California State Association of Counties

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May 28, 2010

TO: The Honorable Denise Ducheny, Chair
Senate Budget & Fiscal Review Committee

FROM: Paul McIntosh, CSAC Executive Director

RE: Governor's Proposed 2010-11 Cost Shifts to Counties

On behalf of the California State Association of Counties (CSAC), we are pleased to provide you and your staff with an outline of the myriad cost shifts to counties contained in the Governor's May Revision budget proposal for 2010-11. We are providing this list in response to your specific request during the May 25 hearing of your Senate Budget and Fiscal Review Committee.

As you are well aware, the Governor's May Revision budget proposal is rife with significant and ongoing cost shifts to counties. Some are of dubious legal heritage, others have little to no supporting policy, and a few of the most egregious proposals – such as eliminating Drug Medi-Cal and shifting Realignment funding from mental health – would not only result in increased local and state public safety and emergency services costs, but will also take a heavy toll on individuals, their families, and the communities in which they reside.

Counties extend our appreciation to you and your colleagues on the Senate Budget and Fiscal Review Committee for rejecting many of the proposals that would result in cost shifts to counties. We also want to thank you for your vigilance and ability to tease out the immediate and long-term costs of all proposals before your committee.

Please know that CSAC and counties stand ready to provide assistance to you and your colleagues during these difficult budget times. Should you have any questions, please do not hesitate to contact Jean Kinney Hurst, CSAC Legislative Representative, at 327-7500 ext. 515, or jhurst@counties.org. Thank you.

cc: Craig Cornett, Fiscal Director, Senate President Pro Tempore
Diane Van Maren, Consultant, Senate Budget and Fiscal Review
Jennifer Troia, Consultant, Senate Budget and Fiscal Review
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6/9/10

Governor's 2010-11 Proposed Cost Shifts to Counties

	State Savings in 2010-11	Direct County Costs	Federal Funds Loss	Nature of Shift
Mental Health Realignment Funding Shift	No state savings. Money is shifted to backfill state's share of child welfare and food stamps administration.	$602 million		The state would redirect the sales tax portion of Realignment funding from the Mental Health subaccount to the Social Services subaccount. The state would also increase county shares of cost in other social services program. (See next.)
New County Shares of Cost in Social Services	$602 million	$961 million		If the state shifts $602 million from the Mental Health Realigment subaccount and deposit it into the Social Services subaccount, the Governor then proposes to increase county shares of cost in the following programs for a total of $961 million in direct county costs: **Foster Care**: 20% State/80% County (currently 40% State/60% County) **Foster Care Administration**: 52% State/48%County (currently 70% State/30% County) **Adoptions**: 20% State/80% County (currently 75% State/25% County) **Child Welfare Services**: 20% State/80% County (currently 70% State/30% County) **Food Stamps Administration**: 19% State/81% C
Social Services County Cost Sharing Increases to Offset "County Savings" in IHSS, CalWORKs, and ARRA funding		$102.4 million in one-time "county savings"		The state would score roughly $100 milion in "county savings" from the receipt of federal ARRA FMAP and Title IV-E funds for the IHSS, Foster Care, and Adoptions Assistance programs. The state would then reduce its General Fund obligation by redirecting the one-time "county savings" to offset state costs in Foster Care ($60.2 million) and Adoptions Assistance Program ($42.2 million).
Suspend the AB 3632 mandate	$52 million in 2010-11 and $79.4 million for previous mandate claims.	$79.4 million in mandate payments for services rendered in previous years. Unknown, unreimbursed costs associated with suspension in 2010-11.		If suspended or repealed, the responsibility to provide mental health services to special educations students will revert back to schools.
Elimination of the CalWORKs program	$1.1 billion	Up to $2 billion	$4.2 billion	Many families losing CalWORKs grants will be eligible for 100% county funded General Assistance/Relief grants, which average $237/month. Indirect costs could total billions more as families become homeless, hungry, and children enter the Child Welfare system.

	State Savings in 2010-11	Direct County Costs	Federal Funds Loss	Nature of Shift
Eliminate CalWORKs benefits to recent legal immigrants in state less than five years	$57.6 million in 2010-11	Up to $2.2 million		Up to 9500 cases would be closed, forcing these individuals to seek 100% county-funded General Assistance/Relief grants, which average $237/month. Indirect costs could total millions more as families become homeless, hungry, and children enter the Child Welfare system.
Eliminate the Cash Assistance Program for Legal Immigrants	$107.3 million in 2010-11	Up to $2.5 million		Up to 10,866 cases would be closed, forcing these individuals to seek 100% county-funded General Assistance/Relief grants, which average $237/month. Indirect costs could total millions more as families become homeless, hungry, and children enter the Child Welfare system.
Eliminate the California Food Assistance Program	$56.2 million in 2010-11	Up to $8.8 million		Up to 37,258 cases would be closed, forcing these individuals to seek 100% county-funded General Assistance/Relief grants, which average $237/month.
Child Care Subsidies	$1.2 billion	Unknown		Would eliminate subsidized slots for 142,000 children, potentially causing parents to lose employment and become eligible for 100% county-funded General Assistance/Relief grants, which average $237/month. Also will increase homelessness, hunger, and caseloads in the Child Welfare system.
Children's Welfare Services	$80 million in 2010-11	$80 million in 2010-11	$53 million in current year, possibly more in 2010-11	Governor's veto of $80 million in Child Welfare Services has impacted the system significantly, including increasing response and investigation times, swamping remaining social workers, increasing the time foster children spend in placements other than permanent homes, and placing children in harm's way. Counties are liable for negative outcomes in CWS and children are at risk because of this veto.
Unspecified IHSS Reductions	$637.1 million in 2010-11 and $750 million in 2011-12	Unknown	$1.1 billion	Reducing IHSS by 50% would eliminate nearly 200,000 jobs and result in nearly 200,000 clients losing services that help them stay in their homes. Costs for skilled nursing facilities and long-term care homes will increase, with the state bearing most of the financial burden. Would also likely increase applications for 100% county-funded General Assistance/Relief grants.
Medi-Cal: County Administration	$84 million ($42 million General Fund)	$84 million		The DCHS proposes a change in the methodology used to calculate Medi-Cal caseload growth that will result in signficantly less funding for county administrative and eligibility activities on behalf of the state for the Medi-Cal program.
Elimination of Drug Medi-Cal Program	$106 million ($53 million General Fund)	$224 million	At least $118 million	The proposal will decimate local drug treatment and services programs and result in at least a dollar-for-dollar loss in federal Substance Abuse Prevention and Treatment block grant funding. It will also significantly increase public safety and emergency services costs.

	State Savings in 2010-11	Direct County Costs	Federal Funds Loss	Nature of Shift
Offender Treatment Program	$18 million	Up to $18 million	Up to $18 million	The underlying mandate of Proposition 36 still requires counties to provide drug treatment services in lieu of incarceration for certain offenders. With elimination of the OTP, there will be no state participation in offender treatment at the local level.
Prisoners to Jails	$243.8 million	Unknown		Requires counties to take on detention responsibility for all offenders sentenced to less than 36-month sentences. Unclear whether mitigating funds intended to serve displaced county inmate population is suffucient or whether counties' jail population profiles can accomodate additional pressure
Juvenile Parole to County Probation	$10.1 million	Unknown		Requires county probation departments to assume all juvenile parole responsibilities for all youthful offenders discharged from DJJ. Unclear if $15,000 per juvenile parolee will cover county costs and/or if county probations statewide have capacity to increase juvenile parole/probation caseloads.
Williamson Act Suspension	$34.7 million	$37.6 million		State stopped subvening funds in 2009-10 after cuts in previous years. Williamson Act contracts are 10-year rolling contracts that counties cannot abrogate upon cessation of state subventions.
Pre-2004 Mandates Payment Deferral	$94 million	$94 million		State owes local agencies ~$1 billion for mandates provided before 2004; statute provides they be paid over time by 2019. Governor proposes deferring payment again.
Suspended Mandates	Tens of millions	Tens of millions		State owes local agencies for mandates provided in 2007-08 and 2008-09 but that have since been suspended. State maintains payment not required until the programs are reinstated.
2010-11 Deferral of State Payments	Cashflow relief by delaying hundreds of millions in payments	Unknown county costs related to borrowing and local cash management		Deferrals of Highway Users Tax Account (HUTA) revenues ($225 million), social services payments (up to $780 million), and Proposition 63 ($300 million) impact counties' own cash management requirements.
Transportation Project Initiation Documents (PIDs)	$5 million by eliminating Caltrans positions	$5 million by shifting costs directly to locals		Currently Caltrans is responsible for review and approval of PIDs for transportation projects in their role of planning, design, construction, maintenance, and operation of the state highway system. This proposal would shift this responsibility to self-help counties and local agencies.

CSAC Realignment Principles 2005

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With the passage of Proposition 1A, the state and counties have entered into a new relationship whereby local property taxes, sales and use taxes, and Vehicle License Fees are constitutionally dedicated to local governments. Proposition 1A also provides that the Legislature must fund state-mandated programs; if not, the Legislature must suspend those state-mandated programs. Any effort to realign additional programs must occur in the context of these constitutional provisions.

Counties have agreed that any proposed realignment of programs should be subject to the following principles:

1. **Revenue Adequacy.** The revenues provided in the base year for each program must be at least as great as the expenditures for each program transferred and as great as expenditures would have been absent Realignment. Revenues in the base year and future years must cover both direct and indirect costs. A hold harmless protection must be included to ensure that a county's share of costs must not exceed the amount of realigned and federal revenue that it receives for the program. The state shall bear the financial responsibility for any costs in excess of realigned and federal revenues. There must be a mechanism to protect against entitlement program costs consuming non-entitlement program funding.

2. **Revenue Source.** The designated revenue sources provided for program transfers must be levied statewide and allocated on the basis of programs transferred; the designated revenue source(s) should not require a local vote. The state must not divert any federal revenue that it currently allocates to realigned programs.

3. **Transfer of Existing Realigned Programs to the State.** Any proposed swap of programs must be revenue neutral. If the state takes responsibility for a realigned program, the revenues transferred cannot be more than the counties received for that program or service in the last year for which the program was a county responsibility.

4. **Mandate Reimbursement.** Counties, the Administration, and the Legislature must work together to improve the process by which mandates are reviewed by the Legislature and its fiscal committees, claims made by local governments, and costs reimbursed by the State. Counties believe a more accurate and timely process is necessary for efficient provision of programs and services at the local level.

5. **Local Control and Flexibility.** For discretionary programs, counties must have the maximum flexibility to manage the realigned programs within the revenue base made available, including flexibility to transfer funds between programs. For entitlement programs, counties must have maximum flexibility over the design of service delivery and administration, to the extent allowable under federal law. Again, there must be a mechanism to protect against entitlement program costs consuming non-entitlement program funding.

6. **Federal Maintenance of Effort.** Federal maintenance of effort requirements (the amount of funds the state puts up to receive federal funds, such as IV-E and TANF), as well as federal penalties and sanctions, must remain the responsibility of the state.