shift juvenile parole services to counties	$27	$28	$28	$29
B.	Shift certain low-level offenders (drug, property offenders) to counties for incarceration and community supervision	450	700	900	900
C.	Maintain existing funding for COPS/Juvenile Justice Program	--	455	469	483
Sub-Account #2:					
D.	Shift Drug Medi-Cal programs to counties	43	44	45	46
E.	Shift Offender Treatment Program to counties	19	19	20	20
F.	Restore Substance Abuse and Crime Prevention Act funding to counties	120	122	125	127
G.	Shift Drug Court program to counties	28	29	29	30
	Subtotal, Improving Public Safety	***$687***	***$942***	***$1,602***	***$1,621***
Part II: Improving Welfare-to-Work Program (Account #2)					
A.	Increase county share of CalWORKs grants (to 25%)	$788	$827	$844	$860
B.	Increase county share of CalWORKs services and administration (to 25%)	401	442	451	460
C.	Increase county share of welfare automation (to 25%)	44	44	45	46
D.	Shift CalWORKs child care costs to counties	1,141	1,164	1,187	1,211
	Subtotal, Improving Welfare-to-Work	***$2,374***	***$2,477***	***$2,526***	***$2,577***
Part III: Improve Protective and Aging Services for Adults (Account #3)					
A	Realign Adult Protective Services program	60	65	66	68
B	Realign various Aging programs	15	15	16	16
	Subtotal, Restructure Protective & Aging Services	***$75***	***$80***	***$82***	***$84***
Total, Restructured programs		**$3,136**	**$3,499**	**$4,224**	**$4,281**

Parts IV: Financing
(in millions)

		2010-11	2011-12	2012-13	2013-14
A.	Oil Severance Tax	$1,200	$1,260	$1,323	$1,389
B.	Transfer VLF funds from DMV to counties	200	206	212	219
C.	Continue existing VLF rate that is set to expire in 2011 (dedicate to public safety)	--	1,516	1,562	1,610
D.	Dedicate county savings from federal health care reform to restructured services	--	--	--	500
E.	Provide "bridge" funding from delay of corporate tax breaks	1,750	950	--	--
F.	Provide portion of state sales tax base to counties for restructured services	--	--	1,200	600
Total, Financing		**$3,150**	**$3,832**	**$4,297**	**$4,318**