2011 Realignment:

Addressing Issues to Promote Its Long-Term Success

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EXECUTIVE SUMMARY

As part of the 2011-12 budget plan, the Legislature enacted a major shift—or "realignment"—of state program responsibilities and revenues to local governments. In total, the realignment plan provides $6.3 billion to local governments (primarily counties) to fund various criminal justice, mental health, and social services programs in 2011-12, and ongoing funds for these programs annually thereafter.

The realignment plan adopted by the Legislature is similar to the one proposed by the Governor, as modified in the May Revision, with respect to the programs shifted and the amount of revenue provided to local governments. However, the adopted realignment package differs in two important respects from the administration's proposal. First, the Legislature's plan relies on a shift of existing state and local tax revenues rather than the extension of expiring tax rates as proposed by the Governor. Second, the adopted budget legislation does not include the Governor's proposal for a constitutional amendment to, among other things, make the funding allocations to local governments permanent and protect the state from potential mandate claims.

In this report, we explain the construction and mechanics of 2011 realignment, as well as identify a few pressing implementation issues that we recommend that the Legislature address before the end of the current legislative session. This report also highlights a series of more extensive program and fiscal issues that we recommend the Legislature address to increase the likelihood of the 2011 realignment plan being a long-term success. (These are summarized in the nearby box.) The specific legislative strategies necessary to address these more extensive issues will be complicated to design because of the number and types of programs being realigned, as well as entail difficult tradeoffs. Therefore, we do not suggest that the Legislature tackle these issues this year. Instead, we recommend that the Legislature use the time remaining during this legislative session to create a fall policy development *process*. Specifically, we recommend that the Legislature create a forum whereby state, legislative, and local stakeholders consider options and develop policy recommendations for the Legislature to consider when it reconvenes in early 2012.

LAO Recommendations to Promote the Long-Term Success of Realignment

- Develop local funding allocation formulas with eye towards the long-term.
- Simplify the structure of the realignment accounts to provide financial flexibility.
- Enact statutory changes to give counties appropriate program flexibility.
- Make sure that local fiscal incentives are aligned with statewide goals.
- Promote local accountability.
- Clearly define the state's role and funding responsibilities.
- Avoid state-reimbursable mandates.

DEVELOPMENT OF THE REALIGNMENT PACKAGE

What Is Realignment? Several times over the last 20 years, the state has achieved significant policy improvements by reviewing state and local government programs and realigning responsibilities to a level of government more likely to achieve good outcomes. In 1991, the Legislature enacted a major realignment of health and social services programs and funding responsibilities. This 1991 realignment plan is ongoing and, in 2011-12, counties will receive over $4 billion to implement the programs that previously were state funding responsibilities. During years of fiscal difficulty, realignment proposals by the Legislature or administration often have included additional revenues earmarked for the transferred programs. In this way, realignment proposals have been viewed, in part, as budget solutions. (The nearby box on page 6 provides more information about the 1991 realignment.)

Realignment Proposed by Governor. In January, the Governor proposed a state-local program realignment as part of his 2011-12 budget. This initial proposal assumed a total of $5.9 billion in revenue from extending the 1-cent increase in the state sales tax and 0.5 percent increase in the vehicle license fee (VLF) rates. Both of these rates had been increased temporarily as part of the 2009-10 budget package and were set to expire July 1, 2011. The Governor's proposal also included the one-time use of $861 million from the Mental Health Services Fund. The January budget proposal assumed that, effective July 1, 2011, the total of $6.8 billion in revenues would fund realignment of various public safety, mental health, health, and social services programs from state to local (primarily county) responsibility. The Governor's original proposal also assumed passage of a constitutional amendment which, if ratified by voters, would have extended the tax increases for five years and dedicated the revenue to local governments for realignment, as well as provided the state with protection from mandate claims made by local governments for costs associated with the realigned programs. (As we discuss later in this report, the California Constitution generally requires the state to reimburse local governments if it "mandates" that they provide a new program or a higher level of service.)

Realignment Package Modified Several Times. The administration modified its original realignment proposal in February and as part of the May Revision. These modifications included technical changes to the administration's estimates of program costs, as well as changes to the programs included in realignment. Figure 1 shows some of the major elements of the realignment package at various stages.

Final Realignment Package Approved in Two Phases. In March, the Legislature passed two bills related to the realignment of certain corrections and mental health programs and funding. However, the Legislature did not approve the proposed constitutional amendment that provided funding for the realignment package. In June, the Legislature passed Chapter 40, Statutes of 2011 (AB 118, Committee on Budget) and Chapter 35, Statutes of 2011 (SB 89, Committee on Budget and Fiscal Review), which provided the revenues for realignment and created the account structure to allocate the realignment resources. At that time, the Legislature also approved several other budget trailer bills related to realignment. Figure 2 lists the budget trailer bills related to realignment.

Figure 1

Major Elements of the Realignment Plan at Different Stages

	Governor's Proposals			Adopted Budget
	January	February	May	June[a]
Total Revenues in 2011-12	$6.8 billion	$6.8 billion	$6.4 billion	$6.3 billion
Revenue Sources	• Extend 1 percent sales and 0.5 percent VLF rate increases • Proposition 63 transfer	Same as January	Same as January, except: • 0.4 percent VLF rate increase	• Shift 1.0625 percent sales tax and $453 million VLF revenues • Proposition 63 transfer
Realigned Programs	• Fire • Court security • Public safety grants • Low-level offenders and parolees • Expanded juvenile justice • EPSDT • MHMC • AB 3632[b] • Community mental health/CalWORKs • Substance abuse treatment • Foster care and child welfare • Adult protective services	Same as January, adding: • State penalty funds • Pre-2011 juvenile justice realignment • Public safety mandates	Same as February, subtracting: • Fire • AB 3632 • State penalty funds • Public safety mandates	Same as May, subtracting: • Expanded juvenile justice
Constitutional Amendment	Yes	Yes	Yes	No

[a] Some of the budget trailer bills related to realignment were adopted in March.
[b] AB 3632 refers to education-related mental health programs.
VLF = vehicle license fee; EPSDT = Early and Periodic Screening, Diagnosis, and Treatment; MHMC = Mental Health Managed Care.

Figure 2

List of 2011 Realignment Trailer Bills

Bill Number	Chapter Number	Legislative Approval	Subject
AB 100	5	March 17	Mental health
AB 109	15	March 17	Criminal justice
SB 89	35	June 28	Vehicle license fee and registration fee
SB 92	36	June 28	Criminal justice – Board of State and Community Corrections
AB 117	39	June 28	Criminal justice (clean-up legislation)
AB 118	40	June 28	Sales tax, Local Revenue Fund 2011, and account structure
AB 114	43	June 28	Education

ARCHITECTURE OF 2011 REALIGNMENT

The 2011 realignment plan shifts the responsibility and funding for a series of major programs from the state to local level. The plan allocates the realignment funding to local governments pursuant to a complicated series of accounts and subaccounts. In this section, we describe the fiscal architecture of 2011 realignment, including the funds provided to local governments, the division of these funds among programs, and the plan's fiscal effect on the state.

Realigned Programs

The realignment package includes $6.3 billion in 2011-12 for court security, adult offenders and parolees, public safety grants, mental health services, substance abuse treatment, child welfare programs, adult protective services, and California Work Opportunity and Responsibility to Kids (CalWORKs). Except for the funding for the realignment of adult offender and parolee

Comparing 2011 and 1991 Realignments

The realignment package adopted by the Legislature in 2011 is by no means the first significant realignment of state and local programs. For example, the Legislature has previously realigned responsibilities for juvenile offender populations, trial courts, and mental health services. The previous realignment most akin to the 2011 realignment in size and scope is the one implemented in 1991. As is the case with the 2011 realignment, the 1991 realignment was enacted, in part, because of a multibillion-dollar state fiscal shortfall. The 1991 realignment provided counties with dedicated tax revenues to fund the realignment of various mental health, social services, and health programs, including altering cost-sharing ratios. In both realignments, statutes created a complicated series of accounts and subaccounts into which revenues were deposited. Similarly, both realignment plans deposit their revenues into a dedicated local fund and do not count them towards the Proposition 98 minimum guarantee.

While similar, the 2011 and 1991 realignments have notable differences. By including criminal justice programs, the 2011 realignment includes a broader scope of government programs. The 1991 realignment was also smaller in size, realigning about $2 billion of program responsibility (about $4 billion in today's dollars). In 1991, the state provided counties with *new* tax revenues—increases of a half-cent sales tax and a change in the depreciation schedule for vehicles resulting in an estimated 24.33 percent increase the vehicle license fee—rather than shifting existing state revenues.

Because of their similarities, we believe that the 1991 realignment can provide some valuable lessons for the state and counties as they implement 2011 realignment. For example, in our 2001 publication *Realignment Revisited: An Evaluation of the 1991 Experiment In State-County Relations*, we found that realignment had been largely successful because of its reliable funding stream for counties, increased flexibility, and incentives for innovation and less costly approaches to providing services. However, we also found that some aspects of the 1991 realignment—lack of data and a complicated system of allocation formulas, in particular—reduced the overall effectiveness of the realignment. (To find this 2001 report, go to www.lao.ca.gov/2001/realignment/020601_realignment.html.)

populations, which goes into effect October 1, all programs were realigned effective July 1. Figure 3 displays the amounts dedicated to each of the realigned programs in 2011-12. (We provide detailed descriptions of the realigned programs and their realignment funding allocations in the Appendix of this report.)

Figure 3

Expenditures for 2011 Realignment

(In Millions)

Adult offenders and parolees	$1,587
Local public safety grant programs	490
Court security	496
Pre-2011 juvenile justice realignment	97
Early and Periodic Screening, Diagnosis, and Treatment	579
Mental Health Managed Care	184
Drug and alcohol programs—substance abuse treatment	184
Foster Care and Child Welfare Services	1,567
Adult Protective Services	55
CalWORKs/mental health transfer	1,084
CalWORKs	(1,066)
Mental health	(18)
Total	**$6,322**

Realignment Revenues

Unlike the Governor's realignment proposal, the realignment package adopted by the Legislature does not extend the temporary sales and VLF tax rate increases that expired at the end of 2010-11. Instead, the budget reallocates $5.6 billion of state sales tax and state and local VLF revenues for purposes of realignment in 2011-12. Specifically, the Legislature approved the diversion of 1.0625 cents of the state's sales tax rate to counties. This diversion is projected to generate $5.1 billion for realignment in 2011-12, growing to $6.4 billion in 2014-15 (see Figure 4). In addition, the realignment plan redirects an estimated $453 million from the base 0.65 percent VLF rate for local law enforcement grant programs. Under prior law, these VLF revenues were allocated to the Department of Motor Vehicles (DMV) ($300 million) for administrative purposes and to cities and Orange County ($153 million) for general purposes. The budget increases the motor vehicle registration fee by $12 per automobile to offset the lost revenue to DMV. The budget also shifts $763 million on a one-time basis in 2011-12 from the Mental Health Services Fund (established by Proposition 63 in November 2004) for support of the Early and Periodic Screening, Diagnosis, and Treatment Program and Mental Health Managed Care program.

Account Structure for 2011 Realignment

The revenues provided for realignment are deposited into a new fund, the Local Revenue Fund 2011. The budget package creates eight separate accounts and 12 subaccounts within this fund to pay for the realigned programs. One of the accounts, the Mental Health Account, is somewhat different than the other accounts because its funds support the CalWORKs program and interact

Figure 4

Revenues for Realignment

(In Millions)

	2011-12	2012-13	2013-14	2014-15
Sales tax	$5,106	$5,571	$6,015	$6,388
Vehicle license fee	453	453	453	453
Proposition 63	763	—	—	—
Revenues	**$6,322**	**$6,025**	**$6,468**	**$6,841**

with accounts created under the 1991 realignment plan. Another account created in the Local Revenue Fund 2011 is the Reserve Account, where revenues generated in excess of the amounts projected for some accounts are deposited. The budget legislation requires revenue deposited into the Reserve Account to be used to reimburse counties for programs paid from the Foster Care, Drug Medi-Cal, and Adoption Assistance Program Subaccounts. In addition, for 2011-12, the budget assumes that about $1.2 billion of the funds deposited into the Local Revenue Fund 2011 will be used to reimburse the state for costs associated with incarcerating and supervising inmates and parolees who were convicted prior to the implementation of realignment and, therefore, will not be realigned to local responsibility. Figure 5 illustrates the Local Revenue Fund 2011 and its accounts and subaccounts.

Allocation of Realignment Funds

The budget legislation establishes various formulas to determine how much revenue is deposited into each account and subaccount. Several of these accounts and subaccounts have annual caps on how much funding they can receive. The budget package limits the use of funds deposited into each account and subaccount to the specific programmatic purpose of the account or subaccount. The budget does not contain any provisions allowing local governments flexibility to shift funds among these programs. The budget legislation also contains some formulas and general direction to determine how the funding would be allocated among local governments. The budget legislation does not specify program allocations among the various accounts and subaccounts, or among counties, for 2012-13 and beyond (except for the CalWORKs/mental health transfer, which appears to be ongoing). It does, however, include legislative intent language specifying that (1) new allocation formulas be developed for 2012-13 and subsequent fiscal years, and (2) sufficient protections be put in place to provide ongoing funding and mandate protection for the state and local governments. Despite uncertainty surrounding these ongoing allocations, the revenues deposited into the Local Revenue Fund 2011 for purposes of realignment are ongoing.

State Fiscal Effect of Realignment

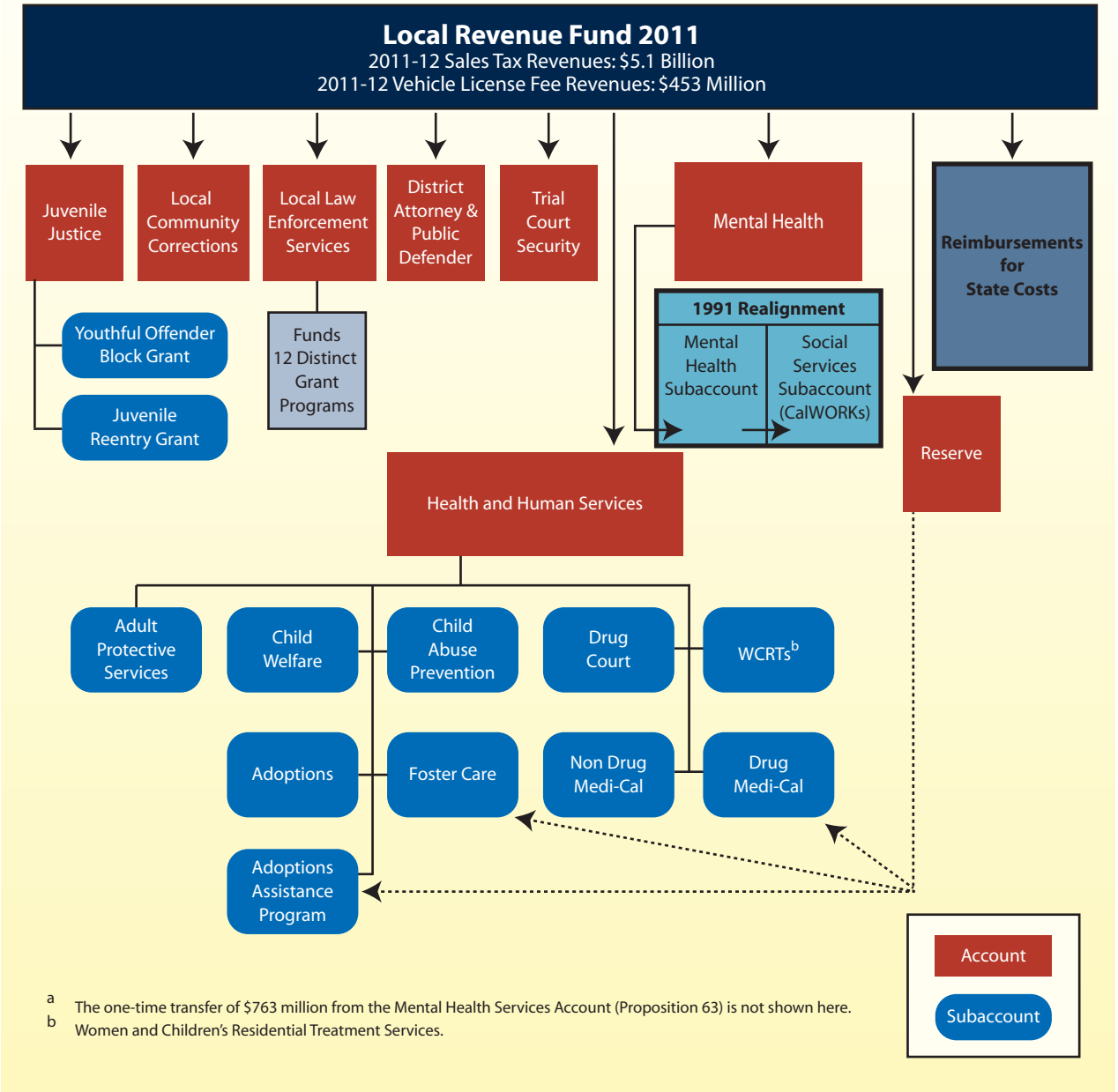
Most of State Fiscal Benefit Stems From Proposition 98 Savings. The budget assumes that, by depositing the sales tax revenue into a special fund for use by local governments for realignment, these funds are not available for the Legislature to spend for education purposes and thus are not counted as state revenue for purposes of calculating the Proposition 98 minimum funding guarantee. As discussed more fully in the education section of our *2011-12 California Spending Plan* report, this action reduced the Proposition 98 minimum funding guarantee by $2.1 billion. Budget trailer bill language specifies, however, that the exclusion of these revenues is contingent upon voter approval of a ballot measure providing additional funding for K-12 school districts and community colleges. If no ballot measure is adopted satisfying these requirements, the funds would not be excluded from the Proposition 98 guarantee moving forward and the state would need to repay K-14 education for the loss of $2.1 billion for the 2011-12 year over a five-year period. The assumption that the realignment revenues are excluded from the calculation of the Proposition 98 minimum funding guarantee is subject to some dispute. We note, for example, that the Attorney General's office has been requested to issue an opinion regarding this matter.

Additional State General Fund Savings. In addition to the Proposition 98 savings, the realignment plan achieves state General Fund savings in two other ways. First, using VLF revenue to fund local law enforcement grant programs

reduces the state's costs for these programs by $453 million. Second, the budget assumes about $86 million in net savings to the state associated with realignment of lower-level offenders and parolees. Offsetting these savings, however, is $34 million provided in the budget to support local government hiring, training, and other transition costs associated with implementing this corrections realignment in 2011-12. In the longer term, however, the realignment of inmate and parolee populations has the potential to significantly reduce cost pressures on the state's prison system, potentially including costs for construction of new prison facilities, as well as achieve a large share of the state inmate population reduction ordered by the federal court.

Figure 5

Account Structure of the Local Revenue Fund 2011[a]



a The one-time transfer of $763 million from the Mental Health Services Account (Proposition 63) is not shown here.
b Women and Children's Residential Treatment Services.

PRESSING IMPLEMENTATION ISSUES TO ADDRESS IN 2011

The 2011 realignment legislation is complex and wide sweeping. To ensure that its changes work as intended, there are a few pressing issues that we believe the Legislature should address before the end of the current legislative session, as well as a series of more extensive issues that the Legislature should consider addressing in early 2012. We discuss the more pressing implementation issues in this section.

Allocation of Revenues if Total Funds Are Less Than Expected

While we believe that the administration's realignment revenue estimates are reasonable, they are estimates subject to change based on various economic factors. Especially given the weakness in the current economy, it would be wise to ensure that revenues are to be allocated in accordance with legislative priorities in the event that revenues do not reach expectations. Based on our reading of the realignment legislation, the first accounts to be funded are the Mental Health Account (which primarily funds CalWORKs) and the Local Law Enforcement Services Account (LLESA). If revenues are lower than anticipated by the end of the year, each program except CalWORKs and the local public safety grants funded by the LLESA will receive its proportionate share of the shortfall based on its share of the Local Revenue Fund 2011 revenues. It is unclear why CalWORKs and the local public safety grants were chosen to be protected in the event that revenues are low. Alternative approaches the Legislature may wish to consider are prorating reductions across all programs, prioritizing program funding differently (for example, by prioritizing entitlement programs), or allowing counties some flexibility to shift money among accounts to address shortfalls based on local priorities.

Prioritization of Programs if Total Revenues Are Higher Than Expected

As described earlier in this report, revenues in excess of those projected are generally deposited into the Reserve Account, which is to be used to fund entitlement programs in the Foster Care, Adoptions Assistance Program, and Drug Medi-Cal Subaccounts. However, it appears that excess revenues would go to these entitlement programs even if those revenues exceeded the costs to provide the programs. It is also worth noting that if revenues are high these entitlement program subaccounts will receive additional funding in two ways, both the transfers from the Reserve Account, as well as getting each subaccount's proportionate share of excess revenues deposited into the Local Revenue Fund 2011. The Legislature may want to consider whether there is another way it would want to prioritize additional revenues.

Minimizing Mandate Risk

Under the California's Constitution, the state generally must reimburse local governments when it mandates that they provide a new program, a higher level of service, or an increased share of cost for a state-local program. Government Code Section 17556 specifies, however, that the state is not required to provide mandate reimbursements if the state provides local agencies with additional revenues "specifically intended to fund the costs of the state mandate in an amount sufficient to fund the cost of the state mandate."

Over the years, the Commission on State Mandates (CSM) has interpreted Section 17556 in a way that often does not give the state credit when the state provides resources to local agencies without directly linking the funds to an identified

mandate. In addition, the voters approved Proposition 22 in 2010, amending the Constitution to prohibit the state from using VLF revenues for mandates.

Given the many shifts in program responsibilities and cost shares in the 2011 realignment package, as well as its reliance on VLF (including VLF revenues shifted from the 1991 realignment plan), the CSM could find that some provisions in the 2011 realignment package constitute state reimbursable mandates. If so, the state would be required to provide additional funds to local governments to reimburse them for these costs.

While addressing this fiscal risk is a complicated task, the Legislature could take some actions to minimize it in the short run. Specifically, we recommend that the Legislature specify that the first use of any 2011 realignment account is to offset any mandated costs imposed on local agencies related to the 2011 realignment legislation. Later in this report, we recommend that the Legislature consider additional actions to minimize its ongoing fiscal risks associated with mandates.

Contracting Back With State for Incarceration of Adult Offenders

Under the realignment plan, counties could contract back with the state to house in state prisons certain adult offenders who otherwise would be realigned to county responsibility. However, at the time of this analysis, how such a process would work remains unclear. While we understand that California Department of Corrections and Rehabilitation (CDCR) is currently working on the administrative details, legislative oversight of the process will be important, particularly given that the state is under a federal court order to reduce prison overcrowding. Given this, the Legislature may want to place an overall cap on the number of beds that counties can purchase in state prison facilities (not including fire camps, which generally are not part of the federal court order). In addition, the Legislature may want to specify in statute the rate prisons are to charge counties for use of state prison beds to ensure that the state receives reasonable compensation for these additional housing and inmate medical costs.

Existing Community Corrections Performance Incentive Grant Program

In accordance with Chapter 608, Statutes of 2010 (SB 678, Leno), counties currently receive funding based on their success in reducing the percentage of probationers sent to state prison compared to a county-specific baseline percentage of probationers they sent to prison between 2006 and 2008. Our analysis indicates that the realignment of certain adult offenders from the state to counties will "artificially" reduce the future percentage of probationers that counties send to state prison, thereby unintentionally making them eligible for more Chapter 608 funding. This is because the realignment plan will (1) increase the number of individuals on probation and (2) make certain crimes ineligible for prison sentences. In order to account for these impacts, we recommend that the Legislature revise the funding formula specified in Chapter 608. For example, the Legislature could freeze the performance incentive grants at their current levels and, over the next several years, collect data to create a new baseline that reflects the impacts of realignment. While the Legislature probably does not need to correct the Chapter 608 formula before the end of this session, it may want to at least adopt language clarifying that it intends to make such changes. This is because the current formula is based on data for each calendar year, and it might be helpful to counties to provide clarity as to whether the formula is going to change for the 2011 calendar year.

FURTHER ACTIONS NEEDED TO ENSURE THE LONG-TERM SUCCESS OF 2011 REALIGNMENT

Major measures revamping state and local government responsibilities seldom are fully developed and enacted in a single legislative session. The package of realignment bills enacted by the Legislature earlier this year is not an exception. As acknowledged in the realignment bills themselves, the Legislature has additional work that it needs to do to develop the financial architecture of 2011 realignment, determine the appropriate level of financial and programmatic flexibility to provide counties, and create the right fiscal incentives and accountability mechanisms. Thoughtfully addressing these more extensive and complicated issues will improve the long-term success of the 2011 realignment package.

In this section, we describe our major recommendations for the Legislature to consider as it refines and develops the details of 2011 realignment (see Figure 6). In general, our recommendations do not provide specific solutions to the issues raised. For example, we do not specify exactly what percentage of realignment funds should go to each county for each realigned program. The number, differences, and complexities of the programs included in 2011 realignment make such specific recommendations difficult. Instead, our recommendations should be read as guideposts for the Legislature as it continues to debate different options. (In fact, at the end of this report, we suggest that the Legislature develop a *process* for developing the long-term implementation details that is inclusive of the many relevant state, legislative, and local stakeholders.) In order to be as useful as possible, we first describe each of our recommendations and then provide specific examples as to how they apply to 2011 realignment.

Figure 6

LAO Recommendations to Promote the Long-Term Success of Realignment

- Develop local funding allocation formulas with eye towards the long-term.
- Simplify the structure of the realignment accounts to provide financial flexibility.
- Enact statutory changes to give counties appropriate program flexibility.
- Make sure that local fiscal incentives are aligned with statewide goals.
- Promote local accountability.
- Clearly define the state's role and funding responsibilities.
- Avoid state-reimbursable mandates.

Develop Local Funding Allocation Formulas With Eye Towards Long Term

The Legislature will need to determine how revenues will be allocated among counties for each realigned program for 2012-13 and beyond. For 2011-12, the Legislature chose to base county allocations largely upon historical funding allocations. This probably makes sense for the current year, a year of transition. However, over the longer term, it is critical for the success of these programs that allocation formulas *not* be based solely on historical allocations. County financial needs for each program are going to change over time based on changes in county population, caseloads, demographics, wealth, cost of living, and other factors. In the future, county allocations should be based on formulas that are responsive to the specific factors that affect the funding needs of each program. If, on the other hand, allocation formulas are created that simply institutionalize the funding status quo, some counties eventually will become overfunded and others underfunded

relative to their comparative needs and with no rational policy basis to justify the disparities. If this were allowed to occur, underfunded counties might need to reduce services, seek additional funding from the state, and/or divert funding from other programs. Further, overfunded counties would have less fiscal incentives to control costs and run their programs efficiently. The Legislature and stakeholders may have concerns about adopting new allocation formulas that are significantly different than historical funding patterns. For this reason, it may make sense to phase in any changes so as not to have an adverse effect on any county in any single year.

In addition, the Legislature needs to consider how best to allocate the *growth* in realignment revenues over time, particularly if there are periods where revenue growth exceed program needs. For example, should funding for certain programs be prioritized, or should counties be given flexibility to allocate increased revenues based on local needs and priorities? Should revenue growth be prioritized to programs that have received baseline cuts in recent years, or where the Legislature believes there to be inadequate base funding levels? Should some of the revenue growth be used as an "incentive pot" to support innovative approaches?

In considering this issue, the Legislature should strive to avoid some of the allocation mistakes made in the realignment of mental health and other programs in 1991. In that realignment, allocation formulas were created based largely on historical funding patterns and reflected a combination of each county's historical spending dating from the mid-1970s and caseloads and populations in 1991. While a share of the growth in the 1991 realignment revenues was dedicated to addressing underlying funding inequities among counties, the inequities were never resolved. The realignment legislation created equity subaccounts designed to provide a share of the revenue growth to "under-equity" counties based on each county's population and poverty population. In 1994-95, there were 22 counties that fit the statutory definition of being under-equity counties. While the equity shortfall for these counties was reduced, there were still 22 under-equity counties in 2000-01, the final year of these equity payments.

2011 Realignment Examples: Local Corrections and Child Welfare. In determining future allocations for the newly realigned local corrections populations (from state prisons and parole supervision to local jails and community supervision), we recommend that the Legislature consider specifying an allocation formula in statute that is sensitive to future caseload changes at the county level, rather than one that essentially locks in fixed percentages of funding for each county. For example, the Legislature could consider using a formula that weighs heavily factors such as the number of adults ages 18 through 35. This formula could also include other factors such as the number adult felony convictions in each county for the crimes specified in the realignment plan. We believe these types of factors would be more responsive to changes in the populations, demographics, and caseloads that are likely to vary by county and change over time.

As another example, the base funding a county currently receives for Child Welfare Services (CWS) is based on social worker caseload standards established in 1984. There is wide variation in average funding allocations per child among counties. The 2011 realignment legislation calls for CWS funding in 2011-12 to be distributed among counties based on the existing allocation structure. Rather than tying future CWS funding to a county's historical spending, the Legislature could develop a funding allocation based on broader measures, including factors such as the population of children in a county.

Simplify the Structure of the Realignment Accounts/Subaccounts To Provide Financial Flexibility

As discussed earlier, the 2011-12 budget package requires specific amounts of revenues be deposited into 20 different accounts and subaccounts, with additional allocation formulas dictating the amounts going to a dozen local law enforcement programs. The Legislature should consider simplifying this account structure for 2012-13 and beyond, as well as provide each county with some flexibility to shift funding designated for one program to another program. The current account structure is unnecessarily complicated and could be simplified. This simplification should be achievable without directly affecting the provision of programs. Simplifying the accounting structure for 2011 realignment has the potential to reduce the amount of administrative overhead counties (and the state, potentially) need to provide financial accounting and oversight.

Simplifying the account structure could involve the merger of some accounts and subaccounts. Merging accounts—or, alternatively, providing each county with some level of authority to transfer money among its programs—would permit counties greater flexibility in how they use the revenues provided for 2011 realignment. This could promote greater innovation, as well as allow counties to better respond to local needs and preferences (also discussed below). The specific amount of flexibility would depend on the final account structure created but could be increased or limited by statute. For example, the Legislature could allow counties to shift no more than a specified percentage of funding from one program to others. This may make sense for programs for which the Legislature has significant concerns about county commitment to providing a minimum level of services. In general, however, we recommend the Legislature limit the number of constraints it imposes on county ability to move funding among programs. The Legislature has given counties responsibility for providing these programs. It is reasonable, therefore, for the Legislature to also give counties the financial authority and flexibility to manage this responsibility.

Fiscal flexibility can be particularly important for counties over the long term. In years in which revenues are down or grow more slowly than anticipated, fiscal flexibility allows counties some ability to respond and focus resources on their highest priorities. Fiscal flexibility can also help counties respond to unique factors that drive up program costs in their communities or offer unusual opportunities for cost savings.

2011 Realignment Example: Juvenile Justice Grants. Under the realignment plan, county probation departments and other local agencies receive funding from two different accounts—the Local Law Enforcement Services Account and the Juvenile Justice Account—for five juvenile justice grant programs (shown in Figure 7). These programs are the Youthful Offender Block Grant, the Juvenile Reentry Grant, Juvenile Camps and Ranches Grant, the Juvenile Probation Grant, and the Juvenile Justice and Crime Prevention Act. Specifically, local governments will receive a separate allocation in 2011-12 for each program and must use the funds for the purposes of that program as specified in statutes. Given that these grant programs have overlapping goals and provide similar services, we recommend that the Legislature consolidate the funding for these programs beginning in 2012-13. Such a change would increase local flexibility by allowing local governments to use the funds in ways that meet their unique juvenile justice needs more efficiently and effectively. In addition, reducing the number of program-specific reporting requirements would reduce paperwork and administrative burdens, freeing up resources for more supervision, treatment, and oversight activities designed to achieve improved public safety results.

Enact Statutory Changes to Give Counties Appropriate Program Flexibility

For some of the realigned programs, the Legislature will need to make some policy decisions regarding how much *programmatic* flexibility to give counties. The Legislature will need to decide the degree to which counties will be required to operate programs consistent with past practices versus having the authority to provide higher or lower levels of service. Generally, we recommend giving local governments flexibility to encourage innovation and allow for greater responsiveness to local needs and preferences. This flexibility will necessarily be limited where federal requirements are in place. The Legislature may also have concerns that too much flexibility could mean that certain programs are not operated at an adequate level in some counties. In those cases where a minimum level of service is a priority of the Legislature, it can establish minimum standards or requirements. However, we would caution that setting extensive minimum requirements could reduce local ability to innovate and increase the risk of local governments filing claims for reimbursement of state-mandated costs. Instead, we suggest that the state might achieve better outcomes by focusing on establishing the right fiscal incentives and accountability mechanisms (see discussions below).

Our office found that one of the successes of 1991 realignment was the amount of programmatic flexibility provided to counties for community mental health programs. This flexibility was enhanced because of the more stable stream of dedicated revenues provided to a set of programs that had previously been subject to annual state budget allocations. We found that realignment's reliable funding stream and increased flexibility allowed counties to develop innovative and less costly approaches to treating mentally ill patients. This included reduced reliance on more expensive mental health hospitals in favor of less costly community-based outpatient and day-treatment programs. Similarly, 2011 realignment has the

Figure 7

Realigned Juvenile Justice Programs

(In Millions)

	Population Served	Examples of Services	2011-12 Funding
Local Law Enforcement Services Account			
Juvenile Probation Grant	Children under the supervision of a juvenile court or a probation department, or children at risk of being wards of the court, and their families	Mental health assessments, family mentoring, life skills counseling, gang intervention, and drug and alcohol education	$151.8
Juvenile Justice Crime Prevention Act	At-risk youth and juvenile offenders and their families	Mental health services, anger management, gang intervention, and drug and alcohol education	107.1
Juvenile Camps and Ranches Grant	Same as the Juvenile Probation Grant program	Same as the Juvenile Probation Grant program	29.4
Juvenile Justice Account			
Youthful Offender Block Grant	Youthful offenders in need of services from probation, mental health, drug and alcohol, and other county departments	Probation, mental health, and drug and alcohol services	93.4
Juvenile Reentry Grant	Individuals paroled from state juvenile detention facilities	Evidence-based supervision and detention practices and rehabilitative services	3.7
Total			**$385.4**

potential to foster greater local innovation if counties are provided programmatic flexibility. For example, there appear to be few limitations on how counties choose to manage the newly realigned lower-level offender and parolee populations. This programmatic flexibility, particularly when coupled with the dedicated revenues provided under realignment, should allow local law enforcement agencies to plan for and implement innovative long-term strategies to better manage offenders in the community based on best practices and local needs.

2011 Realignment Example: Adult Protective Services. Although current state law requires all California counties to operate an APS program, it is not a federally required program. Therefore, the Legislature has considerable flexibility in determining how to promote the state's overall goals related to elder and dependent adult protection under realignment. For example, the Legislature could make APS a county optional program, but require that counties share information with their communities regarding the safety of elders and dependent adults in their jurisdiction. In doing so, counties would have flexibility to invest in an APS program or spend funds on enhancing other county programs serving elders and dependent adults. In granting this level of flexibility, the Legislature should consider whether it is comfortable with giving counties the ability to decide whether to have an APS program, and whether local residents would have sufficient information to ensure that the county provided needed services to the elderly and dependent adults.

Alternatively, the Legislature could require each county to continue to operate an APS program, but give it significantly more authority to structure the program in a way that works best for the individual county. For example, current law requires county APS programs to investigate allegations of abuse and neglect within certain timeframes. The Legislature could give counties authority to establish timeframes that differ from the current statutory requirements, provided the county can demonstrate that it meets certain overall standards relating to adult protective services.

Make Sure That Local Fiscal Incentives Are Aligned With Statewide Goals

One frequently cited premise of realignment is that local governments will use their greater fiscal and program authority to improve program outcomes. For this premise to be realized, however, local program funding and authority must be linked in ways that provide inherent fiscal incentives for local governments to operate successful programs. This works in two ways. First, realignment should be structured so that local governments experience fiscal benefits when they successfully and effectively operate the realigned programs. Second, the costs associated with program failures should be borne largely by local governments and not shifted to the state. Similarly, local governments should have fiscal incentives to control costs and operate realigned programs efficiently. The Legislature should strive to structure realigned programs and their funding so as to encourage success, efficiency, and innovation.

2011 Realignment Example: CalWORKs. As described in more detail in the Appendix, 2011 realignment provides counties with additional funding for their CalWORKs grant programs through a complicated series of transfers that include 1991 realignment accounts. The outcome of these transfers is that annually each county receives additional funding for their CalWORKs programs. The amount a county receives is the same as the amount the county would have received for mental health services under the 1991 realignment. Prior to 2011 realignment, every county paid the same 2.5 percent fixed share of costs for its CalWORKs program so that a county's costs increased when its program costs increased.

Under 2011 realignment legislation, each county's share of CalWORKs costs varies each year based on its annual program funding from 1991 mental health realignment. Under this funding structure, a county's CalWORKs costs are not affected by its actual caseloads, program costs, or outcomes. Consequently, this approach provides counties with no incentive to control their CalWORKs costs. A better option would be to modify the CalWORKs funding formula so there is a fiscal incentive for counties to manage program costs. The Legislature could direct that any CalWORKs savings be redirected into (1) CalWORKs services and child care, (2) other social services programs within realignment (such as child welfare), and/or (3) any other local priority.

Promote Local Accountability

Establishing useful accountability measures is critical to the long-term success of realignment in several ways. Local program administrators responsible for implementing realigned programs need information to ascertain how effectively and efficiently their agencies are operating programs so as to make decisions on how to improve the programs in subsequent years. In addition, state and local officials will want information regarding the degree to which Realignment 2011 achieves its intended goals, namely improved programmatic outcomes and less costly program delivery. Perhaps most importantly, the general public and their elected officials will expect information on how well local agencies are operating the various realigned programs in order to hold officials accountable.

In establishing program accountability mechanisms for realigned programs, it is important that priority be given to creating reporting requirements and processes that are beneficial to *local* agencies, elected officials, and communities—those ultimately responsible for the local programs—rather than the state. This suggests that local stakeholders should be involved in the creation of these accountability mechanisms to better ensure the usefulness of the final requirements. Moreover, we suggest that any requirements emphasize *outcome* measures and be made available to the general public—for example, on the county website. In order to ensure that county administrators and state officials can effectively compare program outcomes across counties, the state should ensure the uniformity of any reporting requirements.

For realigned programs, the state's traditional "top down" approach to oversight and accountability may not be the most effective or most responsive to local needs and pressures. Instead, it may be more effective for accountability to be achieved through having the fiscal incentives (rewards and sanctions) for good outcomes, as well as public display of program outcomes for review by the public, local media consumption, and stakeholder groups. For example, there is currently a collaborative venture between the University of California at Berkeley and the California Department of Social Services (DSS) that aggregates statewide child welfare and foster care data into customizable tables that are updated quarterly and made available on a public website. This data source allows those working at the county and state level to examine performance measures over time. It provides policymakers, child welfare workers, and the public with direct access to information on California's entire child welfare system. The program is funded by DSS and the Stuart Foundation.

2011 Realignment Example: Local Corrections. As one example, the Legislature could require that counties make available to its citizens key outcome data associated with the realignment of the lower-level offenders and parolees realigned to local community supervision, such as the rate at which these offenders are subsequently rearrested and re-incarcerated for

more serious and violent crimes. Such a process would facilitate local accountability by allowing the community and local leaders in each county to assess how effectively it is supervising and treating the realigned offenders. Counties would also be able to use the data to compare their performance with that of other counties and allow them to identify the successful counties from whom to learn best practices. In order for counties to make those comparisons, though, it would be necessary for the state to ensure that counties are collecting and reporting the data in consistent and uniform ways. Over time, state policymakers could use this statewide data to evaluate the long-term impacts of 2011 realignment on public safety.

Clearly Define the State's Role and Funding Responsibilities

As local governments take over more responsibility for the operation of realigned programs, the state's role necessarily diminishes. Even where the state transfers significant program authority to counties, however, the Legislature may still desire that state agencies retain some roles—such as related to program oversight, technical assistance, statewide coordination, and ensuring federal conformity. Defining these specific roles for each state agency is important to ensure that state administrators and their agencies adapt to their new functions and responsibilities. Absent clear legislative direction, it is easy to imagine state agencies being slow to recognize and embrace these new roles. In addition, defining state agencies' roles is important so that local agencies know what resources are to be provided by—or requirements imposed by—state agencies.

2011 Realignment Example: Local Corrections. In adopting the realignment budget package, the Legislature approved legislation to eliminate the Corrections Standards Authority (CSA), an office of CDCR, and assign its former duties to a new 12-member Board of State and Community Corrections (BSCC) effective July 1, 2012. Unlike CSA, this new board will be independent of CDCR. The primary goals of BSCC are to (1) assist the state and local governments in implementing the realignment of various criminal justice responsibilities, (2) provide leadership in the area of criminal justice policy, and (3) develop data and information related to the implementation of outcome-based measures and evidence-based practices in community corrections efforts. The Legislature may want to provide more specific guidance in statute on how the board should carry out these goals. For example, the Legislature could require the board to compare program outcomes (such as recidivism rates) among counties, as well as formalize a process for identifying and sharing best practices used in successful counties. In the future, BSCC also could be required to aggregate county level data to assess the statewide effect of realigning certain adult offenders on local public safety to assist the Legislature in making subsequent policy decisions.

Avoid State-Reimbursable Mandates

The Constitution provides financial protections to local governments by generally requiring the state to reimburse them for the cost of mandated new programs, increased program responsibilities, and increased shares of costs for state-local programs. As discussed earlier in this report, it is possible that—absent additional legislative action or constitutional change—some of the changes in 2011 realignment could be considered a "state-reimbursable mandate." In general, we recommend the Legislature avoid funding programs as mandates because the reimbursement process gives the state little ability to control program costs, is unduly bureaucratic, and tends to result in some local governments receiving disproportionately higher funding levels than others.

The clearest way to ensure that the 2011 realignment package does not result in state-reimbursable mandates would be for the state to pass a constitutional amendment similar to the one proposed by the Governor. That measure excluded the 2011 realignment program changes from the reimbursement requirement. Absent a constitutional change (a possibility that we discuss in the nearby box), the Legislature will need to carefully examine each program to minimize the chance that 2011 realignment could be viewed as imposing a state-reimbursable mandate. Specifically, the Legislature will need to ensure that (1) each county and city receives sufficient funds each year (from a revenue source that may be used to pay for mandates) to offset the cost of any mandated element of the 2011 realignment package and that (2) these funds are explicitly identified as intended

What Happens Without a Constitutional Amendment?

The administration has stated its intent to seek a constitutional amendment similar to what was proposed and considered by the Legislature in February. The details of such an amendment have not been publicly released, and it is unclear if the amendment would be sent to the voters by the Legislature (requiring a two-thirds supermajority vote of both houses of the Legislature) or through the initiative process.

The major features of the February constitutional amendment were the approval of tax rate increases, the dedication of those tax revenues to local governments for the purpose of funding realigned programs, protection of those revenues from being diverted by the state, declaration that realignment revenues did not count towards the Proposition 98 minimum guarantee, a state-local risk-sharing formula to address unanticipated costs associated with lawsuits or new federal requirements, and state protection from local mandate claims associated with realigned programs.

If it contained similar provisions, adoption of a constitutional amendment would provide local governments an increased level of certainty and provide the state with protection from new costs. What happens, however, if no constitutional amendment is adopted—either because the proposal does not reach voters or because voters reject it? Based on our understanding of how realignment currently is constructed, all the program realignments would continue, including the statutory policy changes related to the supervision of lower-level offenders and parolees. The diversion of the state's sales tax and the vehicle license fee funding to the Local Revenue Fund 2011 also would continue. While counties would not have constitutional protection from the state diverting their realignment revenues in the future, the constitution's existing mandate provisions would offer counties some level of financial protection.

The state, on the other hand, would bear some risk that a local government that experienced higher program costs than it received in earmarked program revenues might file a successful claim for mandate reimbursements. Given this risk, the Legislature should explore a range of options to reduce the likelihood that part of the package could be determined to be a state-reimbursable mandate. In the 1991 realignment, for example, the Legislature created a series of "poison pills" to reduce the likelihood of a local government filing a mandate claim. While enacting a similar approach for the 2011 realignment would be difficult, it merits legislative consideration.

by the Legislature to be available to pay for these costs.

Counties will likely be concerned that stringent state mandate protections may leave them vulnerable to increased costs associated with unanticipated events, such as lawsuits, changes in federal law, or federal performance review penalties. For this reason the Governor's proposed constitutional amendment also included a provision that required the state and counties to share in these increased costs equally should they occur. The Legislature may wish to consider similar language.

2011 Realignment Example: Child Welfare. Under prior law, the state and counties shared the nonfederal costs of CWS and Foster Care. Under realignment, counties pay for 100 percent of the nonfederal share of most child welfare costs. Without a constitutional amendment or other changes, counties could seek mandate reimbursement to the extent realignment revenues were less than the actual costs to provide these programs. This could happen either if the revenues provided to the child welfare subaccounts are lower than projected or if caseloads or other costs are higher than expected. Absent changes that would protect the state from county mandate claims, not only could state General Fund costs increase, but there would also be less incentive for counties to try to manage their child welfare programs efficiently within their resources.

LONG-TERM DECISIONS NEED A THOUGHTFUL PROCESS

We believe that addressing the longer-term issues outlined in this report—such as determining ongoing allocation formulas, establishing accountability mechanisms, and avoiding mandates—are critical to the long-term success of this realignment. If the Legislature and administration address these issues in a thoughtful way, with a long-term vision, there is a greater chance that realignment could result in significant benefits for the state and local governments, including improvements in program outcomes and more efficient delivery of services.

For this reason, we believe the Legislature should use the interim period in the fall of 2011 to establish a thoughtful *process* for considering how best to address the long-term implementation issues outlined in this report. This process should be designed to include the active participation of not only the Legislature, but also the administration, county and city representatives, local program administrators, and local stakeholders. The objective of the process should be for these participants to reach consensus on how to address these longer-term issues. They should provide their input to the Legislature by early 2012 so that implementation legislation can be adopted before the start of the 2012-13 fiscal year. For example, the Legislature could direct the creation of working groups in each of the major program areas affected by realignment with instruction to meet regularly and report back to the Legislature on its progress periodically over the fall and in January around the time the Governor releases his 2012-13 budget proposal. The Legislature could also hold interim hearings to receive the input of the public and various stakeholders. Ultimately, we believe that this type of approach has the potential to identify ways to balance the sometimes-competing interests of different stakeholders, avoid mistakes of past realignments, and improve fiscal and programmatic outcomes associated with this realignment.

APPENDIX: DETAILED DESCRIPTIONS OF REALIGNED PROGRAMS

The 2011 realignment package includes a broader array of programs than any other state-local realignment in modern California history: criminal justice, health, and social services programs. In many cases, particularly in the area of criminal justice, specific programs were selected for inclusion in the 2011 realignment package based on the belief that local governments have the capacity to operate the programs more effectively than the state. Similar to the case in 1991, however, the 2011 realignment package also includes some programs where there is much less agreement that greater local control could yield improved outcomes. We describe the programs included in the realignment package below.

Criminal Justice Programs

The realigned criminal justice programs are (1) adult offenders and parolees, (2) court security, (3) pre-2011 juvenile justice realignment, and (4) a variety of local public safety grant programs. Each of the accounts and subaccounts related to the realignment of criminal justice programs is listed in Figure 1. All of these programs are funded from the Local Revenue Fund 2011. The figure also displays some details on how the funding provided to these programs is allocated.

Adult Offenders and Parolees ($1.59 Billion)

As part of the 2011-12 budget package, the Legislature shifted the responsibility for certain lower-level offenders, parole violators, and parolees from the state to the counties on a prospective basis effective October 1, 2011. Under the realignment plan, offenders sentenced for certain nonserious, nonviolent crimes—who have no prior serious or violent criminal convictions and who are not required to register as sex offenders—will now

Figure 1

Summary of 2011-12 Criminal Justice Allocations in the Local Revenue Fund 2011

(Dollars in Millions)

Account	Estimated Allocation	Allocation From LRF 2011	Allocation Cap	Distribution Among Counties
Local Community Corrections[a]	$354	8.89%	No	Specific allocations
District Attorney and Public Defender	13	0.32	Yes	Specific allocations
Local Law Enforcement Services	490	Total allocation guaranteed	Yes	Various formulas in existing law
Trial Court Security	496	12.45	Yes	Discretion of DOF
Juvenile Justice	97	2.44	Yes	Consistent with existing law
Youthful Offender Block Grant Subaccount	(93)	(2.35)	Yes	Formula in existing law
Juvenile Reentry Grant Subaccount	(4)	(0.09)	Yes	Based on criteria in existing law
Total	**$1,450**			

[a] Not shown here is estimated $1.2 billion in payments to the state related to housing and supervising offenders and parolees.
LRF = Local Revenue Fund; DOF = Department of Finance.

serve their sentence in a county jail and/or under local community supervision rather than in state prison. In addition, certain offenders released from prison will now be supervised in the community by county agencies (such as county probation) instead of by state parole agents. When locally supervised offenders violate the terms and conditions of their supervision, the courts, rather than the Board of Parole Hearings, will preside over revocation hearings to determine if they should be revoked to county jail. According to the administration, these changes are projected to reduce the state inmate population by about 14,000 inmates in 2011-12 and nearly 40,000 inmates (roughly one-fourth of the total inmate population) upon full implementation in 2014-15. The state parolee population is projected to decline by about 25,000 parolees in 2011-12 and by 77,000 parolees (roughly three-fourths of the total parole population) in 2014-15. The budget assumes that the reduction in the inmate and parolee populations will result in state savings of about $453 million in 2011-12, growing to $1.5 billion upon full implementation.

The realignment plan assumes a total of $1.6 billion from the Local Revenue Fund 2011 to support the realignment of adult offenders and parolees in 2011. Of this total, $354 million will be transferred to the newly established Local Community Corrections Account to support the local incarceration and supervision of the realigned offenders. In addition, the plan estimates that about $13 million will be transferred into the District Attorney and Public Defender Account to support the involvement of district attorneys and public defenders in parole revocation proceedings. The funds in these two accounts will be distributed in 2011-12 to counties based on a formula that takes into account various factors, such as the proportion of the state prison population that is from a particular county. The realignment plan also assumes that the Local Revenue Fund 2011 will reimburse the state about $1.2 billion for costs incurred in 2011-12 for lower-level offenders in state prison who were sentenced prior to October 1, 2011.

Local Public Safety Grant Programs ($490 Million)

Under the realignment plan, funding for various local public safety grant programs (such as the Citizens' Option for Public Safety Program, juvenile justice grant programs, and booking fees) will be shifted directly to local governments (cities and counties) for the same purposes as specified in existing statutes.

Under the plan, a total of about $490 million will be transferred to the newly established Local Law Enforcement Services Account—an estimated $453 million from the redirection of existing vehicle license fee revenue and $37 million from the Local Revenue Fund 2011—to support the realigned public safety grant programs. For 2011-12, the funds in this account will be allocated to local governments by the State Controller's Office generally based on the level of funding received for each grant program in recent years. The realignment plan requires that, if there are insufficient revenues to fully fund this account, the Director of Finance shall allocate the funds necessary from the Local Revenue Fund 2011 to provide the full allocation. Figure 2 lists the 12 grant programs and the level of funding provided for each.

Court Security ($496 Million)

Current law generally requires trial courts to contract with their local sheriff's offices for court security. Under the realignment plan, the sheriffs would continue to be responsible for providing court security. However, funding to pay for the security now will be provided directly to the sheriffs rather than being appropriated in the annual state budget to the trial courts. Existing

statutes related to court security (such as the requirement that each trial court negotiate a memorandum of understanding with the sheriff specifying the level of security to be provided) are unchanged.

The realignment plan estimates that $496 million from the Local Revenue Fund 2011 will be transferred to the newly established Trial Court Security Account for allocation to county sheriffs for the provision of court security. Under the terms of the realignment legislation, the Department of Finance (DOF) will determine how much money is allocated to each county sheriff for these purposes in 2011-12. According to DOF, the allocation of funds in 2011-12 will generally be determined based on the amount of state funding a given sheriff's office received in 2010-11 for court security.

Figure 2

Local Law Enforcement Services Account—2011-12

(In Millions)

Program	Funding
County probation grants	$151.8
Citizens' Option for Public Safety	107.1
Juvenile Justice Crime Prevention Act	107.1
Booking fees	35.0
Juvenile camps and ranches	29.4
War on Methamphetamine grants	19.5
Small and Rural Sheriffs Grant program	18.5
High-Tech Theft Apprehension	11.0
Sexual Assault Felony Enforcement Program	5.1
Rural Crime Prevention	3.7
Gang Violence Suppression	1.6
Multi-Agency Gang Enforcement Consortium Program	0.1
Total	**$489.9**

Pre-2011 Juvenile Justice Realignment ($97 Million)

Under recent statutory changes (enacted *prior* to the 2011 realignment package), only certain juvenile offenders who are violent, serious, or sex offenders may be committed to youth correctional facilities operated by the state. Counties are responsible for the housing and supervision of all other juvenile offenders, as well as for the community supervision of all offenders upon their release from state youth correctional facilities, including some who previously were state responsibility. Counties receive state funding from two grants to support these responsibilities—the Youthful Offender Block Grant Program and the Juvenile Reentry Grant.

Under the 2011 realignment plan, funding for these grants is shifted directly to counties and may be used for the same purposes as specified in existing statutes. The realignment plan estimates that $97 million from the Local Revenue Fund 2011 will be transferred to the Juvenile Justice Account in support for the grants—$93.4 million for the Youthful Offender Block Grant Program and $3.7 million for the Juvenile Reentry Grant. The allocation of these grants among the 58 counties is unchanged in 2011-12 from existing law.

Health and Human Services Programs

The 2011 realignment package increases county funding responsibility for: (1) Mental Health Managed Care (MHMC), (2) Early and Periodic Screening, Diagnosis, and Treatment (EPSDT), (3) drug and alcohol programs, (4) Foster Care and Child Welfare Services (CWS), and (5) Adult Protective Services (APS). The realignment package also includes a complex transfer of funds related to the 1991 mental health realignment and California Work Opportunity and Responsibility

to Kids (CalWORKs). As shown in Figure 3, most of these programs are funded from the Local Revenue Fund 2011. (The two programs funded on a one-time basis from the Mental Health Services Fund—MHMC and EPSDT—are not displayed in Figure 3.) The figure identifies each of these programs' 2011 funding by source and provides some additional information regarding how the funding is allocated among counties and accounts.

Mental Health Managed Care ($184 Million)

County Mental Health Plans administer MHMC and are responsible for ensuring that Medi-Cal beneficiaries receive specialty mental health services. Under a federal waiver, specialty mental health services are "carved out" of the Medi-Cal Program administered by the Department of Health Care Services, which provides physical health care. County mental health plans generally have responsibility for authorization and payment of Medi-Cal covered psychiatric inpatient hospital services, and outpatient specialty mental health services. In November 2004, the state's voters approved Proposition 63, an initiative that allocated additional state revenues generated through a surcharge on taxpayers earning more than $1 million annually for various specified community mental health programs.

Under realignment, in 2011-12 about $184 million of Proposition 63 (Mental Health Services Act) funds will be redirected and used in lieu of General Fund on a one-time basis to support

Figure 3

2011-12 Local Revenue Fund Allocations to Health and Human Services

(Dollars in Millions)

Account/ Subaccount	Estimated Allocation	Allocation From LRF 2011	Allocation Cap	Distribution Among Counties
Health and Human Services Account	**$1,806**	**45.31%**	No	Consistent with prior-year allocations
Subaccounts:				
Drug Medi-Cal	(131)	(3.29)	No	Discretion of DOF
Non Drug Medi-Cal Substance Abuse Treatment Services	(21)	(0.52)	No	Discretion of DOF
Drug Court	(27)	(0.68)	No	Discretion of DOF
WCRTS	(5)	(0.13)	No	Discretion of DOF
Child Welfare	(640)	(16.05)	No	Discretion of DOF
Foster Care	(462)	(11.59)	No	Discretion of DOF
Adoptions Assistance	(382)	(9.56)	No	Discretion of DOF
Adoptions	(70)	(1.77)	No	Discretion of DOF
Child Abuse Prevention	(13)	(0.34)	No	Discretion of DOF
Adult Protective Services	(55)	(1.38)	No	Consistent with prior-year allocations
Mental Health Account	**$1,084**	**$90.3 Million Per Month**	Yes	Based on 1991 realignment formula
Transfer to CalWORKs (1991 Realignment Social Services)	(1,066)	Equivalent to amount deposited into 1991 Mental Health	Yes	Equal to 1991 mental health formula for each county
Transfer to Mental Health (1991 Realignment Mental Health)	(18)	Remainder after transfer to Social Services	Yes	Not specified

LRF = Local Revenue Fund; DOF = Department of Finance; WCRTS = Women and Children's Residential Treatment Services.

MHMC. Proposition 63 revenues are not deposited into the Local Revenue Fund 2011. Although the final budget package did not specify ongoing realignment allocations, the administration's plan was for realignment revenues to substitute for the Proposition 63 funds on an ongoing basis beginning in 2012-13.

Early and Periodic Screening, Diagnosis, and Treatment ($579 Million)

The EPSDT is a federally mandated program that requires the state to provide Medi-Cal beneficiaries under age 21 with any physical and mental health services that are deemed medically necessary to correct or ameliorate a defect, physical or mental illness, including services not otherwise included in the state's Medicaid plan. The program covers periodic health screening, vision, dental, and hearing services, as well as some mental health services (including crisis intervention and medication monitoring). County mental health plans generally have responsibility for authorization and payment of mental health services provided through EPSDT.

Under realignment, in 2011-12 about $580 million of Proposition 63 funds will be redirected and used in lieu of General Fund on a one-time basis to support EPSDT. Proposition 63 funds are not deposited into the Local Revenue Fund 2011. Although the final budget package did not specify ongoing realignment allocations, similar to the case for MHMC, the administration's plan was for realignment revenues to substitute for the Proposition 63 funds on an ongoing basis beginning in 2012-13.

Drug and Alcohol Programs—Substance Abuse Treatment ($184 Million)

The budget plan realigns several substance abuse treatment programs that were previously funded through the Department of Alcohol and Drug Programs (DADP). While DADP in the past provided funding and state oversight of these programs, the provision of services has long been administered primarily at the county level. The major substance abuse treatment programs realigned are:

- ***Regular and Perinatal Drug Medi-Cal.*** The Drug Medi-Cal program provides drug and alcohol-related treatment services to Medi-Cal beneficiaries. These include outpatient drug free services, narcotic replacement therapy, day care rehabilitative services, and residential services for pregnant and parenting women.

- ***Regular and Perinatal Non Drug Medi-Cal.*** The Non Drug Medi-Cal program provides drug and alcohol-related treatment services generally to individuals who do not qualify for Medi-Cal. This includes the Women and Children's Residential Treatment Services Program.

- ***Drug Courts.*** Drug courts link supervision and treatment of drug users with ongoing judicial monitoring and oversight. There are several different types of drug courts including: (1) dependency drug courts, which focus on cases involving parental rights; (2) adult drug courts, which focus on convicted felons or misdemeanants; and (3) juvenile drug courts, which focus on delinquency matters that involve substance-using juveniles.

The budget plan realigns a total of about $184 million of DADP programs (Regular and Perinatal Drug Medi-Cal, $131 million; Regular and Perinatal Non Drug-Medi-Cal, $26 million; and Drug Courts, $27 million) to the counties. Under the realignment plan, funding for these programs are deposited into four separate

subaccounts within the newly created Health and Human Services Account of the Local Revenue Fund 2011. Under realignment, some programs would be supported with a combination of realignment funds and federal matching funds, while other programs would be supported mainly by realignment funds.

Foster Care and Child Welfare Services ($1.57 Billion)

California's child welfare system was created to prevent, identify, and respond to allegations of child abuse and neglect. Under prior law, the state and counties shared the nonfederal costs of the child welfare system. Pursuant to the realignment legislation of 2011, counties now will bear 100 percent of the nonfederal costs for nearly the entire child welfare system, including CWS, Foster Care, Adoptions, AAP, and Child Abuse Prevention. (The state will continue to oversee the CWS Case Management System, social worker training, state-tribal agreements, and some adoptions services.) The realignment legislation does not change the major programmatic functions of the child welfare system. Counties, which were already responsible for ensuring the safety of children within their communities, will continue to make the decision of whether or not to remove a child from a home due to allegations of abuse or neglect. Meanwhile, the state will continue to oversee the child welfare system.

The budget legislation creates five child welfare system program subaccounts within the Health and Human Services Account of the Local Revenue Fund 2011. Under this arrangement, total funding for the child welfare system is estimated to be about $1.6 billion in 2011-12. The allocations for each subaccount are designed to be equal to what the programs would have received in General Fund support absent realignment. Funding in the CWS Subaccount will be distributed among counties based on the 2010-11 allocation structure. Funding in the other subaccounts will be distributed to counties based on an allocation provided by DOF.

Adult Protective Services ($55 Million)

County APS agencies investigate reports of abuse and neglect of elders and dependent adults who live in private settings. Upon investigating these reports, APS social workers may arrange for services such as counseling, money management, and out-of-home placement for the abused or neglected adult. Although there is no federal requirement to operate an APS program, state law currently requires that APS be available in all 58 counties.

The 2011-12 realignment legislation establishes the APS Subaccount within the Health and Human Services Account for the support of the APS program. The APS Subaccount will be allocated 1.38 percent of the funds available in the Local Revenue Fund 2011, which is estimated to be $55 million in 2011-12. The funds from the APS Subaccount will be allocated to the local APS programs, to the extent possible, in the same way they were in 2010-11.

CalWORKs/Mental Health Transfer ($1.08 Billion)

The CalWORKs program provides cash grants and welfare-to-work services (such as child care, training, or job readiness) to families whose incomes are insufficient to meet their basic needs. The program is administered by the counties, but the state and federal governments provide the vast majority of funding. Although each county must provide grants and services consistent with state law, counties have significant control over how services are provided and when to sanction clients for noncompliance. With respect to funding, counties have a fixed maintenance-of-effort level for administration and welfare-to-work services,

and a 2.5 percent share of grant costs. The 2011 realignment legislation provides counties with revenue from the Local Revenue Fund 2011 for mental health programs, which then frees up existing county mental health funding to pay for a higher share of CalWORKs grant costs. This process is described in more detail below.

In 1991, the Legislature adopted realignment legislation that, among other changes, established several local funding streams for various mental health and other programs. This included creation of a mental health subaccount and a social services subaccount. The 1991 social services subaccount is available to fund several programs including CalWORKs. The 2011 realignment legislation provides $1,084 million in funding for a new Mental Health Account in the Local Revenue Fund 2011. From this account, the 2011 legislation allocates to each county new mental health funding equal to what it would have received in its mental health subaccount under the 1991 realignment formula. Because the new funding is now available to pay 1991 realignment-related mental health obligations, there is no detrimental effect on support for county mental health programs. The freed-up 1991 funds as a result of these provisions are then used by counties to pay for increased county shares of CalWORKs grant costs. On average this new county share for CalWORKs grants will be about 34 percent, but the exact amount will vary by county and be directly tied to what the county would have received under the 1991 formula for distribution of funding for mental health services. The amounts provided to counties will be recalculated each year to equal whatever they otherwise would have been under the 1991 formula.

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This report was prepared by Brian Brown with contributions from many others, and reviewed by Marianne O'Malley. The Legislative Analyst's Office (LAO) is a nonpartisan office which provides fiscal and policy information and advice to the Legislature.

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