

REALIGNMENT

The Budget calls for a vast and historic realignment of government services in California, reversing a 30-year trend that has seen decision-making and budget authority move from local government to the State Capitol. To the extent feasible, this trend will now be reversed and power returned to cities, counties, special districts, and school boards, allowing decisions to be made by those who have the direct knowledge and interest to ensure that local needs are met in the most sensible way.

Although current economic signs are somewhat encouraging, California's unemployment rate remains high, consumer spending is only modestly improved, and because of the mortgage crisis, property tax revenue is not projected to increase in 2011. Accordingly, state and local governments do not have sufficient resources to fund all program demands. Absent long-term change, government will eventually be forced to shift funds from other important programs, including public safety, to pay for rising pension and health care costs.

Realignment of government in California will allow governments at all levels to focus on becoming more efficient and effective, facilitating services to be delivered to the public for less money. A critical component of this effort is to recognize that many of the programs the state oversees are already administered at the local level, primarily by counties. The roles of the state and local governments in the delivery of these services will be more clearly defined to avoid program duplication and limit overhead costs. Further, programmatic and fiscal responsibility will reside at the same level of government. Generally, local elected officials, acting with direct citizen input,

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can better determine program structure and local priorities while maintaining statewide goals and objectives. Where necessary, the state will retain oversight and provide technical assistance, but duplication of services will be eliminated along with staffing at the state level.

The goal is to find the level of government where a service can best and most cost-effectively be delivered and then provide a permanent funding source.

A government realignment of this magnitude raises significant issues, and the Administration is committed to working with affected parties to address as many of these concerns as possible. However, absent this kind of change many essential programs, including education and public safety, will suffer extensive reductions.

HISTORICAL CONTEXT

Two major events began the shift of government responsibility in California from local governments to the state level. And then, in subsequent years, some state functions were transferred to local governments, primarily counties. First, the California Supreme Court in 1971 ruled that K-12 education is a fundamental constitutional right. The *Serrano* decision found that wealth-related disparities in per-pupil spending generated by the state's education finance system violated the equal protection clause of the state Constitution. This decision had significant fiscal ramifications, as state government assumed responsibility for equalizing school funding.

An even more dramatic transfer of power to the state government occurred in 1978 when voters adopted Proposition 13 which cut local property taxes. Historically, local entities set the property tax rate for their jurisdiction, based on policy and funding decisions made primarily at the local level. Locally elected assessors determined the assessed value of property. Local voters had a fairly clear understanding of the property tax rate being levied for the various local jurisdictions and how their tax dollars were being spent. The statewide average rate for property taxes was approximately 2.5 percent.

Proposition 13 limited the property tax rate to 1 percent of assessed value, except for pre-existing debt. The assessed value of property was set at the 1975-76 base year, changing only when property is sold or new construction is completed. The property is then reassessed based on "fair market value", which is generally the purchase price of a property. A property's base year value may be increased by inflation, not to exceed

2 percent per year. Because of Proposition 13, local governments realized a loss of about 57 percent of the property tax revenue, or almost \$7 billion in 1978-79.

In order to prevent mass layoffs of teachers, police, and firefighters and enormous cuts in other essential services, the state used its budget surplus to essentially “bail out” local governments for the 1978-79 fiscal year. The bail-out consisted of allocations to local jurisdictions to make up for a significant portion of their property tax loss. As part of the bail-out to counties, the state either assumed responsibility for programs or took on new funding obligations. For instance, the state assumed the county share of Medi-Cal and SSI/SSP and increased its share of funding for foster care.

In 1979, a long-term financing mechanism was put in place that essentially mirrored the one-year bail-out. Property tax was reallocated from K-14 schools to cities, counties, and special districts to make up a significant portion of the loss of property tax, and the state assumed a greater share of funding for schools and some health and human services programs.

In subsequent years, there were numerous shifts back and forth between the state and local government. The most salient are:

In the 1982-83 fiscal year, the state transferred the Medically Indigent Adult (MIA) program from Medi-Cal to the counties.

In 1988, the Brown-Presley Trial Court Funding Act provided state block grant funding to counties to pay a portion of the costs for operation of the trial courts.

Another major change (estimated at \$2.2 billion) of programs occurred in 1991 when the state transferred Community Mental Health and indigent health to counties and altered a number of sharing ratios in health and human services programs. An increased half-cent sales tax and a change in the Vehicle License Fee depreciation schedule were used to pay for the costs of this realignment.

In 1992-93 and 1993-94, state budgets shifted property taxes from cities, counties, and special districts (ERAF) to reduce state General Fund costs for schools. As part of the 1993-94 Budget, Proposition 172, which extended a half-cent sales tax for local public safety, was passed by the voters.

In 1997-98, the state assumed funding growth above a county maintenance-of-effort level for support of the state’s trial courts.

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Also in 1997-98, the state and counties partnered in the creation of the CalWORKs program, which gave flexibility and performance incentive funding to counties that were successful in transitioning recipients from cash assistance to work.

The voters in 2004 passed Proposition 1A, which restricts the state's ability to reallocate property tax from cities, counties, and special districts to schools and strengthened mandate reimbursement law.

In 2007, the state transferred the responsibility for serving lower-level juvenile offenders to counties and created a funding stream to support local costs for housing and supervising these youth. Legislation has also been enacted authorizing \$300 million in lease revenue bonds for the construction of local facilities for youth.

Beginning in January 2011, the state will transfer responsibility for supervision of all new juvenile parolees to counties and provide the funding to support these costs.

2011-12 REALIGNMENT PROPOSAL

The Governor's realignment proposal recognizes that many of the transfers to and from state and local governments over the past three decades have created confusion, duplication of services, and inefficiencies. Since Proposition 13, there has been a steady back-and-forth of revenue allocations and program responsibilities between the state and counties, blurring responsibility and driving up program costs. The Governor's transformation proposal begins to untangle this knot and reduce duplication by providing services at one level of government, to the extent possible. The long-term goal is not to reduce services, but rather to provide services more efficiently and at less cost.

In addition to providing services at the most appropriate level of government, it is critical that these services be funded with a dedicated statewide source of funding.

When fully implemented, this proposal will restructure how and where more than \$10 billion in a wide range of services are delivered. A reform effort of this magnitude will have to be phased in over a number of years, but the work will begin immediately.

The goals of this realignment are to:

- Protect California's essential public services.
- Create a government structure that meets public needs in the most effective and efficient manner.

- Have government focus its resources on core functions.
- Assign program and fiscal responsibility to the level of government that can best provide the service.
- Have interconnected services provided at a single level of government.
- Provide dedicated revenues to fund these programs.
- Free up existing local funds not currently used for core services so they can be used as an enhancement for the realigned programs or for other core local priorities.
- Provide as much flexibility as possible to the level of government providing the service.
- Reduce duplication and minimize overhead costs.
- Focus the state's role on appropriate oversight, technical assistance, and monitoring of outcomes.

PHASE ONE

Figure REA-01 displays Phase One Realignment programs and funding for fiscal year 2011-12 and upon full implementation in fiscal year 2014-15. As the figure shows, programs to be realigned in Phase One fall broadly into the category of public safety.

Public safety is a core function of local government. Section 35 (a)(2) of Article XIII A of the California Constitution states: "The protection of the public safety is the first responsibility of local government and local officials have an obligation to give priority to the provision of adequate public safety services." This section was added as part of Proposition 172, which extended a half-cent sales tax increase for local law enforcement activities. Public safety in the community is more than public safety officials on patrol, management of the local jail, or fire prevention and response. Public safety is a community effort which involves the safety of children who are in the county child welfare system, the safety of adults through the Adult Protective Services program, as well as such supportive services as mental health and substance abuse treatment services, which people need to successfully change their lives.

When the state assumed the costs of operating the trial courts, it became the source of funds for the two highest levels of programs within the criminal justice system—courts and prisons. State efforts should focus on courts and the most serious and violent

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Figure REA-01
Phase One Realignment Funding
(Dollars in Millions)

Program	<u>2011-12</u>	<u>2014-15</u>
Fire and Emergency Response Activities	\$250.0	\$250.0
Court Security	530.0	530.0
Vehicle License Fee Public Safety Programs	506.4	506.4
Local Jurisdiction for Lower-level Offenders and Parole Violators		
Local Costs	298.4	908.1 ^{1/}
Reimbursement of State Costs	1,503.6 ^{2/}	-
Realign Adult Parole to the Counties		
Local Costs	113.4	409.9 ^{1/}
Reimbursement of State Costs	627.7 ^{2/}	-
Realign Remaining Juvenile Justice Programs		
Local Costs	78.0	242.0 ^{1/}
Reimbursement of State Costs	179.6 ^{2/}	-
Mental Health Services		
The Early and Periodic Screening, Diagnosis and Treatment Program	-	579.0
Mental Health Managed Care	-	183.6
AB 3632 Services	-	104.0
Existing Community Mental Health Services	-	1,077.0
Substance Abuse Treatment	184.0	184.0
Foster Care and Child Welfare Services	1,604.9	1,604.9
Adult Protective Services	55.0	55.0
Unallocated Revenue Growth	-	621.1
Total	\$5,931.0	\$7,255.0
1% Sales Tax	4,549.0	5,567.0
0.5% VLF	1,382.0	1,688.0
Total Revenues	\$5,931.0	\$7,255.0

^{1/}The allocation in 2014-15 is different than the amount allocated in 2011-12 due to a phased-in implementation.

^{2/}During the transition, estimated state costs will be reimbursed from realignment revenues.

felony offenders. Low-level offenders and parolees are better served in the community where they are known to local law enforcement and where community support systems exist. With early intervention, local governments can better address the service needs that can stop the revolving door of the corrections systems. Local government is in a better position to determine who needs incarceration, who needs monitoring, and who would benefit from treatment or job training.

The following programs are recommended for realignment, broadening the perception of what constitutes public safety and giving local government dedicated revenue and program responsibility to make communities safer.

Fire and Emergency Response Activities

The Department of Forestry and Fire Protection (CAL FIRE) provides wildland fire protection services in over 31 million acres of state responsibility areas (SRAs). Although the number of acres in SRAs has been relatively constant since the 1950's, the composition of SRAs has greatly changed.

Population and urban development in SRAs has grown significantly in recent decades, increasing fire risks and state costs.

Furthermore, CAL FIRE, as a first responder in the mutual aid system, responds to over 60,000 medical emergency response incidents in SRAs each year. These activities are not part of CAL FIRE's core wildland fire protection mission. These services are more appropriately provided by local jurisdictions which have approved development in these areas.

Under this proposal, responsibility for fire protection and medical emergency response in these populated wildland areas will be assumed by local government. As a result, this proposal will ensure that local jurisdictions making land use decisions which result in housing development encroaching in wildland areas are also responsible for providing the necessary emergency response services associated with more highly populated land use patterns.

This proposal would require a change in statute to revise the criteria and definitions of SRAs to ensure that local governments assume these responsibilities. The Board of Forestry will be required to conduct an extensive field review of existing state responsibilities based on the revised criteria.

It is estimated that this proposal will result in the realignment of up to \$250 million of CAL FIRE's fire protection program to local governments. CAL FIRE will continue to provide fire protection services in SRAs until the Board of Forestry's reclassification process is completed. The actual amount of redefined SRA acreage, and the associated level of realignment funding transferred to local governments will depend on the Board of Forestry's final determination of the SRA classification based on the revised criteria.

Court Security

Security for the trial courts is currently provided by county sheriffs with the exception of two small counties.

In recent years, there have been several attempts to change the way court security has been provided and to contain costs. While the state has assumed the costs of operation of the trial courts, and there have been some modifications in the employment status of court employees, the function of court security largely remains a county sheriff responsibility. The state has a role in court security standards, but has no control over what level (and cost) of deputy is assigned to the court.

This proposal would transfer the funding of court security to the counties. This arrangement should allow courts and counties to come to reasonable local agreements regarding the costs of court security.

Vehicle License Fee Public Safety Programs

Over the past decade, the state has recognized the importance of local public safety by investing in local law enforcement programs. While this funding is not a large share of total funding for local law enforcement, it does provide funding for core public safety activities for police, sheriffs, and probation departments. It has also allowed some innovative models of integrated service to be developed, particularly in the juvenile justice area. Most recently, these programs have been funded through the 0.15-percent Vehicle License Fee surcharge set to expire on June 30, 2011. These programs include: \$107.1 million for the Citizens Option for Public Safety (COPS) program; \$107.1 million for the Juvenile Justice Crime Prevention program; \$35 million for Jail Booking Fee Subventions; \$181.3 million to support juvenile probation efforts at the county level; and \$18.5 million for the Small/Rural Sheriffs program. Funding of \$57.4 million would also be provided for a variety of program grants currently funded within the California Emergency Management Agency.

Continued funding for these programs will also assist local law enforcement in managing reforms outlined below relative to adult and juvenile offenders.

Local Jurisdiction for Lower-Level Offenders and Parole Violators

The large number of short-term, lower-level offenders, and parole violators in prison has resulted in strained reception centers, inefficient prison operations, and difficulties with rehabilitation efforts.

The number of short-term, lower-level offenders has increased dramatically since California changed to a determinate sentencing model. Currently, low-level offenders represent almost half of the prison population on any given day.

While parole violators encompass all types of offenders, they only return to prison for a short two-to four-month stay, and in some cases serve half of that time in a local jail.

The state's prisons were not built to house inmates in gyms and day rooms as the prisons are currently forced to do. Additionally, when designed it was not envisioned that the prison's reception centers would have to deal with 250,000 to 300,000 individual offenders in any given year.

Many of these short-term offenders have failed rehabilitation efforts at the county level due to limited resources for probation at the local level, especially the 18 to 25 year-old male population.

Under this proposal, offenders without any current or prior serious or violent or sex convictions would become the responsibility of local jurisdictions. With more resources at the local level, these short-term, lower-level offenders can be better managed and can become more successful through a combination of probation services and jail time.

Realign Adult Parole to the Counties

When the state shifted to a determinate sentencing model in the late 1970s, parole of varying lengths was required for all offenders, despite the offenders having completed their sentences as prescribed by law. The parole system requires a lesser burden of proof than a criminal court and often returns 65,000 to 80,000 offenders to the prison system during a year, taking up 15,000 prison beds on any given day.

Various steps have been taken in the last decade to enhance parole supervision, improve parole success through evidence-based programs and provide options of revocation in lieu of additional prison time. However, these various measures have only marginally improved the success of parolees or improved public safety through increased supervision of parolees.

This proposal would shift the responsibility for adult parole to the counties. Since these offenders typically live in the community from which they left, county law enforcement and probation are usually more knowledgeable about the offender, suggesting local supervision of parolees is a better policy and public safety option.

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In addition, with other programs recommended for realignment, county probation will have the opportunity to provide parolees more services, such as mental health and substance abuse, which increases the opportunity for parolee success in rehabilitation.

Realign Remaining Juvenile Justice Programs

The vast majority of youthful offenders are now directed to county programs, enabling direct access and closer proximity to their homes, families, social services, and other support systems. Offenders still directed to the DJJ have been convicted of the most serious and violent crimes and are most in need of specialized treatment services. These offenders represent less than 1 percent of the 195,000 youth arrests each year.

Over the past decade, the number of wards in state juvenile facilities has decreased from approximately 10,000 to less than 1,300. These wards cost the state in excess of \$200,000 per ward per year.

This proposal would end the state's role in housing and treating youthful offenders who would now all serve their sentences locally.

Mental Health Services

Most community mental health services are administered by counties. These services are supported by 1991 realignment and Proposition 63 funding. Overall, the community mental health portion of the 1991 realignment has been widely considered a success. The state has retained three programs funded through the General Fund but also administered by counties:

The Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) Program, which is a mandatory federal program under Medicaid designed to improve the health, including the mental health, of low-income children under the age of 21. The EPSDT program is funded by the General Fund and federal funds with the counties paying a 10-percent share of cost above a specified baseline.

Mental health managed care provides psychiatric inpatient hospital services and outpatient treatment services through county mental health plans. This program is funded with General Fund and federal funds.

State-mandated mental health services for special education students (AB 3632) are those services included in an Individual Education Plan (IEP) that county mental health

must provide to have a student succeed in school. This mandate has been suspended for 2010-11.

Beginning in 2011-12, these three programs would be funded with Mental Health Services Act (Proposition 63) funds rather than General Fund, resulting in savings of \$861 million. This would be a one-time use of Proposition 63 funds; beginning in 2012-13, these programs, as well as community mental health services currently funded with 1991 realignment funds, will be funded through the proposed revenue source.

Substance Abuse Treatment

The Department of Alcohol and Drug Programs (DADP) is responsible for administering prevention, treatment, and recovery services for alcohol and drug abuse. The DADP contracts with 57 counties to provide inpatient and outpatient alcohol and drug treatment services.

Under this proposal, counties would receive funding and responsibility for these services. This should enable counties to better utilize and prioritize funding to meet community goals. With program responsibility at the local level, counties could implement creative models of integrated services for the new probation population and for those who suffer from the dual diagnosis of mental health and substance abuse problems, as well as for other low-income persons currently receiving treatment services.

Foster Care and Child Welfare Services

The federal Social Security Act provides the framework for the provision of services for children who are abused, neglected, or exploited through the establishment of a Child Welfare Services (CWS) system. The federal government's role is principally limited to establishing overall programmatic requirements and goals, providing funding and ensuring state compliance with federal requirements. In California, CWS provides a continuum of services to children and their families through the CWS, Foster Care, Adoptions, and Child Abuse Prevention programs. CWS is currently administered by the counties and non-federal funding is shared between the state and counties.

This proposal would transfer primary program responsibility for CWS to the counties. Counties would be given as much flexibility as possible to operate the program and best serve vulnerable children.

Adult Protective Services

The Adult Protective Services (APS) program provides services, without regard to income, to persons aged 65 and older who are functionally impaired, unable to meet their own needs, and who are victims of abuse, neglect, or exploitation. Currently this program is administered by the 58 local APS agencies with oversight provided by the Department of Social Services.

This proposal would transfer this entire program to the counties which would have complete flexibility in determining the appropriate level of service and priority for their community.

STATE OPERATIONS

Consistent with this reform, there will be commensurate reductions in program administration at the state level.

In the Health and Human Services area, the state will continue to act as the single state agency for federal purposes, maintain data collection for oversight, serve as the fiscal and program reporting entity to the federal government, retain licensing and certification responsibility, and maintain minimum federal audit requirements. These are important program components to retain. However, it is the Administration's goal to eventually reduce state operations for those affected programs by at least 25 percent, which will translate into hundreds of state positions being eliminated.

In the Corrections and Rehabilitation area, the elimination of DJJ and the transfer of programs to the local level will mean the eventual elimination of over 4,000 line positions. While Corrections headquarters will still have a corrections system to administer, it will be a smaller system and there must be substantial reductions in headquarters administrative staffing. Ultimately this will translate to hundreds of positions.

The amount of the reduction within CAL FIRE will depend on the final determination by the Board of Forestry of the SRA classification.

FUNDING

Phase One of realignment assumes two funding sources for implementation.

First, it relies on maintaining current tax rates for five years—\$5.9 billion of revenue from the continuation of the 1.15-percent rate for the Vehicle License Fee (VLF), which

generates almost \$1.4 billion, and the extension of the 1 percent in sales tax, which generates slightly over \$4.5 billion. This revenue will be deposited in the Local Revenue Fund 2011 and dedicated to local government for the realignment of services, primarily in the public safety area, from the state to counties. Local government will also retain the growth in these revenues to augment the programs being transferred. When these taxes expire after five years, the state will provide counties an amount equal to what these two sources will generate.

The CAL FIRE, parole reform, and low-level offender proposals will be phased in over time. It will be necessary in the initial years for the state to be able to recapture its costs from the funds raised for this proposal. However, this funding should be considered a source of local revenue dedicated for realignment in the same way the 1991 realignment funding is structured.

The second portion of funding, for specified mental health programs, is the use of existing Mental Health Services Act (Proposition 63) funds, rather than General Fund, for three existing mental health programs resulting in General Fund savings of \$861 million. This assumes that the current \$558 million maintenance-of-effort and non-supplantation requirements of Proposition 63 would be amended through a vote of the Legislature, which can do so by a two-thirds vote as long as the amendments are consistent with and further the intent of the Initiative. The Administration believes that the continuation of these services at the local level with dedicated funding, along with the minimization of overhead at the state level, is consistent with the requirements of Proposition 63. The General Fund maintenance-of-effort requirement would be replaced with dedicated revenue generated by this proposal.

TIMING

The timing for approval of this proposal is crucial and assumes a June special election. The Governor is proposing that the people determine whether current tax rates should be maintained for five years to fund critical, core services at the local level. It is anticipated that the Legislature will approve the programs to be realigned and the underlying funding structure by March. The taxpayers and voters must be clear about what these funds will be used for and understand they are dedicated for specific programs at the local —not state— level.

The necessary statutory changes must be final no later than June to ensure a smooth transition of programs to the local level.

PHASE TWO

Implementation of national health care reform is linked with Phase Two of this realignment proposal. With the increase of low-income individuals now served primarily in the county indigent health system becoming eligible for Medi-Cal, there will be a natural shift of costs from counties to the state. This will necessitate an examination of the Local Revenue Fund Indigent Health Care Account (1991 realignment) and which level of government is best suited to provide health-related programs. Phase Two assumes that the state will become responsible for costs associated with health care programs, including California Children's Services and In-Home Supportive Services, while the counties assume responsibility for CalWORKs, food stamp administration, and child support. The counties already operate these programs for the state. Responsibility for child care programs will also be transferred to the counties and public health programs will remain at the local level.

Local Economic Development Change

As part of the determination of which level of government is best equipped to provide what service, it became clear that the state's investment in local economic development and redevelopment agencies is less critical than other activities. (Please refer to the Tax Relief and Local Government Chapter for more information.)

The proposal outlines a new option for funding economic development at the local level by calling for a constitutional amendment to provide for 55-percent voter approval for limited tax increases and bonding against local revenues for development projects similar to those currently funded through redevelopment and for infrastructure.

The Budget proposes legislation to phase out existing redevelopment agencies beginning in 2011-12. Existing agencies will be required to cease creation of new obligations and successor agencies will be required to retire RDA debts in accordance with existing payment schedules. No existing obligations will be impaired.

In the 2011-12 fiscal year, the freed-up funds will be used for General Fund budget relief. In subsequent years, these funds will be allocated according to the existing property tax allocation, except for enterprise special districts, and will be available for cities, counties, and special districts to use for their high-priority core functions. By 2012-13, the Department of Finance estimates these local entities will receive close to \$900 million in new resources to use for their priorities (with a similar amount going to education).