Making Government Make Sense: Applying the Concept in 1993-94

INTRODUCTION

In February of this year, the Legislative Analyst's Office released a model for restructuring California's system of state and local government. Entitled "Making Government Make Sense," the report recommended a major overhaul in the assignment of program responsibilities and revenue allocations among state and local government which, taken together, would serve to improve the overall effectiveness of our system of government.

The concept of maximizing the separation of state and local program responsibilities is central to the reform model. Our system of government so diffuses program responsibility that it is impossible to hold any one entity accountable for program results. By consolidating program responsibilities at the appropriate level of government and allowing for the exercise of full program control, the model seeks to achieve greater program effectiveness and greater governmental responsiveness to changing public needs and preferences.

The model did not directly address the state's current budget problems, nor did it present a detailed plan for legislative action. Rather, the model was intended to stimulate debate by providing a framework for discussions of the types of structural changes that are needed to make government make sense in California. As the deadlines for legislative action on the 1993-94 budget approach, however, it is clear that major policy changes will be needed to arrive at a balanced spending plan.

In this context, certain of the budget proposals currently under consideration, such as the proposed shift of local property tax revenues to school districts, would make it more difficult to implement the "Making Government Make Sense" (MGMS) concept in the future, and alternative methods of reducing state assistance to local governments are being developed which may avoid this result.

Just as pressing, in our view, is the need to consider proposals that not only avoid increasing the dysfunctionality of our current system, but also make progress towards the type of fundamental restructuring of responsibilities we have proposed. In the context of the 1993-94 budget debate, this also means that such proposals must contribute to resolving the budget problem. In this *Policy Brief*, we provide one such alternative for consideration in the current budget debate.

Overview of the Proposal

This proposal takes a significant step towards governmental restructuring, as well as assisting in solving the budget crisis. From our perspective, given the magnitude and constraints of the current budget problem, it seems unlikely that the budget gap can be closed solely through program reductions. Accordingly, our proposal involves the most likely revenue alternative—the extension of the state's temporary ½ cent sales tax.

In this context, it is important to ensure that this extension accomplishes more than simply plugging a hole in the state budget gap—it should be used to further the fundamental goal of restructuring our dysfunctional system of government. We propose that, if extended, the tax be used to support a transitional mechanism to begin the process of restructuring. Similar to the 1991 realignment legislation, the proposal contemplates that the sales tax revenues be allocated to county governments to offset costs associated with program transfers and cost-sharing ratio changes. In the longer run, these costs would be funded by transfers of property tax revenues from schools to cities and counties, at which point the ½ cent sales tax could be terminated.

Figure 1 identifies the specific program and cost-sharing ratio changes that are included in the proposal, and shows the cost impact of each change. As the figure indicates, these changes primarily affect criminal justice and social services programs. The proposal transfers *program and funding responsibility* for three components of the criminal justice system and for substance abuse programs. Specifically, counties would take responsibility for:

- *Juvenile Justice,* so that counties would be fully responsible for treatment of all juvenile offenders at the local level. However, counties would have the option of placing these offenders in state facilities on a cost-reimbursement basis.
- *Adult Parole,* so that counties would take over the responsibility for community supervision of persons released from state prison.
- *Return-to-Custody* cases, so that parole violators would become a county financial responsibility. These persons could be placed in county jail or another local treatment alternative, or returned to state prison at county expense.
- *Substance Abuse,* so that counties would take over the state's funding and management responsibilities for the alcohol and drug programs.

With regard to the *sharing-ratio changes,* the proposal would increase the county share of nonfederal costs in each case to 100 percent. Each of the affected programs was included in the 1991 realignment legislation.

All of the changes are more specifically described in the sections that follow. In each case, the changes proposed here are consistent with the changes as proposed in MGMS, with the exception that the current proposal does not extend program participation requirements to city governments. In our view, that issue is more appropriately handled in the context of the full implementation of MGMS.

Figure 1

Summary of LAO Budget-Year Restructuring Proposal

(In Millions)

	Amount
State Program Transfers to Counties	
Juvenile Justice	$304
Adult Parole—Supervision	175
Adult Parole—Return-to-Custody	160
Substance Abuse	80
Subtotal	($719)
Increased County Sharing Ratios	
Foster Care	$326
Child Welfare Services	160
Greater Avenues for Independence	99
Adoption Assistance	67
County Services Block Grant	16
Subtotal	($668)
Total, increased county expenditures	**$1,387**
Sales Tax Proceeds	$1,417

PROPOSAL IN DETAIL

Criminal Justice Components

Our model contemplates a greater reliance on *community-based* institutionalization and alternatives for treating criminal offenders. Because each county would remain responsible for all costs associated with individual offenders, it would have a greater incentive to develop alternative methods of incarceration and to provide whatever services would be necessary to minimize the individual's risk of repeated criminal offenses, such as substance abuse and mental health treatment, or job training services. In our view, juvenile incarceration and parole and adult parole supervision and reincarceration offer the best opportunity to begin the restructuring.

Juvenile Justice. Counties already supervise more than 90 percent of all juvenile offenders, primarily through the probation departments. The state provides incarceration and rehabilitation services and community supervision (parole) only for those offenders who are committed to the Department of the Youth Authority (CYA). Counties are required to pay the state only $25 per month for each ward committed to the Youth Authority.

Under the model, local governments would assume from the state *all* fiscal responsibility for the incarceration, punishment, and supervision of juvenile offenders. The proposal would provide approximately $304 million in sales tax revenues to cover the costs of these program shifts. All wards committed to the Youth Authority prior to July 1, 1993, would remain in CYA custody until they have completed their sentences. Counties would use a portion of the sales tax revenues to reimburse the state for these offenders. Counties would be fully responsible for all juvenile offenders sentenced after July 1, 1993, and counties would receive a portion of the sales tax revenues to incarcerate, treat, and supervise these offenders.

Counties could treat these offenders as they see fit, including incarceration in a local facility (such as existing probation camps and ranches) or rehabilitation program (such as substance abuse treatment), or intensive probation supervision in the community. Because the Youth Authority would become a "service provider," a county could contract with the Youth Authority to treat a number of offenders and provide a specific mix of services (such as education or drug treatment). Counties would be required to *fully* reimburse the state for the costs of Youth Authority services.

Finally, there would be no Youth Authority parole function for those offenders who have completed their sentences. County probation departments would determine the need for community supervision for the offenders. Violation of conditions or requirements for community supervision would result in reincarceration at county expense.

Adult Parole—Supervision. Currently, when a state prison inmate completes his or her sentence, he or she is supervised on parole in the community, usually for one year. The community supervision services provided on parole are very similar to the services provided by county probation departments to probationers.

Under the model, state parole would be abolished and the community supervision function would be fully absorbed by county probation departments. Sales tax funds equivalent to the amount of state funds that would have otherwise been used to support parole supervision (about $175 million in 1993-94) would be made available to offset the counties' costs.

Counties would determine the type and intensity of community supervision and how to make best use of the funds. For example, a county may decide to place an offender with a violent history in an intensive supervision program, or an offender with a history of substance abuse in a residential or nonresidential treatment program.

Adult Parole—Return-to-Custody. Currently, parolees who violate the conditions of their parole for which they are not prosecuted may have their parole revoked and be returned to state prison for a one-year period by the Board of Prison Terms. Such violations usually are for offenses that local law enforcement officials consider relatively minor, such as unauthorized absence from parole supervision. The budget includes about $160 million in 1993-94 to reincarcerate individuals who will violate a condition of their parole after July 1, 1993.

Under our model, counties would be responsible for offenders who violate the terms of their supervision. If an offender violates a condition of his or her supervision order that is not prosecuted, counties would have the option to place the offender in custody or impose other community-based alternative punishments, or return the offender to state prison for up to one year at county expense.

Benefits of Proposed Restructuring for Criminal Justice Programs. In our view, the proposed arrangements have several benefits. First, the changes adjust fiscal incentives so that more emphasis is placed on *outcomes.* Specifically, counties would have a greater incentive to intervene and treat a criminal offender, as they would bear the costs of reincarceration. In addition, it places greatest emphasis on areas where early success with juvenile offenders has long-term benefits.

Second, it encourages small-scale experimentation and piloting of projects at the local level. Because local governments would be responsible for a number of different programs and offenders, they would be likely to try different models for intervention and treatment of offenders.

Substance Abuse

Substance abuse services are an important component of the services that must be provided to individual social services recipients if their needs are to be met successfully. For the most part, these services are now provided by county governments, using a combination of local, state, and federal funds.

Under this proposal, a portion of the sales tax proceeds would be deposited into a new Substance Abuse Subaccount within the Local Revenue Fund, and allocated directly to counties. These funds would be used by counties as matching funds needed to draw down the available federal funds. The proposal would eliminate the existing master plan or negotiated cost contract process now used to allocate these funds by the Department of Alcohol and Drug Abuse (DADP). The department could then be merged with the Department of Mental Health, allowing the new department to function as the central state agency responsible for distributing federal drug and alcohol abuse and mental health program funds. In addition, the department could continue its existing oversight and technical assistance roles for drug and alcohol programs and other activities, as needed, to ensure statewide compliance with federal requirements.

Benefits of Proposed Program Transfer. The primary benefit of the proposed transfer is that it would encourage counties to be more cognizant of program linkages with criminal justice and social services programs and, therefore, to take more direct responsibility for ensuring the effectiveness of substance abuse programs. In addition, it would tend to improve the operation of these programs by eliminating certain administrative requirements, thereby freeing up state and local funds for program operations.

Social Services Components

Our model envisions that responsibility for all community-based service programs will be transferred to local governments, in recognition of the linkages that exist among these services. As an interim step, the Legislature can begin the restructuring by increasing the existing county shares of cost for certain social services programs, and providing additional sales tax revenues through the existing realignment mechanism to offset those increased costs.

Social Services Programs —Sharing Ratio Changes. Under the proposal, counties would assume 100 percent of the nonfederal costs for the following programs:

- AFDC-Foster Care (AFDC-FC) Program, which provides funds for the placement of children in foster care homes.

- Child Welfare Services (CWS) Program, which provides services to abused and neglected children.

- Greater Avenues for Independence (GAIN) Program, which provides employment training and other services to AFDC recipients.

- Adoption Assistance Program (AAP), which provides grants to parents who adopt "difficult-to-place" children.

- County Services Block Grant (CSBG), which provides funding for a number of small county-operated social services programs, including Adult Protective Services.

Figure 2 shows the current cost-sharing ratios for these programs, all of which reflect adjustments made in the 1991 program realignment legislation. Those adjustments increased the county shares of cost and provided for the transfer of realignment sales tax dollars to the counties to offset their increased costs. The proposal to increase the county share to 100 percent would result in a transfer of $668 million in annual program costs from the state to the counties, based on proposed spending levels for 1993-94. As was the case in 1991, a portion of the sales tax revenue derived from extending the ½ cent sales tax would be added to the Local Revenue Fund and allocated to counties through that mechanism to offset their increased costs. No changes would be made to existing program administration arrangements at this time.

Benefits of Proposed Realignment. In general, the sharing-ratio changes have the advantage of eliminating shared funding arrangements in these programs, thereby giving counties greater responsibility for ensuring the achievement of program outcomes and controlling costs in these areas. These changes also recognize the interrelationship among the foster care, child welfare services, and adoptions assistance programs. There is also a strong interrelationship among these programs and the juvenile justice and substance abuse programs discussed above. Because there are strong linkages among these programs, giving counties greater responsibility over the programs encourages counties to take a broader perspective as to how the individual programs can minimize future client dependency on social services.

Figure 2

Current State/County Sharing Ratios in Programs Affected by Restructuring Proposal

Program	Current State/County Sharing Ratio[a]
AFDC—Foster Care	40/60
Child Welfare Services	70/30
Greater Avenues for Independence	70/30
Adoption Assistance Program	75/25
County Services Block Grant	70/30

[a] Percentage share of nonfederal costs.

Funding Provisions

In this section, we discuss the details of how the financial aspects of this proposal would be implemented. First, we describe the changes that would be needed in the existing realignment funding mechanism to incorporate the proposed cost-sharing ratio changes. Second, we describe the new funding mechanism needed to implement the program transfers, including the options for allocating these revenues to the counties. Finally, we review the state fiscal impact of the proposal.

Local Revenue Fund Changes. As noted earlier, the cost-sharing ratio changes made under this proposal are similar to the changes made by the 1991 program realignment legislation. Under that legislation, county shares of cost for each of the programs included in this proposal were raised by varying amounts, and each county received an allocation of sales tax funds from the Local Revenue Fund sufficient to offset its increased costs. Under this proposal, the $668 million needed to offset the counties' increased costs from sharing-ratio changes would be added to the Local Revenue Fund, Social Services Subaccount, and the counties' funding requirements would be revised accordingly. In addition, the $80 million associated with the substance abuse program transfer would be added to a new Substance Abuse Subaccount for distribution to the counties in proportion to the current allocations of these funds. On this basis, approximately 48 percent of the sales tax proceeds would be deposited into the existing Local Revenue Fund.

Local Corrections Revenue Fund. Under this proposal, the remaining 52 percent of the sales tax proceeds would be deposited into a newly created Local Corrections Revenue Fund. These funds would be used to offset the increased county costs associated with the criminal justice program transfers. The juvenile justice portion of the funding would be allocated according to a formula based on the volume of at-risk youth and juvenile offender dispositions in each county, while the adult parole funds would be allocated on the basis of the location of existing state parole activities. Finally, funding associated with the adult reincarceration changes would be based on historical rates of parole revocation in each county.

State Fiscal Impact. The proposal reduces the state's General Fund expenditures in 1993-94 by approximately $1.4 billion and shifts a like amount of sales tax revenue to the counties to cover their increased costs. This is the same benefit that would be obtained by simply extending the tax and depositing it within the General Fund, with the exception that this proposed mechanism avoids the Proposition 98 school funding implications of the General Fund tax increase. Under those circumstances, approximately 60 percent of the increased revenue would be redirected to school districts, as the additional General Fund revenue would raise the school's minimum funding guarantee under Proposition 98. Instead, under our proposal, the state realizes its General Fund benefit as an expenditure reduction without Proposition 98 implications.

Conclusion

In our original MGMS, we offer a model for restructuring state and local responsibilities that is "fiscally neutral." That is, it generally assumes no short-run change—increase or decrease—in the overall level of revenues received by all levels of government. (It does envision, however, reduced costs over time due to efficiencies in the provision of services.)

It is still the case that our model is a fiscally neutral restructuring of state and local government. In considering ways to begin implementation of the model in 1993-94, however, it is imperative to do so in a way that contributes to the closure of the state's huge budget gap. In this brief, we provide an alternative that accomplishes both objectives. Our proposal saves $1.4 billion in state costs by shifting various program costs to counties (consistent with our overall restructuring model), and funds these added local costs through the extension of the ½ cent sales tax on a transitional basis. This approach makes progress towards the goal of a more rational system of government in California.

It is our belief that the proposal enhances the flexibility of counties and their control of program operations. By encouraging a greater recognition of the linkages that exist between these programs, it can help to improve overall program effectiveness.

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