CAPA - IHSS Wage Benefit Chart: March 16, 2015

County	Date Updated	Number of IHSS Providers	Hourly Wage on 7/1/12	Hourly Amount in PA Rate for Health Benefits on 7/1/12	Current Hourly Wage	Current Hourly Amount in PA Rate for Health Benefits	Effective Date of Current Wage & Health Benefits	Public Authority Rate	Hourly Amount Payroll Taxes	Hourly Amount in PA Operational Costs	Effective Date of Current MOU	Expiration Date of Current MOU	Approved Prospective Changes to Current Wage & Health Benefits	Effective Date of Approved Prospective Changes to Current Wage & Health Benefits	Health Benefits Provided Yes/No	Number of Providers Enrolled in Health Benefits	Number of Providers on Waiting List for Health Benefits	Other Benefits in MOU = Yes/No (Describe on "Other Benefits"	County Protection Provision in MOU = Yes/No (Describe on "County Protections"	Union	Comments
Alameda	3/3/2015	17,000	$11.50	$0.72	$12.50	0.72 (plus .01 for non-health benefits)	11/1/2014	$13.80	$1.26	$0.11	9/1/2013	10/30/2016	None	None	Yes	5200. Dental only: 13	None	Yes	Yes	SEIU-ULTWC	
Alpine (non-member)	3/12/2015	30			$9.00															CUHWU	
Amador	8/4/2014	147	$8.50	$0.60	$9.00	$0.60	7/1/2014	$11.13	$0.91	$0.62	7/1/2005	6/30/2008	None		Yes	28	0.	Yes	Yes	SEIU-UHW	
Butte (non-member)	3/12/2015	2,990	$8.20	$0.60	$9.00	$0.60	7/1/2014	$9.62	$0.74	$0.08	10/1/2009	9/30/2012	None		Yes	2,586	75.	No	No	CUHWU	
Colusa	5/9/2014	90	$8.50	$0.00	$9.00	$0.00	7/1/2014 - Minimum Wage increase	$11.20	$0.81	$1.20	8/1/2013	8/1/2016 or when the State takes over coll. barg.			No		0.	No		CUHWU	
Contra Costa	2/2/2015	7,900	$11.50	$1.31 Plus non-health benefits of .31	$11.50	$1.31 plus non-health benefits of $0.13	1/1/2009	$14.27	$1.07	$0.26	10/1/2009	4/30/2015	None		Yes	2,060	no wait list	Yes	Yes	SEIU-UHW	Provider Pension in effect
Del Norte	8/4/2014	298	$9.50	$0.00	$9.50	$0.00	2/1/2014	$10.42	$0.56	$0.26	11/26/2013	6/30/2015			No				Yes	CUHWU	
El Dorado	8/4/2014	812	$9.00	$0.60	$9.00	$0.60	7/1/2010	$11.02	$1.17	$0.25	07/01/10-06/30/13	6/30/2013	None		Yes	UDW provides	Unknown	No	Yes	UDW	
Fresno	3/12/2015	12,985	$10.25	$0.85	$10.25	$0.85	10/1/2008	$12.17	$0.97	$0.10	4/29/2014	9/30/2015	None	n/a	Yes	1,390	1,272.	Yes	Yes	SEIU-UHW	
Glenn	2/17/2015	450	$8.40	$0.00	$9.00	$0.00	7/1/2014 - Minimum Wage increase	$10.43	$0.81	$0.62	7/2/2013	7/2/2014			No				N/A	CUHWU	
Humboldt	1/30/2015	1,580	$8.50	$0.00	$9.00	$0.00	7/1/2014	$8.85	$0.61	$0.24	7/1/2013	6/30/2016	None	N/A	No	N/A	N/A		N/A	CUHWU	
Imperial	9/15/2014	4,531	$9.00	$0.60	$9.50	$0.29	9/1/2014	$10.72	$0.86	$0.07	6/24/2014	6/24/2015	none	n/a	Yes	518	20.	No	Yes	CUHWU	
Inyo	1/30/2015	110	9.25	$0.60	$9.25	$0.60	6/11/2013	$8.80			6/12/2012	6/30/2014			No				N/A	CUHWU	
Kern	3/3/2015	3,990	$10.35	$0.00	$10.35	$0.00	2/1/2014	$11.74	$1.20	$0.19	12/3/2013	3/31/2015	None	None	No			No	Yes	UDW	
Kings	2/12/2015	1,346	$9.25	$0.60	$9.85	$0.00	9/1/2014	$10.74	$0.72	$0.42	7/1/2014	6/30/2015			no	0	0.	No	Yes	CUHWU	In negotiations
Lake		1,560			$9.30	$0.60		$10.49	$0.94	$0.20	2/1/2008	1/31/2011			Yes	250	0.	No	Yes	CUHWU	
Lassen (non-member)	3/12/2015	135			$9.00	$0.00	7/1/2014	$9.92	$0.60	$0.32	N/A/	N/A	N/A		No	N/A	N/A	N/A	N/A	CUHWU	
Los Angeles - PASC	3/3/2015	142,980	$9.00	$0.65	$9.65	$0.92	6/1/2013	$10.46	$0.90	$0.05	1/1/2013				Yes	42,672	N/A	No	Yes	SEIU-ULTCW	
Calaveras	1/30/2015	264	$10.00	$0.48	$10.00	$0.48	9/1/2010	$12.47	$0.90	$1.08	9/1/2010	8/31/2011	None	N/A	Yes	64	9.	Yes	Yes	SEIU-ULTCW	
Madera (non-member)	3/12/2015	1,370			$10.35	$0.60		$10.90	$0.84	$0.26	2/12/2008	11/30/2010			Yes	212	0.	No	Yes	CUHWU	
Marin	2/2/2015	1,550	$12.10	$0.82	$13.00	$0.82	2/1/2015	$18.04	$3.90	$0.32	1/1/2015	12/31/2016			Yes	220	0.	No	Yes	SEIU-UHW	
Mariposa	8/14/2014	175	$9.60	$0.00	$10.10	$0.00	8/1/2014	$11.83	$0.91	$0.82	7/1/2013	6/30/2015	N/A	N/A	No	N/A	N/A	No	Yes	CUHWU	
Mendocino	5/9/2014	1,370	$9.90	$0.60	$9.90	$0.60	1/1/2009	$11.68	$1.18	$0.47	11/1/2006	10/31/2009	in negotiation	in negotiation	Yes	400	0.	No		SEIU-ULTWC	
Merced	3/3/2015	2,419	$9.00		$9.50	$0.00	3/1/2015	$11.30	$1.72	$0.08	6/1/2013	12/31/2015	N/A	N/A	No	N/A	N/A	No	Yes	UDW	
Modoc	3/12/2015	90			$9.00	$0.00		$8.89			N/A	N/A	N/A		No				N/A	CUHWU	
Mono	3/12/2015	40			$9.00	$0.00		$9.50			N/A	5/31/2011	N/A		No				N/A	CUHWU	
Monterey	8/4/2014	3,220	$11.50	$0.60	$11.50	$0.60		$12.27	$0.96	$0.21	3/1/2009	2/29/2012			Yes	345	140.	No	Yes	SEIU-ULTWC	
Napa	1/30/2015	1,250	$11.50	$0.60	$12.10	$0.00	11/1/2015	$13.39	$1.10	$0.19	1/1/2013	12/31/2015			No		0.	No	Yes	SEIU-ULTWC	

A. Day Open Bus 7/28/15

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Nevada (includes Plumas and Sierra)	2/3/2015	876	$8.56	$0.60	$9.50	$0.60	10/1/2014	$10.69	$1.00	$0.57	10/1/2006	12/31/2015			Yes	164	0.	No	Yes	CUHWU	
Orange	4/30/14: Continuing negotiations	19,818	$9.30	$0.60	$9.30	$0.60	9/1/2010	$10.66	$0.70	$0.06	6/1/2011	9/30/2012	None	N/A	Yes	As of 4/30/2014: 1994 Insured	822: waiting time 1 yr. 6 mo.	No	Yes	UDW	
Placer	3/3/2015	2,005	$10.00	$0.60	$10.00	$0.60	1/1/2010	$11.99	$1.00	$0.39	1/1/2010	12/31/2011	None		Yes	564	88.	No	Yes	UDW	
Plumas (see Nevada)																					
Riverside	3/3/2015	22,400	$11.50	$0.60	$11.50	$0.60	12/31/2012	$13.16	$0.92	$0.14	12/31/2012	6/30/2015	None	N/A	Yes	2,300	1,090.	No	Yes	UDW	current MOU effective 12-31-2012 but signed on 12/17/13
Sacramento	2/3/2015	19,063	$10.80	$0.80	$10.80	$0.80	1/1/2014	$12.58	$0.98	$0.07	12/1/2009	2/28/2016	N/A	N/A	Yes	2,821	1,430.	No	Yes	SEIU-UHW	
San Benito	8/2/2014	410	$10.50	$0.60	$10.50	$0.60	1/1/2010	$12.43	$0.89	$0.44	1/1/2007	12/31/2009	None	None yet	Yes	78	0.	No	Yes	SEIU-ULTWC	
San Bernardino	2/19/2015	2,168	$9.25	$0.38	$9.25	$0.38	7/9/2013	$10.54	$0.92	$0.17	7/1/2013	12/31/2014	N/A	N/A	Yes	984	25.	No	Yes	SEIU-ULTCW	contract ended Union & PA agreed to postpone negotiations
San Diego	1/30/2015	22,648	$9.50	$0.33	$9.85	$0.37	11/1/2013	$11.53	$1.10	$0.21	11/1/2013	9/30/2015	N/A	N/A	Yes	1,852	481.	Yes	Yes	UDW	
San Francisco	3/3/2015	19,375	$12.00	$2.51	Currently: $12 / Effective:05/01/2015 will be $12.25	$2.51	9/1/2014	$15.91	$1.30	$0.10	11/30/14 for one year but with automatic extension if neither party notices desire to terminate 90 days before end of contract	11/30/2015	$12.25 on 5/1/15	N/A	Yes	11,595	0.	Yes	Not in detail	SEIU-UHW	Hourly wage for IPs includes paid time off (PTO)
San Joaquin	8/14/2014	5,875	$9.60	$0.65	$9.85	$0.74	7/1/2014	$11.92	$1.17	$0.16	10/1/2012	3/31/2016	None	None	Yes	758	No Info	Yes	Yes	SEIU-UHW	
San Luis Obispo	3/3/2015	2,002	$10.00		$11.05	$0.00	7/1/2014				7/1/2013	6/30/2015			No			Yes	Yes	UDW	
San Mateo	11/15/2013	4,629	$11.50	$0.70	$11.50	$0.97	6/1/2013	$14.10	$1.15	$0.20	7/1/2012	6/30/2014	$12.65	Pending rate approval - assuming wage increase to take effect April 2015	Yes	1,000	40.	Yes	Yes. See description	SEIU-521	
Santa Barbara	3/3/2015	2,500	$10.00	$0.60	$11.05	$0.00	3/1/2014	$11.78	$0.81	$0.37	7/1/2013	6/30/2016	n/a	n/a	No	0	0.	No	Yes	UDW	Shifted HB to Wages eff. 3-1-14 ($0.55)
Santa Clara	2/2/2015	18,967	$12.20	$3.18	$12.81	$3.22	2/1/2015	$17.45	$1.13	$0.07	3/11/2014	2/1/2017	$13.00 wages	2/1/16	Yes	9,400	N/A	Yes	No	SEIU-521	
Santa Cruz	3/6/2015	2,963	$11.50	$0.60	$11.90	$0.20	1/1/2014	$13.82	$1.49	$0.23	12/13/2011	9/30/2014	None		No	n/a	n/a	Yes	Not in expired MOU	SEIU - 6434	
Shasta	1/30/2015	2,808	$9.30	$0.34	$9.64	$0.00	2/1/2014	10.93	$1.16	$0.13	1/1/2014	9/30/2014	None		No	N/A	N/A	No	Yes	CUHWU	
Sierra (see Nevada)																					
Siskiyou	3/3/2015	396	$8.00	$0.00	$9.00	$0.00		$9.80	$0.67	$0.13	N/A	N/A	N/A		No	N/A	N/A	N/A	N/A	CUHWU	
Solano	2/2/2015	3,311	$11.50	$0.60	$11.50	$0.60		$14.52	$2.13	$0.29	7/1/2011	12/31/2015	None		Yes	745	500.	Yes	Yes	SEIU-ULTCW	
Sonoma	1/30/2015	4,700	$11.50	$0.60	$11.65	$0.60	10/1/2013	$13.29	$0.91	$0.21	10/1/2013	9/30/2015	None	None	Yes	451	519.	Yes	Yes	SEIU-UHW	
Stanislaus	1/30/2015	5,150	$9.38	$0.60	$10.10	$0.00	7/1/2014	$11.16	$0.92	$0.14	6/1/2012	New Labor Agreement	From $9.38 to $10.00 on	6/1/2014	No	0	0.	Yes	Yes	UDW	

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Sutter	8/14/2014	872			$9.25	$0.60		$10.73	$0.72	$0.27	4/13/2011	12/31/2012			Yes	150	0.	Yes	Yes	CUHWU	
Tehama	2/17/2015	900	$8.40	$0.00	$9.00	$0.00	Minimum Wage	$9.16	$0.82	$0.19	1/1/2011	in negotiations			No			No	Yes	CUHWU	
Trinity	8/14/2014	150	$9.00	$0.00	$9.00	$0.00	7/1/2014	$0.00	$0.00	$0.00	N/A	N/A	N/A	N/A	No	n/a	n/a	No	N/A	CUHWU	No changes.
Tulare	4/30/2014	2,421	$9.00	$0.60	$9.27	$0.60	11/1/2013	$11.23	$1.21	$0.15	7/1/2013	3/31/2015	$9.27	11/1/2013	Yes	270	0.	No	Yes	CUHWU	
Tuolumne (non-member)	3/12/2015	250			$9.00	$0.60								4/1/15 - $9.25 7/1/15 - $9.45 1/1/16 -$10.00						CUHWU	
Ventura	3/5/2015	4,500	$9.50	$0.60	$11.10	$0.00	7/1/2014	$11.10	$0.91	$0.24	7/1/2014	12/31/2016	None	From $9.50 to $11.10 on 7/1/14 increased to $12.10 on 7/1/15, increase to $12.50 on 7/1/16.	No	N/A	None	No	Yes	SEIU-ULTCW	
Yolo	3/3/2015	1,832	$10.50	$0.60	$11.02	$0.60	1/1/12-12/31/14	$12.36	$1.10	$0.16	1/1/2012	12/31/2014	None		Yes	180	199.	Yes	Yes	SEIU-UHW	
Yuba (non-member)	3/12/2015	560			$10.00	$0.60		$12.30	$1.43	$0.27	7/1/2007	6/30/2010			Yes	145	10.	Yes	Yes	SEIU-UHW	

caseload costs will be distributed among all 58 counties through the remaining growth subaccounts. Therefore, counties have little incentive to seek savings in their caseload costs. This dynamic will likely intensify in the coming years as counties decide whether to increase IHSS program expenditures (due to non-realignment policy changes)--potentially driving up caseload subaccount payments without facing significant fiscal incentives to control their costs.

Revenue Stream Has Been Stable, But Lacks a Reserve

The combination of the half-cent sales tax and a portion of the VLF has generally provided counties a stable, reliable, and expanding funding source for the realignment portion of the various programs. Overall annual growth rates have exceeded 5 percent during the past five years. In an economic downturn, realignment program demands would likely rise at the same time that revenue growth would slow. Currently, no mechanism exists within realignment for a funding reserve to assist counties in such a situation. Furthermore, due largely to the property tax shifts of the early 1990s, counties' general purpose revenues have generally eroded over the past decade--leaving most counties with limited access to alternative revenues in such a situation.

Funding Allocations Have Favored Social Services

Under the initial realignment allocations, the social services account received 24 percent of total funds, mental health 34 percent, and health 42 percent. In the mid 1990s, as shown in Figure 6 , growth rates for both the mental health and health accounts exceeded the rate for the social services account. However, in more recent years, the social services account has outpaced the other accounts in growth rates--receiving about half of new revenues in 1998-99. The social services account has averaged 10 percent growth since the beginning of realignment, while the health and mental health accounts have averaged 6 percent growth. Consequently, the social services account has, over time, gained a larger share of the total realignment allocations. As shown in Figure 7, by the end of 1998-99, the social services account was receiving 27 percent of total funds, mental health 32 percent, and health 41 percent.

Figure 6

Realignment Account Revenues

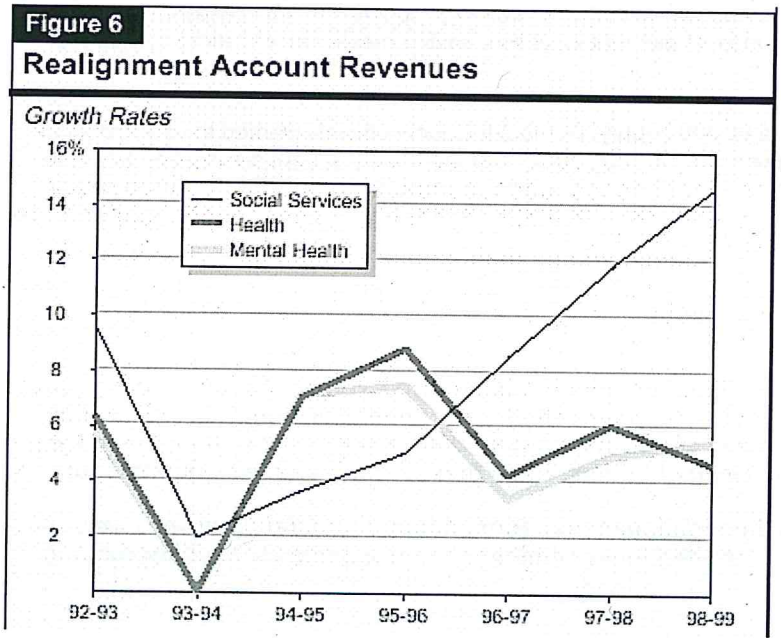


Figure 7

Changes in Account Shares of Realignment Funds

	Mental Health	Social Services	Health
1991-92	34.0%	23.7%	42.3%
1998-99	32.0	27.1	40.9

Pursuant to realignment legislation, counties are no longer required to submit their AB 8 Plans and Budgets to the state. Today's level of reporting does not include the tracking of specific diseases or detailed staffing information.

Much of the previously collected data was helpful at the state level for understanding a particular county's approach to providing health services. Aggregating this data for statewide analysis, however, could only be done manually. As a result, it was difficult for DHS to use the reported data for policy purposes.

Lack of Data Restricts Statewide Evaluation. Our analysis of realignment's impact on health programs indicates that there are data gaps in the realigned health programs. Specifically, there is no state system to collect data regarding each county's (1) total expenditures for indigent care by fund source, or (2) total expenditures by fund source for each major spending category--public health, indigent inpatient care, and indigent outpatient care. The lack of this data leaves the state unable to answer fundamental questions regarding the provision of health services in each county and hampers the state's ability to devise effective health financing policies and budgets.

Flexibility Could Be Enhanced

Realignment appears to have improved county fiscal flexibility in some areas. For example, realignment has provided additional authority to shift resources between AB 8 services and MISP services to the area of greatest need. Specifically, any growth in realignment funding that counties receive can be spent in either the AB 8 service area (public health, inpatient care, or outpatient care) or MISP (indigent care) area.

Assembly Bill 8 Historical Restrictions Remain. Realignment, however, has continued some funding restrictions *within* the allocations for AB 8 services. Prior to realignment, a county had the authority to use state AB 8 General Fund monies within the public health area for (1) those programs that it had selected to fund just prior to the passage of AB 8 in 1979 and (2) any new public health programs that were established subsequent to the passage of AB 8. A county could not, however, use AB 8 funds for any existing public health programs that the county had not funded in the year prior to AB 8. Realignment's preservation of this restriction limits the discretion of counties to shift realignment funds among public health programs, leverage federal funds, implement local cost-saving measures, or reflect current local preferences.

These restrictions have created difficulties for at least one county. Humboldt County officials wanted to use realignment funding for administrative costs associated with public health programs. After the county sought clarification from the state, DHS denied the county the use of realignment funds for this purpose because the county had not used certain funding prior to AB 8 for this purpose. Other counties which did spend their funding on this purpose years ago *would* be eligible to spend their realignment dollars in this manner.

Crosscutting Realignment Issues

Realignment has generally provided counties with a stable and flexible revenue source. Realignment's growth allocation formulas have not, however, created incentives for counties to control their costs. Over time, the social services account has gained a greater share of total realignment dollars, with a corresponding reduction in the shares of funding for health and mental health programs. While these formulas have somewhat reduced allocation inequities,
22 counties remain "under-equity" as defined by realignment law. Realignment's transfer provisions were used by many counties over a five- year period and provided those communities an opportunity to adjust funding allocations in order to reflect local priorities.

Fiscal Incentives Could Be Improved

As discussed earlier, one of the original goals of realignment was to design a system that, through changes in fiscal incentives, would encourage counties to make more cost-effective and efficient program decisions. In the social services discussion above, however, we highlighted how the passage of Chapter 100 in 1993 effectively restored the pre-realignment cost-sharing ratios for the realigned programs. These pre-realignment ratios generally required only minimal county contributions for new caseload expenditures and, therefore, counties have little incentive to control their caseload costs, as was the case prior to realignment.

Growth Allocation Formulas Limit Incentives to Control Costs. Furthermore, the system of revenue growth allocations provides little benefit to those counties which do reduce their caseload costs. This is because counties are not permitted to retain any realignment caseload savings. Rather, each dollar that a county saves in realignment

cash flow concerns. Specifically, counties must wait at least one year for realignment funds to backfill county costs for caseload cost increases. Thus, to the extent that counties face cash flow difficulties in funding their caseload costs, they would face a modest incentive to control costs.

Cost Controls Largely Not Achieved. Given the minimal incentives for counties to control costs, it is not surprising that costs per case since realignment have increased in both foster care and especially IHSS. In foster care, potential savings have not been realized since realignment's enactment and the cost per case has increased slightly after adjusting for inflation. We note that in IHSS a series of non-realignment policy changes that started in the 1990s, and that are expected to impact counties through 2005-06, have added to the total cost of IHSS services.

AFDC: Welfare Reform Changes Overshadow Realignment

Prior to realignment, costs for AFDC grant payments, program administration, and welfare-to-work services (GAIN) were shared among the federal, state, and local governments. As summarized in Figure 1, realignment changed the nonfederal cost-sharing ratios for the state and county governments, with a net *decrease* in county costs of about $210 million in 1991-92.

In response to the 1996 federal welfare reform legislation, the Legislature replaced the AFDC program with California's own version of welfare reform--the CalWORKs program. This legislation made two changes in the state/county fiscal relationship that benefitted the counties. First, the CalWORKs legislation fixed the county share of costs for administration, employment services, and support services (such as child care) at their 1996-97 dollar levels. Thus, the state now absorbs all of the increased costs (more than $1 billion in 2000-01) for welfare-to-work services. Second, the state welfare reform legislation created a performance incentive program for the counties. Specifically, all savings attributable to program exits from employment or recipient earnings are paid to the counties as performance incentives. As of 2000-01, the Legislature has appropriated approximately $1.3 billion for payment of these incentives that must be expended on needy families. Compared to the modest changes in this area made by realignment, welfare reform has provided counties with significant financial benefits.

Health Programs

The realignment of health programs was largely a shift in funding sources--from the state's General Fund to realignment's revenue sources--without significant changes in fiscal incentives or program administration. A lack of data makes evaluating realignment's impact on health programs difficult to gauge, but there do appear to be opportunities for improving counties' flexibility.

Unlike some programs within the social services and mental health areas, the realignment of health programs was largely not intended to alter fiscal incentives, establish performance measures, or shift program administration to the counties. According to state and local government officials, the main purpose was to relieve the state General Fund of fiscal pressure. At the time of realignment, MISP and AB 8 services were already being administered by the counties, and realignment did not change the state's role in the administration of CMSP and LHS. Essentially then, realignment substituted fund sources--replacing state General Fund appropriations with realignment's tax increases. At the same time, realignment did make several changes in the areas of data reporting and fiscal flexibility, which we discuss below. The realigned health programs received $833 million of the original realignment allocations, which had grown to $1.3 billion in 1999-00.

.ack of Data Makes Evaluation Difficult

ealignment Reduced Reporting Requirements. Realignment was intended to reduce the reporting requirements for e AB 8 program. Prior to realignment, counties were required to submit to the state an AB 8 Plan and Budget and an tual Financial Data Report. The Actual Financial Data Reports showed how AB 8 funds were being allocated among blic health, inpatient care, and outpatient care within an individual county and contained details of AB 8 budget propriations, revenues, and the county's share of costs for its programs.

unty's AB 8 Plan and Budget presented detailed descriptions of the affected programs. For example, a county d report its total public health expenditures, its specific allocation to chronic disease, and which specific diseases being tracked (such as cancer, diabetes, arthritis, and heart disease). In addition, counties would report their c health staffing levels by type of personnel (such as administrative staff, physicians, nurses, or sanitarians).

igible for foster care grants if they are living with a foster care provider under a court order or a voluntary agreement etween the child's parent and a county welfare department. The California Department of Social Services (DSS) rovides oversight for the county-administered foster care system. County welfare departments make decisions egarding the health and safety of children and have the discretion to place a child in foster care. Following the decision o remove a child from his or her home, county welfare departments have the discretion to place a child in: (1) a foster family home (basic grant of $405 to $569 monthly), (2) a foster family agency home ($1,467 to $1,730 monthly), or (3) a group home ($1,352 to $5,732 monthly).

In-Home Supportive Services. The IHSS program is currently an entitlement providing various services to eligible aged, blind, and disabled persons. The costs of this program are shared by the federal, state, and county governments. An individual is eligible for IHSS if he or she lives in his or her own home and meets specific criteria related to eligibility for the Supplemental Security Income/State Supplementary Program. Services are intended to serve as an alternative to out-of-home care, but eligibility for the program is not based on an individual's risk of institutionalization. Authorized services include domestic services, nonmedical personal care services, and protective supervision.

The DSS provides oversight for the IHSS program, and county welfare departments make assessments regarding client eligibility, monthly hours of service per case, and duration of services. In addition, counties provide various administrative services related to worker wages, taxes, training, and referrals.

Cash Assistance. At the time of realignment, California's cash assistance program for families with children was known as AFDC. This program, like its successor program--the CalWORKs program--provided cash assistance to families with incomes inadequate to meet their basic needs. Some families also received welfare-to-work services (such as job search, on-the-job training, and education) through the GAIN program.

Changes in Cost-Sharing Ratios Intended to Control Costs

Prior to realignment in both foster care and IHSS, costs were generally shared by the federal, state, and local governments, with the federal government paying approximately half of total costs. The state paid virtually all of the nonfederal costs for both programs. Although foster care placement decisions and IHSS assessments of client needs were made at the county level, counties at that time assumed little of the fiscal responsibility for these decisions. Under these sharing ratios, counties therefore had little incentive to seek the most cost-effective alternatives within these care systems.

Under realignment, the Legislature significantly increased the county share of nonfederal costs for these programs (from 5 percent to 60 percent for foster care and from 3 percent to 35 percent for IHSS). To pay for any net caseload cost increases as a result of these cost-sharing changes, the original realignment statute provided counties with a fixed amount of dollars from growth revenues.

The apparent purpose of these changes was to establish county incentives to control costs. Both the change in sharing ratios and the fixed amount of growth funds available for new cases were expected to create fiscal pressure on counties to seek out less expensive alternatives within the programs. If counties exceeded the fixed amount of funds allocated for caseload growth, they were to cover these additional costs from their own revenues.

Examples of less expensive service alternatives within the foster care system could be a shift away from group homes and toward foster family and foster family agency homes, as well as emphasizing both family reunification and adoptions as alternatives to foster care. In addition, the designers of realignment had hoped that increased collaboration and innovation with probation, mental health, and community-based service organizations would reduce foster care placements.

Early Statutory Changes Negated Realignment's Cost Control Incentives

Legislation enacted within two years of the original realignment plan changed a key piece of the realignment funding strategy. While the original realignment statute provided a fixed pool of funds for caseload growth, Chapter 100, Statutes of 1993 (SB 463, Bergeson) provided that *all* net costs incurred by counties due to caseload growth would be backfilled by realignment revenues in a subsequent year. Because this statutory change effectively returned county caseload costs to their pre-realignment cost-sharing ratios, realignment's cost control incentives were negated. This statutory change relieved some fears that the original formula could have exposed the state to mandate claims for the unfunded portion of the entitlements.

We note that after the enactment of Chapter 100, counties still have a very modest incentive to control costs because of

the structure and finances of county mental health systems have occurred since the enactment of realignment. These include the establishment of a statewide program of managed care for mental health services under the Medi-Cal Program and the resulting consolidation of fee-for-service Medi-Cal services with the county mental health system in each county. In addition, the statewide Medi-Cal plan was amended to allow a broader array of mental health services, including case management, to be reimbursed under the Medi-Cal Program. Other key changes have been the dramatic expansion of mental health services for children under the Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) program and the commitment of additional state funds to expand services for homeless mentally ill persons.

County officials indicate that, in a number of cases, the availability of realignment funding has enabled them to take full advantage of these other changes in the mental health system to expand their services and caseloads. For example, county officials have indicated that they have used realignment funding to expand rehabilitative services for mentally ill persons who are eligible for Medi-Cal. Because the federal government is obligated to pay for half the cost of Medi-Cal services, counties are in a position to "buy" more mental health services for less money by effectively leveraging the realignment funds available to them.

What Mental Health Realignment Has Not Changed

Accountability System Still Needs Improvement. Implementation of realignment has yet to result in a significant improvement of the state's oversight of the provision of community-based mental health services. Several efforts are progressing to establish new, standardized measures by which to judge the performance and quality of county mental health programs. A committee of state and county officials and mental health program providers appears to be nearing completion of an initial list of agreed-upon performance measures providing data on the cost of services, client and family satisfaction, client retention rates, and other factors. Another committee continues to examine the process by which counties would be held accountable for their performance. Also, a new statewide computerized Client and Service Information System (CSIS) is coming on-line, providing more up-to-date information on a statewide basis regarding the demographics, diagnoses, and treatment outcomes of mental health clients. As of September 2000, about 49 counties were in compliance with state CSIS data-reporting rules.

However, completion of these efforts is long overdue. The establishment of statewide performance outcome measures was initially to have been completed by 1992-93. More recent legislation requires that measurements of access and quality for mental health care provided in community-based programs be developed by an undetermined date, with a status report to the Legislature by March 2001. Despite the progress made to date, it remains unclear when and if these efforts will lead to an effective statewide system providing rewards for counties with exemplary programs and appropriate consequences for counties that do not meet minimum performance standards.

Not All Mentally Ill Are Served. Realignment was intended to help stabilize mental health funding, and also enable some marginal growth in county systems. Realignment, however, was not meant to close the gap in meeting the state's full mental health service needs, and it has not done so. Given recent estimates that 600,000 seriously mentally ill persons annually lack needed mental health services, substantial additional funding might be needed to accomplish such an expansion.

Social Services Programs

Realignment increased the county share of nonfederal costs for certain health and social services programs, and reduced the county share for others. These increased shares of costs in a number of programs, paired with limited funds for new cases, were initially intended to create incentives for counties to control costs. However, early legislative changes to the realignment program largely negated realignment's cost control incentives. Although realignment altered the costs shared between the state and counties for cash assistance programs, the changes implemented by welfare reform have overshadowed the impact of realignment in this area.

Major Programs Affected

Our analysis focuses on the major social services programs affected by realignment--specifically, foster care, IHSS, and AFDC/CalWORKs. These three programs accounted for 85 percent of realignment's net shift in social services costs in 1991.

Foster Care. Foster care is an entitlement program funded by the federal, state, and local governments. Children are

program changes, rather than realignment. Although in some cases, realignment enabled county officials to take advantage of these other changes.

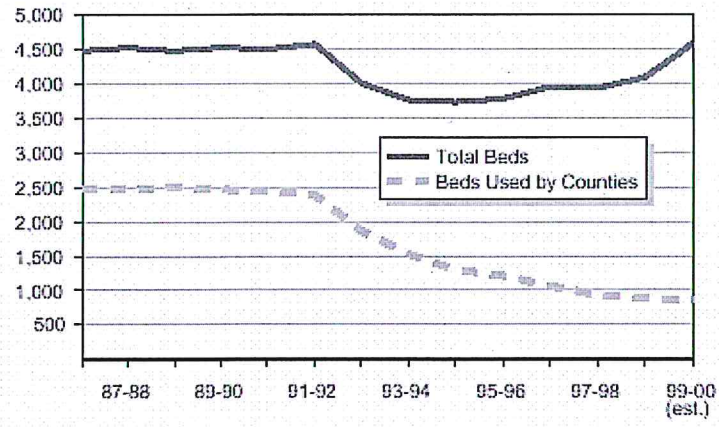
- State oversight of community-based programs, including the adoption and enforcement of performance outcome standards, has not improved as intended under realignment.

Improved Program Efficiency and Flexibility. The implementation of realignment has generally succeeded in establishing better coordinated, more flexible, and less costly mental health programs in the community. The evidence suggests that counties have been successful in shifting their treatment strategy so that fewer clients receive treatment in costly mental health hospitals and other long-term care facilities and more clients are served with a potentially more effective treatment approach in less costly community-based outpatient and day-treatment programs.

As shown in Figure 5 (see page 14), county LPS placements in state mental hospital beds dropped dramatically after the enactment of realignment--from about 1,900 in 1992-93 to about 850 today. The number of patients placed in IMDs has also dropped. Before realignment was enacted, almost 3,900 mentally ill persons were in IMD beds at any given time. The DMH recently estimated the IMD population to be about 3,500.

Figure 5

Counties Are Using Fewer State Mental Hospital Beds



Source: Governor's budget, Department of Mental Health. Last Wednesday of fiscal year.

County expenditure reports document that the funds saved by scaling back inpatient care have shifted to outpatient treatment. In 1991-92, when realignment was enacted, county mental health program expenditures for outpatient care were about $300 million, about 32 percent of their total spending. By 1997-98 (the most recent year for which statewide data is available), $666 million was being spent on outpatient care, and these expenditures represented 42 percent of their total spending. Realignment funding played a critical role in this expansion of outpatient care. About $72 million in realignment funding was used to support outpatient care programs in 1991-92. By 1997-98, this amount had almost quadrupled to $265 million.

County officials have indicated that the new flexibility they gained under realignment has allowed them to launch experimental community-based programs to better coordinate services for their clients and to establish new types of services that were previously unavailable. Los Angeles County, for example, initiated an effort to coordinate the services its mental health programs provide to adults and children with other social services agencies within targeted neighborhoods. San Diego County established "clubs" for mentally ill clients in the community where they receive peer counseling and other nontraditional support services. Riverside County created special teams of county staff members to respond to the crises of individual patients in the community and divert them from commitment to expensive inpatient beds. Some of these experimental programs might not have been possible without realignment's elimination of some categorical programs.

Non-Realignment Policy Changes Have Also Influenced Program Changes. These major changes in mental health programs over the past decade should not be attributed to realignment alone. A number of other significant changes to

uncertainty created by the annual state appropriations process was harmful to the development of sound community programs. The significant year-to-year swings in funding levels and uncertainty in the state budget process were also said to have discouraged county government officials from making the multiyear commitments needed to develop innovative programs. Before a pioneering new program could be staffed, made operational, and fully developed over several years, a county mental health department was at risk of having to scale back the commitment of funding and personnel for such efforts. The intent of realignment was to provide mental health programs stable and reliable funding through a dedicated revenue source in order to foster better planning and innovation.

Program Flexibility Was Constrained. The lack of flexibility provided to counties to use the resources available to them in the most cost-effective and medically effective manner was also a concern at the time realignment was considered. For example, prior to realignment each county was given a set allocation of beds for seriously mentally ill patients receiving a civil commitment to the state mental hospital system under the Lanterman-Petris-Short (LPS) Act. Counties were also allocated state-funded nursing care beds known as Institutions for Mental Diseases (IMDs). A county mental health department did not have the option of using fewer LPS or IMD beds and instead using the money for much less-costly (and in some cases potentially more medically effective) community-based treatment programs. In effect, counties were required to "use or lose" their allocation of LPS or IMD beds even if more cost-effective options were available.

Counties were also concerned that much of the state funding for their mental health systems was in the form of categorical programs, by which specific state grants were restricted for use for programs assisting specific target groups of mentally ill individuals. This categorical funding approach limited the ability of county mental health systems to meet the specific mental health needs of their communities and to combine funding from various programs to coordinate services.

The realignment plan was intended to provide additional flexibility to the counties in their use of state funding. For example, the realignment plan directly allocated to county mental health systems the funding for LPS beds within the state hospitals and for IMDs. Counties were free to continue to use the funds for the same number of LPS or IMD beds as before. With advance notice to the state, however, they could use fewer beds than previously allocated and use the savings for other components of their community-based programs. The realignment plan also eliminated some categorical community-based mental health programs, including the Community Support System for Homeless Mentally Disabled Persons and the Self-Help for Homeless programs. The counties were free either to continue the programs using realignment funds or to reallocate the funds to other purposes.

System Accountability Deemed Lacking. Finally, the enactment of realignment was intended to provide more effective state supervision and oversight of local mental health programs. While the state had long collected fiscal and program activity data about community-based mental health programs, state policymakers had voiced concern that the state had little information about the effectiveness of the county programs it had been funding. For these reasons, the realignment legislation expressed the intent that the state implement an effective data system that would measure such performance outcomes.

Results of Mental Health Realignment

Funding Stability Did Improve. The realignment plan adopted by the Legislature and Governor (as shown in Figure 4) addressed concerns over the lack of funding stability for community-based mental health programs by shifting a share of sales tax and VLF revenues to counties along with the primary fiscal responsibility for operating those programs. Since an initial shortfall caused by the state's recession, the total amount of state revenues redirected to county-run mental health programs under realignment has grown fairly steadily. Mental health realignment funding is anticipated to exceed $1 billion in the current fiscal year, an increase of more than $350 million since 1991-92 and an average annual growth rate of 6 percent.

Figure 4
The Results of Mental Health Realignment
▪ Funding stability of county mental health systems generally improved amid steady growth of their realignment funding over the last decade.
▪ Realignment has generally worked to allow counties to run better coordinated, more flexible, and less costly community programs.
▪ Some of the improvements in mental health systems are due to other subsequent

"Poison Pill" Provisions

At the time of the enactment of the realignment statutes, it was unclear whether the legality or constitutionality of any of the components would be challenged. Therefore, a series of "poison pill" provisions were put into place that would make components of realignment inoperative under specified circumstances. These provisions are still active and fall into three types.

Reimbursable Mandate Claims. If, as a result of the realignment provisions, (1) the Commission on State Mandates adopts a statewide cost estimate of more than $1 million or (2) an appellate court makes a final determination that upholds a reimbursable mandate, the general provisions regarding realignment would become inoperative.

Constitutional Issues. Although local entities receive their realignment VLF allocations as general purpose revenues, the realignment statute requires that each entity must then deposit an equal amount of revenues into their health and mental health accounts. Section 15 of Article XI of the State Constitution requires VLF revenues to be subvened to cities and counties. If a final appellate court decision finds that the realignment provisions related to VLF deposits violate the Constitution, the VLF tax increase from 1991 would be repealed.

Similarly, if a final appellate court decision finds that revenues from the half-cent realignment sales tax are subject to Proposition 98's education funding guarantee, this portion of the sales tax would be repealed.

Court Cases Related to Medically Indigent Adults. If a final appellate court decision finds that the 1982 legislation that transferred responsibility from the state to counties for providing services to medically indigent adults constitutes a reimbursable state mandate, the VLF increase would be repealed.

If any of these poison pill provisions were to take effect, the affected statute would become inoperative within three months, with the precise timing dependent on the particular provision.

Evaluating Realignment

Below we analyze the impacts of realignment in detail for each of the three areas affected--mental health, social services, and health programs. We have focused upon the major programs and therefore, do not discuss every program funded by realignment. We also discuss several realignment issues which cut across the program areas.

Mental Health Programs

The realignment of mental health programs has accomplished most of its original intended purposes. The relative fiscal stability and flexibility that has resulted from the shift of funding and program responsibilities from the state to the counties has encouraged efficiency and innovation while resulting in modest revenue growth. However, significant concerns remain regarding efforts to have the state measure and track the performance of the counties in using the funds.

As was noted above, the Legislature had a number of programmatic and fiscal goals in enacting the realignment of mental health care programs. Our review of expenditure and caseload data over the last decade and discussions with state and county officials strongly suggests that most of the original intended purposes of realignment have been accomplished.

Pre-Realignment Concerns

Mental Health Funding Once Vulnerable. Before the enactment of realignment, state funding for local mental health services was subject to annual legislative appropriation, which could vary significantly from year to year depending upon the state's financial condition. Because 90 percent of so-called Short-Doyle grant funding for mental health programs generally came from the state (with the remaining 10 percent funded by the counties), local mental health services were particularly vulnerable to reductions when the state was faced with financial shortfalls. In 1990-91, for example, state expenditures for community mental health programs declined by about $54 million or 8.6 percent below the prior-year's spending level.

At the time that realignment legislation was considered, mental health program experts had voiced concern that the

health programs to those counties which participate in CMSP.

- ***General Growth Subaccount.*** The general growth subaccount (all three accounts) makes its allocations to counties in proportion to their share of state funding for the non-social services caseload realigned programs.
- ***Equity Subaccounts.*** There are four active subaccounts designed to provide payments to those counties below the statewide average in various components of health and mental health funding. The statewide average for equity is defined in statute by a formula based on population and poverty. These equity subaccounts will cease operating within several years when their total lifetime allocations reach $207.9 million. The four subaccounts are the *Community Health Equity Subaccount* (health account), *Indigent Health Equity Subaccount* (health account), *State Hospital Equity Subaccount* (mental health account), and *Mental Health Equity Subaccount* (mental health account).

Figure 3 summarizes the specific distributions of revenues in 1998-99, when realignment revenues totaled $2.9 billion. In that year, the total amount owed the caseload subaccount exceeded the total growth in sales-tax revenues. Consequently, no other subaccount received funding from the sales tax growth in 1998-99, and the remaining 1998-99 caseload obligation is allocated from the 1999-00 sales tax growth. In those years where caseload allocations account for the entire amount of sales tax growth, VLF growth funds are allocated to the subaccounts in the same proportion as the 1996-97 allocations.

Figure 3

Distribution of Realignment Revenues

1998-99
(In Millions)

	Account			
	Mental Health	**Social Services**	**Health**	**Total**
Base Revenues (from 1997-98)	$888	$691	$1,144	**$2,723**
Growth Subaccounts				
Caseload		$96		**$96**
CMSP	--	--	$9	**9**
Community Health Equity	--	--	11	**11**
Indigent Health Equity	--	--	5	**5**
State Hospital Equity	$6	--	--	**6**
Mental Health Equity	4	--	--	**4**
General Growth	25	5	29	**59**
Totals	**$923**	**$792**	**$1,197**	**$2,912**
VLF Collections	**$14**	--	--	**$14**
Total Revenues	**$937**	**$792**	**$1,197**	**$2,926**

Note: Totals may not add due to rounding.

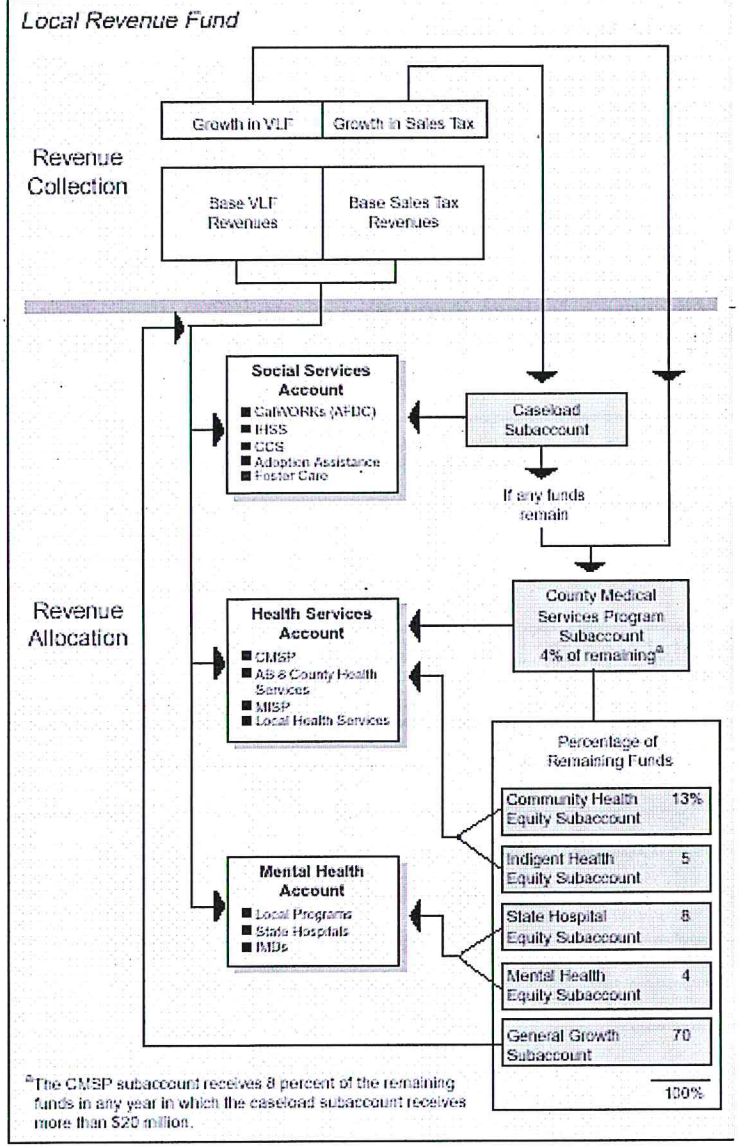
Transfer Provisions

Although funds are deposited into the three separate accounts in each county, the realignment statute allows for transfers of dollars among these accounts in certain circumstances. These transfers allow counties to adjust program allocations to best meet their service obligations.

Each county is allowed to transfer up to 10 percent of any account's annual allocation to the other two accounts. In order to take advantage of this provision, the county must document at a public meeting that the decision is being made to ensure the most cost-effective provision of services. Each county may transfer an additional 10 percent *from* the health account *to* the social services account under specified conditions. Each county may also transfer an additional 10 percent *from* the social services account *to* the mental health or health accounts under specified conditions. All transfers apply for only the year in which they are made, with future allocations based on the pre-transfer amounts.

Figure 2

Allocation of Realignment Revenues



Growth Revenues. Any amount by which the sales tax and VLF realignment revenues have grown is deposited into a series of state subaccounts, each associated with one of the mental health, social services, or health accounts of each county. Sales tax growth funds are first committed to the:

- ***Caseload Subaccount.*** The caseload subaccount (part of the social services account) provides funds to repay counties for the changes in cost-sharing ratios for specified social services programs (and CCS, a health program) implemented as part of realignment. The payments from the caseload subaccount are calculated based on annual changes in caseload costs and made a year in arrears. The payments to each county are the *net* of all changes in caseload costs when compared to their costs under pre-realignment cost-sharing ratios. In other words, the county payments are adjusted to reflect both cost increases and savings due to caseload changes.

Any remaining sales tax growth funds and *all* VLF growth funds are allocated to the following subaccounts (which then flow back into one of the three main accounts, as noted in parentheses).

- ***County Medical Services Program Subaccount.*** The CMSP subaccount (health account) provides funding for

funding for both mental health and health programs. Long Beach and Pasadena receive funding for health programs. The Tri-City area (Claremont, LaVerne, and Pomona) receives funding for mental health programs.

Allocation of Revenues

The original allocations to each jurisdiction were based on their level of funding in these program areas just prior to realignment. These allocations, as of 1991, were in many cases rooted in historical formulas and spending patterns. For instance, funding for the AB 8 county health programs was based on county spending in the 1970s for such programs. As such, realignment did not represent an overhaul of the historical allocation formulas in these program areas. Instead, the realignment formulas emphasized maintaining the county funding levels in existence at the time of its enactment.

The realignment legislation established a revenue allocation system in which the total amount of revenues received in one year becomes the base level of funding for the following year for each jurisdiction (excluding the VLF delinquent collections allocation). For instance, a county's total realignment allocation in 1997-98 became its base level of revenues for 1998-99. Growth in revenues between the two years was then allocated based on a series of statutory formulas. Thus, a county's base revenues in 1998-99 plus any growth revenues received in that year becomes the base for 1999-00.

Figure 2 (see page 8) illustrates how these revenues are allocated. The allocation of growth revenues is described in more detail below.

they are living with a foster-care provider under a court order or a voluntary agreement between the child's parent and a county welfare department.

- ***Child Welfare Services (CWS) Program.*** The CWS program provides ongoing services to abused and neglected children and children in foster care and their families.
- ***In-Home Supportive Services (IHSS).*** The IHSS program provides various services to eligible aged, blind, and disabled persons who are unable to remain safely in their own homes without such services.
- ***County Services Block Grant (CSBG).*** The CSBG funds can be used for various social services, including adult protective services and programs to provide information and referrals.
- ***Adoption Assistance Program.*** The Adoption Assistance Program provides grants to parents who adopt children with special needs. The grant levels, which vary by age, conform to foster family home rates until the adopted child is 18 or 21 years of age.
- ***Greater Avenues for Independence (GAIN) Program.*** Under the GAIN program--subsequently replaced by the California Work Opportunity and Responsibility to Kids (CalWORKs) program--cash assistance recipients received education and job training services in order to help them find jobs and become financially independent.

Reduced County Share

- ***The AFDC-Family Group and Unemployed Parent Program.*** The AFDC programs, succeeded by CalWORKs, provided cash grants to families with children whose incomes were not adequate to meet their basic needs.
- ***County Administration.*** The federal, state, and county governments share the costs of administering the AFDC (now CalWORKs) and Food Stamps programs.

Realignment Revenues

Revenue Sources

In order to fund the more than $2 billion in program transfers and shifts in cost-sharing ratios, the Legislature enacted two tax increases in 1991, with the increased revenues deposited into a state Local Revenue Fund and dedicated to funding the realigned programs. Each county created three program accounts, one each for mental health, social services, and health. Through a complicated series of accounts and subaccounts at the state level (described below), counties receive deposits into their three accounts for spending on programs in the respective policy areas.

Sales Tax. In 1991, the statewide sales tax rate was increased by a half-cent. The half-cent sales tax generated $1.3 billion in 1991-92 and is expected to generate $2.4 billion in 2001-02.

Vehicle License Fee. The VLF, an annual fee on the ownership of registered vehicles in California, is based on the estimated current value of the vehicle. In 1991, the depreciation schedule upon which the value of vehicles is calculated was changed so that vehicles were assumed to hold more of their value over time. At the time of the tax increase, realignment was dedicated 24.33 percent of total VLF revenues--the expected revenue increase from the change in the depreciation schedule.

In recent years, the Legislature has reduced the VLF tax rate. As of this year, the effective rate is 67.5 percent lower than it was in 1998. The state's General Fund, through a continuous appropriation to local governments outside of the annual budget process, replaces the dollars that were previously paid by vehicle owners. In other words, realignment continues to receive the same amount of dollars from VLF sources as under prior law. The VLF allocations to realignment have grown from $680 million in 1991-92 to an expected $1.2 billion in 2001-02.

The VLF Collections. In 1993, the authority to collect delinquent VLF revenues was transferred from the Department of Motor Vehicles to the Franchise Tax Board (FTB) in order to increase the effectiveness of delinquent collections. The first $14 million collected annually by the FTB is allocated to counties' mental health accounts as part of realignment. The distribution schedule is developed by the State Department of Mental Health in consultation with the California Mental Health Directors Association.

Jurisdictions Affected

All counties are affected by realignment and receive funding from the two revenue sources. In addition, a few cities also receive realignment funding due to their historical responsibility for some of the realigned programs. Berkeley receives

operated under fiscal incentives that did not encourage the most cost-effective approaches to providing services. By changing these incentives, the Legislature aimed to both control costs and encourage counties to provide appropriate levels of service.

- ***Shift Responsibility to Counties.*** In many areas, realignment aimed to shift responsibility over program decisions from the state to counties.
- ***Maintain State Oversight Through Performance Measurement.*** While shifting program responsibility to counties, the state wished to maintain a level of oversight over the administration of these programs. The Legislature expressed its desire to move towards oversight that relied more on outcome and performance-based measures and less on fiscal and procedural regulations.
- ***Ability to Alter Historical Allocations.*** While the initial allocations to each jurisdiction were based on their level of funding just prior to realignment, the Legislature indicated its desire to equalize some future funding based on such factors as poverty incidence and changes in program caseloads.

Program Transfers

In 1991, realignment transferred more than $1.7 billion in state program costs to counties, accompanied by an equivalent amount of realignment revenues. While eliminating state General Fund spending, the state maintained varying degrees of policy control in these areas. These programs, as detailed below, are now funded through realignment dollars and other county sources of funds.

- ***Community-Based Mental Health Services.*** These services, which are administered by county departments of mental health, include short- and long-term treatment, case management, and other services to seriously mentally ill children and adults.
- ***State Hospital Services for County Patients.*** The state hospitals, administered by the state Department of Mental Health (DMH), provide inpatient care to seriously mentally ill persons placed by counties, the courts, and other state departments.
- ***Institutions for Mental Diseases (IMDs).*** The IMDs, administered by independent contractors, generally provide short-term nursing level care to the seriously mentally ill.
- ***Assembly Bill 8 County Health Services.*** This group of services reflects 1979 legislation (AB 8, Greene), in which counties received state funds for county health services and matched state funds with their own general purpose revenues for the same purpose. The state funding could be used for public health, and inpatient or outpatient medical care at the discretion of each county. Public health activities were broadly defined to include personal health programs, such as immunizations and public health nursing, as well as environmental health programs and administration. Inpatient and outpatient services included but were not limited to indigent medical care.
- ***Medically Indigent Services Program (MISP).*** The MISP was a state fund source for larger counties to support the cost of medical services for persons not eligible for Medi-Cal and who had no source of payment for their care.
- ***County Medical Services Program (CMSP).*** The CMSP provides medical and dental care to low-income, medically indigent adults in smaller counties. These counties contract with the state to administer the program.
- ***Local Health Services (LHS) Program.*** The LHS Program provided state public health staff to small rural counties.

In addition, realignment eliminated two block grants that had previously provided funding to counties. The County Justice Subvention Program had provided funding for local juvenile justice programs, and the County Revenue Stabilization Program had provided funding to improve the fiscal condition of smaller counties. At the time of realignment, the value of these block grants totaled $52 million. Counties received in their place an equal amount of realignment funding that could be used for juvenile justice, health, mental health, or social services programs.

Cost-Sharing Ratio Changes

As shown in Figure 1, realignment increased the county share of nonfederal costs for a number of health and social services programs. In two cases, the county share of costs was reduced. These programs are detailed below.

Increased County Shares

- ***California Children's Services (CCS) Program.*** The CCS program provides medical diagnosis, treatment, and therapy to financially eligible children with specific chronic medical conditions.
- ***Aid to Families with Dependent Children (AFDC)-Foster Care.*** Children are eligible for foster-care grants if

Public Health		
▪ AB 8 County Health Services ▪ Local Health Services		
Indigent Health		
▪ Medically Indigent Services Program ▪ County Medical Services Program		
Local Block Grants		
▪ County Revenue Stabilization Program ▪ County Justice Subvention Program		
County Cost-Sharing Ratio Changes	**State/County Shares Of Nonfederal Program Costs (%)**	
	Prior Law	Realignment
Health		
▪ California Children's Services	75/25	50/50
Social Services		
▪ AFDC--Foster Care (AFDC-FC)	95/5	40/60
▪ Child Welfare Services	76/24	70/30
▪ In-Home Supportive Services	97/3	65/35
▪ County Services Block Grant	84/16	70/30
▪ Adoption Assistance Program	100/0	75/25
▪ Greater Avenues for Independence program	100/0	70/30
▪ AFDC--Family Group and Unemployed Parent (AFDC-FG&U)[a]	89/11	95/5
▪ County Administration (AFDC-FC, AFDC-FG&U, Food Stamps)[a]	50/50	70/30
Local Revenue Fund		
▪ Sales tax--half-cent		
▪ Vehicle License Fee--24.33 percent		
[a] The AFDC-FG&U program was subsequently replaced by CalWORKs.		

Realignment Principles

While closing the budget gap was a top priority at the time, the Legislature also relied on a series of policy principles in implementing the realignment changes, including:

- ***Dedicated Revenue Stream.*** Whereas a number of the realigned programs previously had relied on annual appropriations of the Legislature, realignment hinged on the dedication of a portion of the sales tax and VLF--outside of the annual budget appropriation process--to selected programs. The intent of realignment was to provide greater funding stability for selected health, mental health, and social services programs. At the same time, the Legislature maintained control of the *allocation* of these revenues to reflect legislative priorities. The series of allocation formulas developed by the Legislature are discussed in detail below.
- ***Increased County Flexibility.*** The Legislature hoped to free counties from unnecessary state regulation of programs, provide counties the freedom to expand program eligibility or service levels at their discretion, and foster innovation at the local level.
- ***Productive Fiscal Incentives.*** In the years before realignment, it was clear in some cases that counties

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Acknowledgments

This report was prepared by Michael Cohen and Dan Carson, with significant contributions from Mary Adèr, Kasia O'Neill, Todd Bland, Karin Bloomer and Dan Rabovsky. 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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eliminate these restrictions on county flexibility and explore other ways to increase program flexibility without a loss of accountability.

Create a Reserve Subaccount. We recommend that the Legislature create a realignment reserve subaccount. The establishment of such a reserve would help mitigate the need for program reductions during periods of economic difficulty. In this regard, the Legislature could create a reserve subaccount either from (1) existing realignment revenue growth (thereby lowering new revenues available for program spending), or (2) a new revenue source, presumably a state General Fund appropriation. When the funds accumulated in the reserve subaccount reached an adequate level, further contributions could cease. If realignment revenues were to stagnate during a recession, the reserve would automatically be allocated to counties to stabilize their program funding.

Considering Realignment as a Model for Future Program Decisions

Given a decade of relative success with realignment, we believe its approach to state-county relations can be a useful model for future legislative action in at least three situations, described below.

Expanding Existing Realignment Services. If the Legislature wished to increase the levels of service provided by existing realigned programs, it has several approaches available. For example, it could enact new statutes or specific state General Fund budget appropriations for particular programs. However, the Legislature may wish to instead consider adding additional resources to the existing realignment revenue streams--with counties choosing which specific programs to fund. Providing counties with additional resources within realignment would provide them with the flexibility to meet their different needs (within the general set of realignment programs). To promote accountability, a county's receipt of any additional realignment funding could be contingent upon its providing data on specific performance outcome measurements. The state could establish an Internet Web site to publish a "report card" allowing the public to compare the performance of each county with these standards.

Adding Related Services to Realignment. In order to improve flexibility for programs which provide similar services as the realignment programs, the Legislature could consider the transfer of these additional programs to the county level--along with an equivalent amount of a dedicated revenue source--and integrate them into realignment. For example, the local assistance programs of the Department of Alcohol and Drug Programs now supported through annual state General Fund appropriations could be transferred to the counties with revenues equal to their present level of state General Fund dollars (about $128 million). Likewise, in order to further realignment's original goal of creating productive fiscal incentives, counties could also receive additional fiscal responsibility for the mental health services provided under the $563 million EPSDT program. The EPSDT costs have been growing at an average annual rate of 28 percent. County costs for EPSDT are fixed at about $120 million, with the additional costs of the program borne by the state and federal governments. Thus, counties currently have no fiscal incentive to attempt to control the rapid growth in EPSDT spending--such as by implementing a rigorous utilization review process.

Applying the Concept to Non-Realignment Programs. Finally, realignment could be used as a model to "realign" state-county programs in another policy area *separate* from the existing realignment structure by using a dedicated revenue stream, local flexibility and authority, and accountability for new or expanded programs. In the past, we have suggested that juvenile justice, adult parole, and substance abuse might be appropriate programs for further realignment. Providing counties additional resources within a specified policy area, if implemented appropriately, could strengthen local control of program decision making, improve program coordination, reduce growth in state administrative costs, and establish clearer lines of accountability for the success of these programs.

Conclusion

The 1991 realignment of mental health, social services, and health programs has been largely a successful experiment in the state-county relationship. In particular, a dedicated revenue stream for the realigned programs has helped to create an environment of fiscal stability which improves program performance. Moreover, the flexibility granted within realignment has allowed some counties to effectively prioritize their communities' needs among many competing demands. With some changes, realignment can continue to provide the state an effective way to fund the various mental health, social services, and health programs.

At several points in this analysis, we have noted that realignment preserved the system of programs and revenue allocations as existed in 1991. With each passing year, the 1991 system of funding allocations and fiscal incentives becomes more disconnected from contemporary needs and preferences. In particular, the retention of pre-realignment cost-sharing ratios in social services programs provides little incentive for counties to control costs in these programs. This, in turn, can affect the funding available for mental health and health programs. In order to promote cost-effective decision making, we believe a county's fiscal decisions in one program area should have a clear impact on its available funds in other areas. This can perhaps best be achieved by a system which provides each county its new realignment revenues in a separate distribution from other counties. As discussed above, the current system's pool of funds from which all counties compete against each other fails to provide counties an incentive to control caseload costs.

For instance, an improved growth allocation system could allocate all growth funds by a single formula. The ideal formula would provide funds to each county based on the level of demand for realigned programs in that county. For instance, the current statutory "equity" formula half based on population and half based on poverty population would be one reasonable estimate of county program demands. While maintaining their base level of funds in each of the three program accounts, counties could receive all new growth funds based half on their proportionate share of the state's population and half on their share of the state's poverty population. These funds could be distributed to each county without designating their allocation to the mental health, social services, or health accounts. County officials could then decide which realignment programs had the most pressing needs. This approach would have several advantages over the current funding allocation formulas, including:

- ***Increased Local Control.*** Each county would be able to determine its own funding priorities and needs. While a single stream of growth funds would result in local debates over funding for one program versus another (especially across program areas), the existing system already includes this tension both at the local level with transfer decisions and at the state level with the interaction of the caseload subaccount with the other subaccounts.
- ***Cost Control Incentives.*** Counties would have an increased incentive to reduce expenditures. Each dollar saved in a program would be available for another program *in that county*, increasing local pressure for innovation and cost savings. Counties would no longer operate under a system in which a competition among counties for funds creates a disincentive for caseload cost controls.
- ***Simple Allocations.*** Realignment's complicated growth formulas would be replaced by a single formula which would adjust accordingly to changing demographics.

Improve Administration of Fund Allocations

Earlier, we noted that counties were concerned with two revenue allocation issues: (1) the lack of predictable revenue payments and (2) delays in caseload subaccount payments. The simplified growth allocation system proposed above would address both of these concerns. Since a county's share of population and poverty population does not change dramatically from year to year, a county could expect a consistent share of the total projected growth dollars. There would no longer be delayed payments based on caseload changes.

Even within the existing growth allocation system, we believe these administrative concerns could be relatively easy to address. To make the flow of allocations more predictable, the State Controller, in conjunction with the Department of Finance, could provide estimates of monthly allocations at the beginning of the year (similar to the Controller's existing annual shared revenue estimate for gas tax and base VLF revenues). Caseload payment delays and cash flow concerns could be addressed by creating a short-term loan fund. Counties could apply for loan funds based upon a reasonable estimate of future caseload payments. These loan amounts could simply be deducted from future caseload payments. Loan funds could be administered by counties in the same manner as other realignment funds and could be transferred by counties among their three accounts.

Other Recommendations

Improve Data in the Health Area. We were unable to undertake a comprehensive study of realignment's impacts in the health area as a result of limited data. In order to assist in future decision making for these programs, we recommend exploring the feasibility of collecting meaningful health data at the state level. Specifically, the state should collect annual data regarding county expenditures for public health and indigent care by fund source.

Increase County Flexibility. In our review of health programs, we noted the unnecessary restrictions placed upon counties regarding their use of former AB 8 program funds. In our view, while preserving the intent of the original AB 8 program is a reasonable approach, the spending decisions of a county more than two decades ago is an unnecessarily restrictive standard for determining appropriate spending decisions today. We recommend that the Legislature

control within realignment's framework. While the realignment formulas reflect statewide decisions on program funding priorities, the transfer provisions allow each county to adjust funding levels to reflect their local priorities. Furthermore, the majority of realignment dollars are allocated on historical formulas even though communities' needs and demands for services may have significantly evolved over time. The transfer provisions allow counties to appropriately modify allocations to reflect these changing needs and demands. Finally, the transfers allow counties to accommodate short-term funding shortfalls in one policy area more easily than might otherwise be possible.

Concerns Regarding Administration of Allocations

In our conversations with counties, a couple of administrative issues regarding the allocations of funding from the state to counties were raised.

Unpredictable Level of Revenues. Given the complicated nature of the allocation formulas, some counties have found it difficult to develop reliable estimates of the funding they should expect from realignment on a monthly and annual basis. As a result, counties have found program planning difficult.

Delay in Caseload Payments. Since the payments from the caseload subaccount are calculated as an actual change from the prior year and made a year in arrears, payments for caseload cost increases may not be paid to a county for as many as two or more years after the time the costs were incurred. With rising caseload costs in a number of programs, some counties expressed concerns that they will face cash flow difficulties in covering the current expenses of caseload cost increases.

Recommendations for Improving Realignment

Our analysis indicates that, after a decade of implementation, realignment can be considered largely successful. Yet, our evaluation highlights a number of areas where improvements could be made. While maintaining its underlying structure, we recommend that the Legislature take the following actions as summarized in Figure 10, (page 26) so that realignment will be better able to address the challenges and demands of the coming decade.

Figure 10

Summary of LAO Realignment Recommendations

- **Improve Fiscal Incentive Structure of Growth Allocations**
  - Change growth allocations to single formula to determine each county's new revenues.
- **Improve Administration of Fund Allocations**
  - Provide monthly estimates of allocations.
  - Create loan fund to assist with cash flow problems.
- **Improve Data in Health Area**
  - Explore feasibility of collecting statewide data.
- **Increase County Flexibility**
  - Eliminate unnecessary restriction on use of health funds
- **Create a Reserve Subaccount**
  - Create a fund to mitigate reductions during revenue shortfalls.
- **Consider Using Realignment as a Model for Future State-County Program Decisions**
  - Emphasize original realignment goals of productive fiscal incentives and accountability through the measurement of program performance.

Improve Fiscal Incentive Structure Of Growth Allocations

Thus, over the five-year period, variations among counties have been reduced, but this reduction is not occurring rapidly. Of the $190 million in realignment growth dollars available in 1998-99, for instance, only $26 million (14 percent) was allocated towards equity payments. In comparison, $59 million (31 percent) was allocated to the general growth subaccount in that year--which reinforces the existing funding disparities by allocating revenues in the same proportion as counties' existing shares of revenues. Additionally, the existing formulas will not achieve equity, as defined by state law, by the time the equity subaccounts reach their statutory limit on allocations. To the extent that counties remain under-equity, they may be at a disadvantage in relation to other counties in their ability to provide services on a per-client basis.

Transfer Provisions Provide Opportunity for Local Preferences

The realignment transfer provisions allow each county the option of shifting up to 10 percent of any of their three account's annual revenues to another account (and up to 20 percent in some circumstances). These provisions were used by 22 counties during the five-year period from 1993-94 to 1997-98 (the only years for which statewide data is currently available). These counties collectively transferred a total of $193 million, or 1.6 percent of total realignment allocations during that period.

Social Services Accounts Gain From Transfers. The majority of revenue transfers have shifted dollars to social services accounts from health or mental health accounts. Over the five-year period as shown in Figure 9, counties' social services accounts had a net gain of $133 million, with nearly two-thirds of this amount coming from counties' health accounts.

Figure 9

Realignment Account Transfers

(Dollars in Millions)

	Mental Health	Social Services	Health	Number of Counties
1993-94	$3.9	$5.9	-$9.8	10
1994-95	-25.9	80.3	-54.4	13
1995-96	2.2	7.9	-10.0	14
1996-97	-18.7	26.7	-8.0	21
1997-98	-10.4	12.6	-2.2	18
Totals	**-$48.9**	**$133.3**	**-$84.4**	**22**

Note: Amounts may not total due to rounding.

At the time realignment was being considered, some concern was voiced by advocates of mental health programs that funding for such programs might be significantly eroded by the transfer provisions. As shown in Figure 9, these fears have largely proven unfounded. Since 1993-94, mental health programs had a cumulative net reduction of about $49 million. In other words, about 1 percent of the funding allocated to county mental health programs during that period has been shifted to health and social services programs. Moreover, of that $49 million, about $32 million of the shift can be attributed to the actions of just one county--Los Angeles. In some years, it should be noted, mental health programs received a net gain of several millions of dollars under the transfer provisions.

Because shifts in non-realignment revenues are not reported to the state, the reports of these transfers do not necessarily reflect the entire county story regarding county program priorities. A number of counties, including Los Angeles, have taken advantage of the transfer provisions and later restored at least some of the transferred dollars using non-realignment revenues. Other counties may shift non-realignment dollars to accomplish changes in funding priorities and therefore do not report any use of realignment's transfer provisions.

At the same time, a number of counties have expressly not used the transfer provisions--citing the desire to avoid contested debates at the local level over which programs deserve additional funding. By maintaining realignment allocations as they were received from the state, counties have avoided the controversy that could result from shifting funds away from a particular program.

Transfers Allow Local Control. Nonetheless, the transfer provisions represent an important component of local

This trend reflects realignment's emphasis on fully funding entitlement programs (all but one are social services programs) as a first priority. The caseload subaccount receives the first allocation from the sales tax growth account. The allocations are based on the difference in caseload costs under realignment and the previous cost-sharing ratios. As this difference has grown in recent years, fewer dollars have been available to allocate to the mental health and health accounts from the sales tax growth funds. Although the social services account's share of revenues has increased, counties do maintain the flexibility to transfer these new dollars in the social services account to either of the other accounts. Furthermore, VLF growth dollars are allocated almost exclusively to mental health and health programs.

Inequities in Allocations Remain

One of the original goals of realignment was to provide the capacity to address the historical differences in funding allocations among counties and link funding to estimates of a county's program needs. Since the original allocations were based on each county's funding levels just prior to realignment's enactment, counties' allocations generally reflected a combination of their historical spending, caseloads, and populations of 1991 or even earlier.

Beginning in 1994-95, a portion of realignment growth funds have been dedicated to the four equity subaccounts--community health, indigent health, state hospital, and mental health. A fifth equity subaccount--the special equity subaccount--has completed its payments to its designated recipients and ceased operations. Each of the four remaining equity subaccounts use the same definition of equity (varying only by which jurisdictions provide the respective services). This definition--half based on population and half based on estimated poverty population--sets a statewide average of revenue allocation for each policy area. Jurisdictions below this statewide average receive a proportionate share of the dollars allocated from the respective equity subaccount. Because all realignment allocations received in one year become part of the next year's base, "under-equity" counties continue to receive these allocations in future years as part of their base realignment funding.

In 1994-95, the first year of these equity allocations, there were 22 under-equity counties. At that time, it would have taken about $250 million (about 11 percent of total realignment allocations in that year) to bring these counties to the statewide average. In 1998-99 (the most recent equity allocations available), this "equity shortfall" had been reduced to $219 million, but 22 counties remained under-equity. Due to overall realignment revenue growth over that time, the equity shortfall now represents less than 8 percent of total realignment allocations.

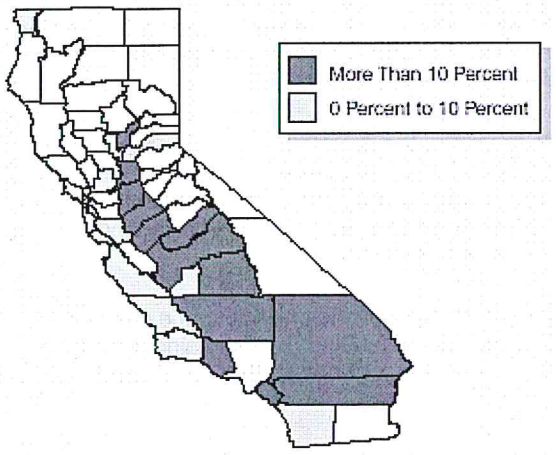
Under-Equity Counties Regionally Concentrated. Thirteen of the 22 counties' equity shortfalls represent more than 10 percent of their total realignment allocations. As shown in Figure 8, these 13 counties are concentrated in the Central Valley.

Figure 8

Under-Equity Counties

1998-99

Equity Shortfall as a Percent of Total Realignment Allocation



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IN THE ARBITRATION PROCEEDINGS BEFORE

ARBITRATOR DAVID NEVINS

SERVICE EMPLOYEES INTERNATIONAL UNION, UNITED HEALTHCARE WORKERS – WEST, Union, v. FRESNO COUNTY IHSS PUBLIC AUTHORITY, Employer.	DECLARATION OF KAREN KEESLAR

I, Karen Keeslar, hereby declare as follows:

1. I am the founder of Keeslar & Associates, an independent woman-owned business in government relations. I work as a government relations consultant and lobbyist with Keeslar & Associates. I make this declaration upon my personal knowledge, and, if called as a witness, I could competently testify to the facts hereinafter stated.

2. I have over 28 years of experience with state and local government agencies, and extensive expertise involving health and human services and public sector funding. Prior to establishing Keeslar & Associates, I worked for the California Association of Counties (CSAC) from 1988 to 1993 as the primary policy analyst and advocate for counties in the health and welfare arena.

3. Throughout my years as a consultant and lobbyist, I have worked with the California Association of Public Authorities to improve the availability and quality of personal assistance services through IHSS that provide choice for the aged and persons with disabilities to live independently and with dignity in the community and that eliminate barriers to accessing those services. I have served as an advocate to secure federal financial participation in the IHSS program through the IHSS-Plus Waiver in 2004 and through the Personal Care Services Program in 1993. I successfully worked on legislation (SB 855) with Los Angeles County in 1991 that established the Disproportionate Share Hospital (DSH) program to secure enhanced Medicaid funding for California; was one of the primary architects of legislation that established the State/Local Program Realignment of 1991 to shift responsibility from the state to counties for health, mental health and various social service programs, accompanied by a source of revenue to pay for the funding changes. I also developed and successfully advocated subsequent statutory changes to organize financial structures for county administered health, mental health and social services programs; worked with Advocation, Inc. (1987-88) as a contract lobbyist for the Fresno County Board of Supervisors, the Fresno County Transportation Authority, the California Housing Council, the Nature Conservancy, and the Irvine Company; and worked with Carpenter, Zenovich & Associates from 1980 through 1987, with primary responsibility for all local government clients through the evolution of funding mechanisms to assist with the effect of Proposition 13. My local government clients included the Orange County Board of Supervisors, the Fresno County Board of Supervisors, the California Association of Area Agencies on Aging and the Orange County Transportation Authority.

4. Realignment provides counties with relatively stable and protected revenues for health and human services programs. Prior to "Realignment" in 1991-92, the State was facing massive budget deficits and cuts were made to health and human services programs. Realignment allowed funding for these programs to be moved outside the state budget process and to protect these programs from further budget cuts by transferring them to counties. Two funding sources are dedicated to pay for Realignment – sales tax and vehicle license fees. Counties accepted new fiscal and programmatic responsibilities, including increased sharing ratios in some cases, for these

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programs in exchange for dedicated revenues.

5. As a condition of receiving realignment revenues, each county is required to establish a Local Health & Welfare Trust Fund with three accounts: Health, Mental Health and Social Services. This mechanism to earmark funds for the realigned programs was intended to prevent the counties from using their realignment revenues for other local government functions (i.e. roads, law enforcement, etc.) and to maximize the availability of revenues for the continuation of basic services and programs.

6. Realignment legislation established a revenue allocation system in which the total amount of revenues received by a county in one year becomes the base level of funding for the following year. "Growth" is defined as revenues in excess of prior-year revenue collections. The counties receive growth revenues from two state accounts: the Caseload Subaccount and the General Growth Subaccount. Each county's base amount changes each year to reflect new realignment revenues from the Growth Subaccounts. For instance, the county's total realignment allocation in FY 2007-08, including any additional funds received for either prior year caseload growth or general growth becomes the base level for FY 2008-09. This yearly adjustment results in what has been described as a "rolling base." Hence, the realignment base is never permanent – nor does it cap the amount of money that counties will receive over time from the state.

7. One of the legislative principles behind realignment was to assure that the State would not assume financial responsibility for the programs and clients that were transferred to the counties. Another key principle was to minimize State exposure to existing and future mandate claims.

8. In the original realignment legislation of 1991, the Caseload Account was created under the Social Services to provide funds for the counties shares-of-cost for social service entitlement programs. However, the 1991 legislation placed a cap of 30% on the realignment revenue growth that could be deposited into the Caseload Account. By 1993, it was clear that the 30% cap did not produce sufficient funds to cover the county share of those entitlement programs. Counties were threatening to file claims to receive full reimbursement from the state to cover their mandated expenditures. The realignment statutes were modified in 1993 to repeal the 30% cap for

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the Caseload Account and established that the Caseload Account would receive the actual amount needed to fully fund the actual expenditures of the county shares-of-cost for the entitlement programs.

9. Under current law, the Caseload Subaccount has the first draw on Sales Tax Growth Account and VLF Growth revenues and provides funds to repay counties for entitlement programs, such as In-Home Supportive Services.

10. The payments from the caseload subaccount are calculated based on annual changes in caseload costs. The state collects data from each county to compare actual expenditures in one year to the actual expenditures in the following year. This process of comparing actual expenditure data creates the situation where all counties are being repaid from the Caseload Account in arrears. The payments to each county are the net of all changes in caseload costs when compared to their costs under pre-realignment cost-sharing ratios. In other words, the county payments are adjusted to reflect both cost increases and savings due to caseload changes.

11. During times of economic uncertainty, the available revenues can be insufficient to fund the costs of caseload-driven social services programs, resulting in a shortfall in the base and growth funds. In the following years when there is realignment revenues growth, the first call on those additional revenues is to pay the costs owed to the counties for the Caseload Account. **This means that any deficiency that the county experienced during the year of the shortfall will be recouped**. Funds owed to the Caseload Subaccount can carry over from year-to-year building obligations from the state to the counties.

12. The legislature has taken action twice over the life-span of realignment to establish base restoration procedures using realignment growth funds to make up the deficits in prior year base funding. Those statutes are no longer operative. This does **not** mean that counties will experience a permanent decrease in their Social Services base. When sales tax and VLF revenues grow above the current year base, the State Controller will deposit those funds into the Caseload Account. The Health and Mental Health Accounts will remain at the same level until the state catches up on its obligation to pay the counties for their net increased costs for the entitlement programs under the Social Services Account. Hence, the Social Services Account base will be

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restored due to the growth the counties will receive over time from the Caseload Account. In contrast, the Health and Mental Health Accounts will stay at the lower base levels until all State obligations for the Caseload Account have been fulfilled. The bottom line is that this is a revenue timing issue – not a permanent base reduction to the Social Services Account.

13. On January 13, 2009, the County presented information on the realignment shortfall to the Fresno County Board of Supervisors. A true and correct copy of the document is attached as Exhibit A.

14. Using Exhibit A as well as information available through the State Controller's Office, I have produced an analysis, which is attached as Exhibit B. A number of issues are raised by the County's presentation to the Fresno County Board of Supervisors. The information presented to the Board of Supervisors contains various inconsistencies. For example, the FY 07-08 Sales Tax Base (Social Service Account) differs from the information maintained by the State Controller's office. In addition, the information for FY 08-09 Vehicle License Fee (VLF) Base (Social Services Account) differs from the information maintained by the State Controller's office. Furthermore, the revised base for FY 08-09 cuts out $88,372 from VLF growth that was adopted in the Fresno County budget, and also differs from the information maintained by the State Controller's office. Simply put, my analysis indicates that the shortfall for FY 07-08 is less than the County's reported deficit. I estimate that Fresno County shortfall is a total of $841,547 for the FY 07-08 & 08-09 years, which is $1.1 million less than Fresno County's estimate. However, I assert that the county should make up this shortfall through future realignment growth payments. Finally, there is no indication if the County has used the nearly $10 million dollars in Carryover Funds and whether any of those funds are available to mitigate the proposed IHSS wage cuts. The inconsistencies between the County's figures and the State Controller's figures certainly cast doubt on the actual size of the shortfall that County claims to exist, the size of the wage cuts that the County has proposed, and, indeed, the County's underlying claim that wages cuts are necessary at all.

15. In addition, assuming for the sake of argument that the wage cuts are even necessary, the County has alternative means to deal with the present situation it faces. Given the economic

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situation and due to the American Recovery and Reinvestment Act (ARRA) of 2009, all states will receive an increase in their Federal Medicaid Assistance Percentage (FMAP) or federal match for Medi-Cal funding for the period of 10/1/08 through 12/31/10. Currently California receives a 50% FMAP for IHSS. Due to the ARRA the FMAP will increase at least to 56.20% and could be as high as 61.59% due to our high unemployment levels.[1] The California Department of Finance estimates the temporary FMAP increase will be 11.59%, so the new FMAP amount will be 61.59%.

16. Due to the increased Federal funding coming to California, that means that the state and county financial obligations for IHSS will decrease. For example, under the current formula Fresno County provides 17.5% of the IHSS funding or approximately $29.6 million per year. Due to the increased FMAP, Fresno County will now only contribute between 13.4% to 15.3% of the IHSS funding, or approximately between $22.7 million to $25.9 million per year. Fresno County will save between $3.6 million to $6.8 million annually on IHSS contributions due to the increased Federal funding. Fresno County will save between $8.2 to $15.4 million in IHSS contributions for the entire 27 month period of time the increased FMAP is effective. See Exhibit C.

17. My estimation is that for FY 2008-2009 (7/1/08-6/30/09), Fresno County will save between $2.7 based on a 56.2% FMAP and $5.1 million based on a 61.59% FMAP. Even with the most conservative FMAP savings estimate, the county will save more than their estimated combined realignment revenue shortfall of $1.9 million for FY 07/08 & FY 08/09. It is expected that the state of California will reimburse the counties for their IHSS contribution overpayments for the period of October 1, 2008 until the date that the county pays the lower contribution amount.

18. Additionally, the increased FMAP will not be decreased prior to July 1, 2010. After that time it may be decreased for the final two quarters only if our unemployment rate improves dramatically and we are no longer eligible for the additional FMAP assistance for high unemployment areas. There will be 60 days notice to the state before any change would occur. At

[1] There are 4 potential levels of increased FMAP. California is expected to receive additional FMAP increase due to the states high unemployment rate. The various levels of FMAP vary depending on whether the state's most recent 3-month period for which unemployment data is available exceeds their lowest monthly average unemployment rate for any 3-month period post January 1, 2006 by 1.5%, 2.5% or 3.5% .

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a minimum the FMAP will be 56.2% for the entire 27 months. The federal government has already made the increased FMAP funds available to states for the first two quarters (retro back to October 1, 2008 through March 31, 2009). Thus, there will be a significant savings for the County in IHSS contributions, even based on the most conservative estimate, that can avoid having nearly 10,000 IHSS workers shoulder the economic burden themselves.

19. Fresno County has other options that could be used to resolve their realignment shortfall without imposing harsh wage reductions to IHSS workers. Counties are permitted to transfer funds between the three realignment accounts to meet local needs and priorities. This transfer authority allows counties to reallocate up to 10% of realignment revenues between the Health, Mental Health and Social Services Accounts. Transfers may be made between any of the accounts for any reason, as determined by the Board of Supervisors. The State does not have any authority to disallow or disapprove of transfers made by the county. Counties that have already transferred funds from the Health and Mental Health Accounts to the Social Services Account may reallocate an additional 10% of realignment revenue from the Health Account to cover deficiencies in their Social Services Account. A number of counties throughout California have used their transfer authority this year to move funds into their Social Services Account due to the shortfall in the realignment base. Fresno County receives over $38 million for their Health Account, of which 10% or $3.8 million could be transferred into the Social Services Account. The County receives for $35 million for their Mental Health Account, of which 10% of $3.5 million could be transferred into the Social Services Account. Thus, there is significant fiscal relief available within the transfer authority to eliminate any need to reduce funding for IHSS worker wages.

I declare under penalty of perjury under the laws of the United States of America and the State of California that the foregoing is true and correct. Executed this 10th day of March 2009 in Sacramento, California.

KAREN KEESLAR

1/523349

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County Funding for IHSS and 1991 Realignment

1991 Realignment increased the county's financial responsibility for the IHSS program (from 1.5% to the current 17.5%) and, in doing so, set up a dedicated funding source to pay for these new county obligations.

Dedicated Funding Source:

A portion of the state Sales Tax (.5%) and Vehicle License Fee (24.33%) is dedicated to the "Local Revenue Fund" to help counties pay for the various health care, mental health, and social services programs inherited through 1991 Realignment.

Each county maintains a "Health and Welfare Trust" comprised of four program accounts. Every month the state Controller sends each county realignment funding for the program accounts. Each account receives a percentage of the total dedicated funding; that is known as the program "base amount". The base amount is recalculated every year and is equal to the prior year's base amount plus any "growth revenue" received in the prior year. This is explained further below.

Program Accounts:

- Mental Health
- Social Services - supports Entitlement programs such as Adoption Assistance Program (AAP), California Children's Services (CCS), CalWorks, Child Welfare Services (CWS), Foster Care, and IHSS.
- Health
- CalWorks MOE - created in 2011

Once every program account receives their full base amounts, any additional Sales tax revenue - referred to as "Sales Tax Growth Revenues" - are funneled into the "Sales Tax Growth Account". This Growth Revenue is allocated in order of priority:

- First draw goes to the "Caseload Subaccount", which funds net growth in entitlement programs that are caseload driven, such as IHSS, CalWorks, CCS, Adoptions Assistance, and Foster Care. These payments are calculated based on actual changes in caseload costs each year and are paid at the end of year. The Caseload subaccount must be fully funded before allocations can be made to the second and third draw subaccounts below.

- Second draw goes to County Medical Services Program Growth Subaccount (CMSP Growth).
- Third draw goes to "General Growth Subaccount" which funds growth in Health, Mental Health and Cal Works grant increases (as per SB 80, passed by the Legislature on Saturday, June 17, 2013.)

Problems with Cash flow

On average, payments to counties for caseload cost increases are made approximately 12 to 18 months after the time the costs were incurred. Counties experience cash flow problems when caseload growth far outpaces dedicated sales tax growth thus creating a shortfall. This happened in the 2000s, when social services caseload grew drastically each year. In these years, realignment revenue did not cover all of the IHSS costs for counties and, therefore, counties had to incur General Fund cost until realignment revenue could "catch up". However, it is important to note that these additional county costs are obligations that must be repaid once new realignment revenues are received. Obligations carry over from year to year. Realignment law guarantees that all funds must be repaid with future sales tax growth (see Chapter 100, Statutes of 1993 and also Chapter 450, Statutes of 2003).

County, State, and Federal Funding of IHSS

IHSS is one of the very few Medi-Cal programs with a county share of cost. Most Medi-Cal programs are funded entirely from state and federal dollars. Funding for IHSS provider wages and health benefits is split three ways:

Federal Share	50% - 56%[1]
State Share	28.6% - 32.5% (65% of the Non Federal Share)
County Share	15.4% -17.5% (35% of the Non Federal Share)

Because IHSS provider wages and health benefits are negotiated at the local level, the county has the power to control these expenditures. The state and federal shares are automatically contributed based on the amount the County chooses to spend.

Therefore, the county pays $0.154 to $0.175 for each $1.00 it spends on IHSS. Additionally, the amount the county spends is almost entirely reimbursed through 1991 Realignment, as described above.

[1] Federal funding for IHSS recipients who participate in the Community First Choice Option (approximately 40%) is 56%. Federal funding for IHSS recipients who do not participate in CFCO is 50%.

United Domestic Workers of America
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All County expenditures for IHSS worker wage increases are repaid

Misunderstanding regarding the liability for counties' "local share" of IHSS wage increases abounds. The following is presented to eliminate this misunderstanding.

The county share of all IHSS wage costs, now 17.5%, is repaid through funds dedicated to the state's Realignment Trust Fund. State law divides Realignment funding into two major groups: the "base" and the "growth". "Base" funds come from 24.33% of all Vehicle License Fees (VLF). "Growth" funds come from one-half cent of all state sales tax collections. Base funding is distributed monthly. "Growth" funds are paid the year following that in which the expenditures are incurred, after the totals are calculated for all programs statewide and for available revenue. AB 2747 (Garcia), sponsored by UDW and just signed by the Governor, will speed up this repayment process.

There is major concern, and misunderstanding, among many counties because there was insufficient funding to pay much of the costs in recent years. However, statutory guarantees exist to ensure that all funds will be repaid. Evidence of these guarantees abounds in the following documents.

1. Realignment Law guarantees funds will be repaid. The initial guarantee is over ten years old. Ch 100, Statutes of 1993 (SB 463, Bergeson) requires that *all* net costs incurred by counties due to caseload growth would be backfilled by realignment revenues in a subsequent year. This change represents a legally binding promise from the Legislature that all costs will be returned.[1]

2. When funds first became inadequate, the Legislature immediately acts to ensure seamless continuation of realignment law. The first piece of corrective legislation was AB 1716, *a committee bill,* restoring the base funding level in realignment.[2] Because this bill was designed to continue the Bergeson guarantees, the Legislative Counsel Digest for AB 1716 (Ch. 450, Statutes of 2003) explains the current realignment provisions:

> . . . Existing law requires, for the 1993-94 fiscal year and fiscal years thereafter, that the Controller shall deposit into the Caseload Subaccount of the Sales Tax Growth Account of the Local Revenue Fund, from revenues deposited into the Sales Tax Growth Account, an amount that is sufficient to fund the net cost for the realigned portion of the county or city and county share of growth in social services caseloads *and any share of growth from the previous year or years for which sufficient revenues were not available in the Caseload Subaccount* [italics added].[3]

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[1] Legislative Analyst's Office, Realignment Revisited: An Evaluation of the 1991 Experiment in State-County Relations. Sacramento: LAO, February, 2001, p. 17.
[2] (Committee bills illustrate the strength of the entire committee, rather than just the author, to the bill.)
[3] Legislative Counsel's Digest for AB 1716, pp. 1-2.

3. **Department of Finance letters confirm that all funding will be paid.** The California State Association of Counties (CSAC) wrote to the DOF in November, 2002 requesting clarification of this very issue. On January 13, 2003, the DOF responded, clarifying that all growth funding will be paid:

> Welfare and Institutions Code Section 17605(b)(1) requires revenues deposited into the Sales Tax Growth Account to fund the net cost for the realigned portion of the county or city and county share of growth in social services caseloads *as well as* any share of growth from the previous year or years for which sufficient sales tax growth revenues were not available. The 2003-04 Governor's Budget does not project sales tax growth to be available until the 2003-04 fiscal year. Specifically, the Governor's Budget projects $111.7 million in sales tax growth in 2003-04, all of which would be applied to the $123.6 million shortfall for 2001-02 caseload growth. This would leave an $11.9 million shortfall for 2001-02 caseload growth, to be paid with future sales tax growth [italics in original letter].[4]

The next day, the DOF certified the amount of Realignment Growth Funding for the 2001-2002 year in its letter to the State Controller.[5]

These letters are sent annually after review by CSAC. The latest letter, dated February 6, 2004, contains the revised 2002-03 caseload growth schedule. It indicates that in 2002-03, Imperial County is owed approximately $1 million in growth for IHSS. This letter and accompanying chart are included at the end.

Other documents address "local costs" for realigned programs. We recommend the 2001 Legislative Analyst's study[6] for a thorough explanation of realignment funding. CSAC's 2003 paper, In-Home Supportive Services: Counties at the Crossroads[7] makes growth and expenditure projections. "Public Funding for In-Home Supportive Services: An Analysis of Funding Sources and their Implications," reflects on the above law relating to the complete repayment of realignment funding.[8] This longer analysis is extremely helpful in understanding the convoluted path in funding.

Delays in replacing county funds are significant. Because of the growth in IHSS and other realigned programs, many counties remain skeptical that they will actually get these funds back. Some county staff have developed flowcharts showing the actual return of dollars. Fortunately, documents are available on websites, from DOF staff, or directly from the California State Association of Counties, which reviews all documents before they are distributed.

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[4] Cheryl Stewart, Assistant Program Budget Manager to Steven C. Szalay, Executive Director, California State Association of Counties, January 13, 2003, p. 1.

[5] Cheryl A. Stewart, Assistant Program Budget Manager, DOF to Michael Harvey, Fiscal Supervisor, Division of Accounting, SCO, January 14, 2003.

[6] Legislative Analyst's Office, Realignment Revisited: An Evaluation of the 1991 Experiment in State-County Relations. Sacramento: LAO, February, 2001.

[7] CSAC, In-Home Supportive Services: Counties at the Crossroads. Sacramento: CSAC, November 2002.

[8] Rick T. Zawadski, "Public Funding for In-Home Supportive Services: An Analysis of Funding Sources and their Implications." Oakland, CA: RTZ Associates, 1999, 2000 and 2002. RTZ Associates consults with a number of California Public Authorities.

DEPARTMENT OF FINANCE

ARNOLD SCHWARZENEGGER, GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

February 6, 2004

Mr. Steven C. Szalay, Executive Director
California State Association of Counties
1100 K Street, Suite 101
Sacramento, CA 95814

Dear Mr. Szalay:

Realignment statute requires the Department of Finance (Finance) to develop a caseload growth schedule for specified social and health service programs in consultation with the Departments of Social Services and Health Services. Statute also requires the California State Association of Counties (CSAC) to review the schedule prior to submission of the schedule to the State Controller's Office (SCO). In a letter dated October 2, 2003, Finance submitted the 2002-03 caseload growth schedule for your review. However, at the request of CSAC, we are now submitting a **revised 2002-03 caseload growth schedule** for review, which includes updated California Children's Services (CCS) caseload data from the Department of Health Services. Upon completion of CSAC's review, please submit a letter stating CSAC's concurrence with the revised schedule. Following receipt of this letter, Finance will submit the revised caseload growth schedule to the SCO.

The SCO indicates that there was realignment sales tax revenue growth of $50.4 million in 2002-03. Pursuant to Welfare and Institutions Code Section 17605(b)(1), this sales tax revenue growth will be applied toward the unfunded 2001-02 caseload growth of $123.6 million, and the remaining $73.1 million will be restored with future sales tax growth. Similarly, the 2002-03 caseload growth of $183.2 million cannot be funded at this time and will also be restored with future sales tax growth after the remaining balance of 2001-02 caseload growth is fully funded. Realignment vehicle license fee revenue growth will be distributed to the County Medical Services and General Growth subaccounts based on the proportion of sales tax growth allocated to these accounts in 1996-97 pursuant to Welfare and Institutions Code Section 17606.20.

If you have any questions regarding this matter, please call Ms. Fran Mueller, Finance Budget Analyst, or myself at (916) 445-6423.

Sincerely,

Nicolas Schweizer
Principal Program Budget Analyst

Attachment

cc: On following page

cc: Mr. Danny Alvarez, Staff Director, Senate Budget and Fiscal Review Committee
Mr. Jeff Bell, Fiscal Director, Senate Republican Fiscal Office
Mr. Christopher W. Woods, Chief Consultant, Assembly Budget Committee
Mr. Peter Schaafsma, Staff Director, Assembly Minority Fiscal Committee
Ms. Diane Van Maren, Principal Consultant, Senate Budget and Fiscal Review Committee
Mr. Steve Keil, Legislative Coordinator, California State Association of Counties
Mr. Reagan Wilson, President, County Administrative Officers Association of California
Ms. Patricia Ryan, Interim Executive Director, California Mental Health Directors Association
Mr. Frank Mecca, Executive Director, County Welfare Director's Association
Ms. Judith Reigel, Executive Officer, County Health Executives Association of California
Mr. Terence Henry, Health Services Funding Administrator, County of Fresno Health Services Agency
Honorable S. Kimberly Belshé, Secretary, Health and Human Services Agency
Ms. Margaret Gerould, Acting Deputy Director, Administration, Department of Health Services
Mr. Stan Johnson, Chief, County Financial Program Support, Department of Mental Health
Ms. Tameron Mitchell, Chief Deputy Director, Department of Social Services
Mr. Douglas Park, Chief, Financial Management and Contracts Branch, Department of Social Services
Ms. Lilia Anguiano, Staff Services Manager, Financial Management and Contracts Branch, Department of Social Services
Mr. Michael Havey, Fiscal Supervisor, State Controller's Office

2002-03 REALIGNMENT CASELOAD GROWTH (REVISED)

County	col 1 CalWORKs (FG/U)	col 2 CalWORKs/ FC/FS Admin	col 3 Foster Care	col 4 CWS	col 5 AAP	col 6 PCSP	col 7 IHSS
Alameda	$387,530	($160,466)	$5,288,973	$995,174	$213,228	$3,898,691	$1,486,933
Alpine	(67)	1,645	33,881	(3,099)	3,167	1,387	(1,333)
Amador	(4,986)	(5,608)	76,639	12,091	2,846	37,831	10,186
Butte	(16,277)	(123,275)	639,735	233,286	104,844	434,771	508,834
Calaveras	415	(24,181)	176,842	24,984	3,177	16,142	(12,506)
Colusa	(2,928)	(6,195)	(45,537)	12,394	2,733	9,914	3,625
Contra Costa	152,673	(267,953)	1,938,512	547,747	263,898	2,415,833	995,822
Del Norte	(8,572)	3	19,164	44,467	24,682	42,537	64,313
El Dorado	(18,408)	(21,043)	39,316	106,719	36,750	57,691	68,260
Fresno	84,780	33,197	2,632,997	229,547	258,308	2,090,726	1,413,000
Glenn	9,201	(16,902)	(91,002)	61,952	3,583	20,522	85,703
Humboldt	14,868	4,633	402,642	39,575	69,554	107,819	117,340
Imperial	(80,974)	(26,622)	(229,332)	212,425	11,049	499,193	509,230
Inyo	8,119	934	139,217	27,433	281	3,592	(4,464)
Kern	(70,051)	(168,381)	2,369,341	123,341	286,395	539,017	218,683
Kings	(29,440)	(9,080)	311,123	97,994	31,519	249,884	120,731
Lake	8,046	(42,614)	310,120	90,782	32,246	355,519	59,074
Lassen	3,995	(19,496)	348,097	40,106	7,367	21,416	40,383
Los Angeles	456,347	(2,439,389)	22,342,376	4,197,876	3,913,936	15,867,800	4,059,420
Madera	(16,147)	(47,691)	(30,894)	100,663	15,535	235,626	214,378
Marin	(2,499)	(73,267)	287,206	141,581	49,763	270,849	177,899
Mariposa	(894)	(5,551)	77,978	38,865	12,261	14,292	43,342
Mendocino	1,576	(95,642)	380,551	158,113	56,250	197,222	79,939
Merced	(30,851)	(82,150)	504,277	112,881	88,278	305,727	281,037
Modoc	(3,667)	(941)	6,156	28,556	(663)	11,462	1,114
Mono	(904)	2,313	100,368	2,611	-	3,547	9,508
Monterey	(30,785)	(27,763)	1,461	62,324	143,160	777,344	275,572
Napa	1,962	(23,746)	415,906	61,094	53,013	65,026	45,457
Nevada	(4,271)	2,743	82,765	27,020	32,349	37,615	94,472
Orange	(64,850)	(365,606)	1,921,941	973,520	1,341,661	1,551,085	641,675
Placer	(4,316)	(12,280)	366,467	327,081	62,687	160,494	65,953
Plumas	997	(7,094)	(31,412)	31,836	1,553	34,259	38,946
Riverside	(41,656)	5,965	5,801,994	(204,708)	524,252	2,423,255	1,355,176
Sacramento	449,610	232,051	4,091,345	1,476,171	1,195,654	5,617,243	3,825,589
San Benito	(18,470)	(12,964)	315,279	25,401	1,883	73,657	77,752
San Bernardino	(43,879)	(195,072)	137,284	1,311,779	587,478	3,031,117	1,371,884
San Diego	181,955	(299,795)	7,446,075	3,369,192	1,357,772	2,114,891	1,897,959
San Francisco	27,561	(426,165)	569,159	16,846	325,396	1,163,913	225,536
San Joaquin	(68,550)	7,971	1,697,456	401,367	345,371	947,619	657,954
San Luis Obispo	14,336	(553,696)	701,874	343,242	95,429	150,669	117,279
San Mateo	(12,207)	(74,923)	813,071	343,586	98,119	832,879	695,778
Santa Barbara	(28,559)	(66,500)	327,161	166,101	47,706	301,884	140,272
Santa Clara	(115,984)	8,756	2,944,316	1,527,001	414,999	2,554,215	1,774,691
Santa Cruz	22,053	(16,716)	380,791	87,755	135,557	317,641	199,399
Shasta	20,415	(32,271)	591,273	103,739	106,350	302,159	494,418
Sierra	(583)	2,665	29,732	7,838	260	(4,227)	(2,723)
Siskiyou	(6,736)	(16,466)	206,182	39,501	9,977	70,569	32,750
Solano	61,674	(38,748)	601,944	161,499	48,123	372,363	118,673
Sonoma	25,046	(87,974)	1,016,930	183,925	123,740	743,040	335,265
Stanslaus	42,311	(66,752)	1,062,937	227,257	144,409	660,060	306,428
Sutter	(9,657)	(35,529)	260,723	132,162	53,387	59,729	57,644
Tehama	(8,795)	(20,618)	343,870	59,061	13,239	140,746	158,203
Trinity	3,550	(8,306)	95,013	10,276	3,771	21,439	14,654
Tulare	(49,794)	(179,529)	890,073	251,010	165,442	264,528	329,739
Tuolumne	11,054	(17,327)	(66,565)	9,535	11,778	8,943	13,957
Ventura	34,000	17,135	1,075,308	214,120	82,127	329,898	221,875
Yolo	(7,939)	6,977	579,565	76,481	120,815	209,117	91,819
Yuba	(23,774)	(36,078)	257,018	169,750	82,259	66,226	58,659
Total	$1,196,604	($5,931,377)	$72,955,682	$19,670,826	$13,220,703	$53,108,406	$26,283,156

2002-03 REALIGNMENT CASELOAD GROWTH (REVISED)

	col 8	col 9	col 10
County	CCS	Total	FY 2001-02 Caseload Positive Growth Only
Alameda	$261,386	$12,371,449	$12,371,449
Alpine	-	35,581	35,581
Amador	24,704	153,703	153,703
Butte	79,786	1,861,704	1,861,704
Calaveras	(4,785)	180,088	180,088
Colusa	8,974	(17,021)	-
Contra Costa	14,723	6,061,255	6,061,255
Del Norte	2,164	188,758	188,758
El Dorado	6,440	275,725	275,725
Fresno	315,502	7,058,057	7,058,057
Glenn	7,220	80,277	80,277
Humboldt	57,802	814,233	814,233
Imperial	49,571	944,540	944,540
Inyo	1,567	176,679	176,679
Kern	(126,804)	3,171,541	3,171,541
Kings	(11,784)	760,947	760,947
Lake	(24,214)	788,959	788,959
Lassen	(8,923)	432,945	432,945
Los Angeles	226,348	48,624,714	48,624,714
Madera	(339)	471,132	471,132
Marin	100,963	952,495	952,495
Mariposa	3,113	183,406	183,406
Mendocino	5,173	783,182	783,182
Merced	12,909	1,192,108	1,192,108
Modoc	189	42,206	42,206
Mono	6,337	123,780	123,780
Monterey	222,983	1,424,296	1,424,296
Napa	75,042	693,754	693,754
Nevada	20,752	293,445	293,445
Orange	58,064	6,057,490	6,057,490
Placer	60,726	1,026,812	1,026,812
Plumas	(5,463)	63,623	63,623
Riverside	33,885	9,898,163	9,898,163
Sacramento	28,402	16,916,065	16,916,065
San Benito	2,544	465,082	465,082
San Bernardino	(42,685)	6,157,906	6,157,906
San Diego	305,466	16,373,515	16,373,515
San Francisco	46,899	1,949,145	1,949,145
San Joaquin	83,944	4,073,132	4,073,132
San Luis Obispo	15,148	884,281	884,281
San Mateo	8,780	2,705,083	2,705,083
Santa Barbara	165,936	1,054,001	1,054,001
Santa Clara	234,939	9,342,933	9,342,933
Santa Cruz	20,415	1,146,895	1,146,895
Shasta	37,959	1,624,042	1,624,042
Sierra	-	32,962	32,962
Siskiyou	(1,893)	333,884	333,884
Solano	(39,713)	1,285,816	1,285,816
Sonoma	(9,837)	2,330,135	2,330,135
Stanslaus	42,891	2,419,541	2,419,541
Sutter	21,125	539,584	539,584
Tehama	12,152	697,858	697,858
Trinity	4,836	145,233	145,233
Tulare	15,849	1,687,318	1,687,318
Tuolumne	26,890	(1,736)	-
Ventura	174,389	2,148,852	2,148,852
Yolo	15,472	1,092,307	1,092,307
Yuba	27,080	601,140	601,140
Total	$2,670,996	$183,174,996	$183,193,757

REALIGNMENT
FOR SOCIAL SERVICES DUMMIES

What is Realignment?

In January, 1991 Governor Wilson proposed in his FY 1991-92 State Budget to "realign" the funding responsibility for AB 8 / County Health Services and Community Mental Health programs by shifting a greater share of the cost of such programs to the counties. By the time the Budget Revise was issued in May, the state's budget deficit had grown worse and the concept of realignment was substantially expanded in order to further reduce state costs.

By the end of the FY 1991-92 budget negotiations, nineteen state/county health, mental health and social services programs were realigned. Under Realignment the county share of the cost of most of the realigned programs was increased and funded by new revenue sources. With the decrease of appropriated state funding, counties were granted increased flexibility in managing some of the realigned programs, most notably in mental health. They also received some assurance of a dedicated revenue source that would grow over time.

What programs were Realigned?

The following chart lists the nineteen Realigned programs. Note that these "programs" relate to line items in the state budget. Consequently, some "programs" are actually multiple programs. For example, in the state budget at that time Welfare Administration referred to the administration of AFDC, AFDC FC, NAFS, FSET, etc.

Health
AB 8 / County Health Services
Medically Indigent Services Program – General Fund
Medically Indigent Services Program - SLIAG
County Medical Services Program
Local Health Services
Mental Health
Community Based
Institutes for Mental Disease
State Hospitals
Social Services
AFDC Aid Payments
Welfare Administration
AFDC Foster Care
Child Welfare Services
Adoptions Assistance
GAIN
In-Home Supportive Services
County Services Block Grant
County Juvenile Justice Subventions (AB 90)
County Stabilization Subventions
California Childrens Services

How did the county share of the Realigned Social Services programs change?

The chart below displays the changes to the county share of Non-Federal program cost under Realignment.

	Pre Realignment County Share	Post Realignment County Share
AFDC (now CalWORKs) Aid Payments	11 %	5 % of non-fed
Welfare Administration	50%	30 % of non fed
AFDC Foster Care	5%	60% of non fed
Child Welfare Services	24%	30% of non fed
Adoptions Assistance	0%	25% of non fed
GAIN	0%	30% of non fed
In-Home Supportive Services	3%	35% *
County Services Block Grant	16%	30%
California Childrens Services	25%	50%

* Post Realignment share was originally 35% of total cost. Became 35% of Non-Federal cost with implementation of the Personal Care Services Program.

How is Realignment's increased cost to the counties funded?

Realignment is funded through a half-cent increase in the state sales tax enacted in 1991 and through a dedicated portion of the Vehicle License Fees (VLF). In 1991 both the state and the counties established Realignment trust fund accounts for Health, Mental Health and Social Services as required by the Realignment legislation.

While sales tax revenues were directed to all three Realignment accounts, VLF revenues were directed largely to the Health account with a smaller portion of VLF also supporting Mental Health and Social Services. This Realignment funding must be used by counties as follows:

- Social Services – Supports entitlement programs such as the Adoption Assistance Program (AAP), California Children's Services (CCS), CalWORKs, Child Welfare Services (CWS), Foster Care, and In-Home Supportive Services (IHSS). All Realignment sales tax growth revenue first must be directed to cover caseload growth costs of the realigned Social Services programs.

  Once all caseload growth costs have been funded in the Social Services Account, the Social Services Account also receives a portion of any remaining sales tax and VLF growth.

- Health – Supports eligible health activities, including indigent medical care, public health, environmental health, correctional health, etc. The Health Account is funded from VLF revenue (72%) and sales tax revenue (28%).

  Once all caseload growth costs have been funded in the Social Services Account, the Mental Health Account receives a portion of any remaining sales tax and VLF growth

- Mental Health – Supports eligible Mental Health activities and supplements County General Fund funding for State-mandated mental health services for seriously ill indigent clients. Approximately 85% of the Mental Health Account is comprised of sales tax revenue, with the remainder from VLF revenues.

  As with the Health Account, once all caseload growth costs have been funded in the Social Services Account, the Mental Health Account receives a portion of any remaining sales tax and VLF growth.

Can Realignment funds be transferred between accounts?

Under Realignment, and with some restrictions, counties may transfer funds among the Health, Mental Health and Social Services accounts. Each county is allowed to transfer up to 10% of any account's revenue to the other two accounts. In order to do so, the county must document at a public meeting that the decision is being made to ensure the most cost-effective provision of services.

An additional 10% may be transferred from a county's Health Account to the Social Services Account under specific circumstances. An additional 10% may also be transferred from the Social Services Account to the other accounts under specific circumstances. Most counties have used this flexibility to transfer funding from the Mental Health and Health Accounts to support Social Services entitlement programs. Statewide little funding has been transferred from Social Services to Health and Mental Health.

Realignment Account Transfers

	Mental Health	**Social Services**	**Health**	**Number of Counties**
1993-94	$3.9	$5.9	-$9.8	10
1994-95	-25.9	80.3	-54.4	13
1995-96	2.2	7.9	-10.0	14
1996-97	-18.7	26.7	-8.0	21
1997-98	-10.4	12.6	-2.2	18
1998-99	-15.3	10.8	4.5	19
1999-2000	-10.3	4.7	5.6	16
2000-2001	-5.2	-3.2	8.4	11
Totals	**-$79.7**	**+145.7**	**-65.9**	

What is the Realignment base?

The enabling legislation established for each county its percentage share of the total statewide Realignment revenue expected to be required in FY 1991-92 in the Health, Mental Health and Social Services accounts to fund each county's increased costs due to Realignment. As the enabling legislation anticipated that each county would receive its calculated amount in FY 1991-92, the amount of Realignment revenue actually distributed in FY 1991-92 was to become each county's Realignment base.

The enabling legislation also provided under certain circumstances for additional growth funding to be added each year to the original base amounts for each county for each account. This yearly adjustment results in what has been described as a "rolling base". For example, funding for caseload growth for FY 1992-93 was added to the FY 1991-92 base to create a new FY 1992-93 base.

In actuality, due to the continuing recession in California sales tax revenues were less than projected. The State Controller's Office calculated that Realignment revenues received and distributed for FY 1991-92 funded only 88% of the counties' increased costs for FY 1991-92. This shortfall situation continued for several years.

Follow-up legislation in 1993 created a new fund category called Base Restoration. The legislation authorized the allocation of growth funds from subsequent years for Base Restoration. As Realignment revenues eventually increased the counties were fully funded for their FY 1991-92 increased costs under Realignment, and for their new base amounts for subsequent fiscal years.

What is Realignment Caseload Growth and how is it calculated?

Any increase in Realignment sales tax collected or any increase in the Realignment portion of VLF fees must first fund county cost increases due to caseload growth in the eight Realigned Social Services programs subject to caseload growth increases.

At the end of each fiscal year the California Department of Social Services and the Department of Health Services calculate for the California Department of Finance the increase or decrease in expenditures for each county for CalWORKs payments; CalWORKs, Food Stamps, and Foster Care administration; AFDC Foster Care Payments; Child Welfare Services; Adoption Assistance Program; Personal Care Services Program; In-Home Supportive Services, and California Children's Services.

This change in expenditures is then used to calculate the amount of county cost change due to Realignment by using the pre and post Realignment sharing ratios. These increases and/or decreases in county cost for Social Services caseload growth are aggregated together for each county.

If the sum of a county's changes is a positive amount, the county is due the positive amount in caseload growth funding and a like amount is added to the county's previous Social Services Account base. However, if the sum of a county's changes is a negative

amount, the county is "held harmless" and the negative amount is set to zero and not subtracted from the county's Social Services Account base.

The total of all the positive caseload growth amounts becomes the statewide Realignment Caseload Growth amount for that fiscal year. In any year that Realignment Sales Tax revenues equal the amount collected the previous year, revenues above the amount collected in the previous year are first allocated to fund the Caseload Growth of the previous year. In any year that Realignment Sales Tax Revenues exceed the previous year's base plus caseload growth, the excess funds become General Growth and are prorated to the Health, Mental Health and Social Services accounts.

As state sales tax receipts vary with the economy, Realignment revenue growth has been inconsistent. In some years there has been enough sales tax revenue growth to not only fund the base plus caseload growth in the Social Services account, but to provide some General Growth in the Health and Mental Health accounts. This situation also holds true for VLF revenues. In other years, such as FY 02-03, not enough revenue was collected to fund the FY 01-02 base.

To what fiscal years are Caseload Growth Funds associated?

Caseload Growth funds are associated with three different years depending on the context of the discussion. Caseload Growth is calculated on the change in expenditures of Fiscal Year 2 over Fiscal Year 1. In this context the change is Caseload Growth for Year 2.

However, the revenue to fund the Caseload Growth in Year 2 comes from revenue received by the state in the following year. The calculation of the amount of Caseload Growth in Year 2 also takes place in the following year. In this context Caseload Growth calculated and received in Year 3 for Year 2 is often referred to as Caseload Growth for Year 3.

Revenue, if any, to fund Caseload Growth is received by the state late in the Realignment Fiscal Year that ends August 15. The issuance to the counties of funding for Caseload Growth that occurred in Year 2 would usually occur after August 15 of Year 4. In this context Caseload Growth calculated and received by the state in Year 3 for Year 2 is often referred to as Caseload Growth for Year 4.

The **following table illustrates these three contexts.**

Year Growth Occurred	DOF Growth Letter Dated	Counties First Received Funds
FY 1992-93	6-1994	FY 1994-95
FY 1993-94	7-1995	FY 1995-96
FY 1994-95	4-1996	FY 1996-97
FY 1995-96	10-1997	FY 1997-98
FY 1996-97	12-1998	FY 1998-99
FY 1997-98	9-1999	FY 1999-00
FY 1998-99	10-2000	FY 2000-01
FY 1999-00	10-2001	FY 2001-02
FY 2000-01	10-2003	FY 2003-04
FY 2001-02	Pending	

How will the new Base Restoration statute be applied?

Last year, CWDA sponsored a bill (AB 1716, Wolk) that was signed into law which requires the State Controllers Office (SCO) to use the sales tax growth funds in 2002-03 to restore the social service base in each county for the year when sales tax revenues were not sufficient to fund the base. As a result, each county's realignment base was reduced as a percentage of the overall shortfall (statewide total approximately $27 million). The SCO will pay out these funds first during this year's growth cycle if there is at least $27 million to provide the base restoration payments. Funds above the $27 million will be used to continue to fund the balance of the caseload growth for 2001-02 ($78.8 million).

How well has Realignment worked?

In 2001, the Legislative Analyst's Office (LAO) issued a report based on an analysis of Realignment. The LAO concluded that Realignment was largely successful in establishing a relatively stable funding stream for county health, mental health, and social services programs. In addition, the LAO concluded that counties had used this funding well in the mental health area by developing innovative and less costly approaches to providing services. However, the LAO also concluded that fiscal incentives could be improved to provide benefits to those counties that have been successful in controlling their social services caseload costs.

What is Realignment Equity?

During the lengthy negotiations in 1991 leading to the establishment of Realignment, equity was a highly volatile issue. The complicated Realignment distribution formula was based on the following principles:

- Recognition of historical support for health and human services programs – the distribution formula was in part based on county spending at that time for these

programs. Therefore, counties with a history of higher discretionary support for health and mental health services received a higher Realignment base. Counties that historically had decided to spend less in these areas had a lower base.

- Population growth and poverty – recognizing that there needed to be adjustments for county population and poverty rates, the Realignment formula allowed for equity payments to be made to counties that were considered "under-equity" based on certain population and poverty indicators. A certain amount of growth was reserved for these payment adjustments until a maximum adjustment cap was reached in 2001.

Due to the large population growth in many California counties, the equity gap based on population indicators has widened considerably. From time to time different counties have attempted to secure legislation to provide for further equity adjustments. As such adjustments could likely be funded only at the expense of reduced amounts of funding for Social Services caseload growth, no new equity effort to date has been successful.

What are the Realignment Poison Pills?

At the time that Realignment was enacted, there was uncertainty about whether it would be challenged on legal or constitutional grounds. To address this uncertainty, a series of "poison pills" were attached to the legislation that would make Realignment inoperative under certain circumstances. These provisions are an attempt to forestall reimbursable mandate claims, constitutional challenges, and court case related to medically indigent adults. Since the triggering of a "poison pill" by any one county would affect all counties there is a considerable disincentive for any one county to seek to improve its situation through such legal actions.

What is Realignment II?

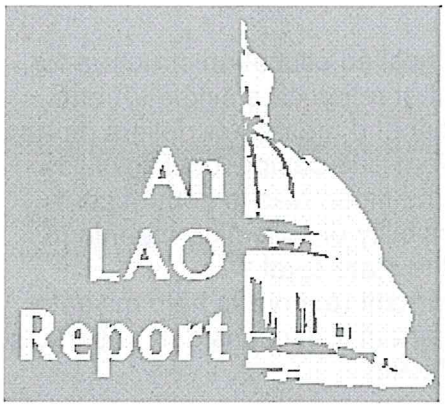
In his FY 03-04 Budget, Governor Davis proposed to expand Realignment to some seventy programs and to change the Realignment funding for most of the current nineteen. The increase in cost to the counties was to be financed by a 1% increase in the sales tax, a $1 per pack increase in the tax on cigarettes, and restoration of the 10% and 11% state income tax brackets. While the proposal contained some interesting possibilities for increased local flexibility in program administration, the complexity of the proposal, the uncertainty of funding during an economic downturn, and the lessons learned from Realignment I led to no inclusion of Realignment II in the adopted FY 03-04 State Budget.

Helpful Links:

SCO Apportionments:	http://www.sco.ca.gov/ard/local/apport/index.shtml
SCO Allocation Reports:	http://www.sco.ca.gov/ard/payments/realign/annual
LAO Report 1991:	http://www.lao.ca.gov/search.aspx

Compiled by John Meermans and Wendy Russell, 5/11/04

Legislative Analyst's Office, February 6, 2001



Realignment Revisited:

An Evaluation of the 1991 Experiment In State-County Relations

Background

In 1991, the state enacted a major change in the state and local government relationship, known as realignment. In the areas of mental health, social services, and health, realignment transferred programs from the state to county control, altered program cost-sharing ratios, and provided counties with dedicated tax revenues from the sales tax and vehicle license fee to pay for these changes.

LAO Findings

Realignment has been a largely successful experiment in the state-county relationship, but could be improved.

- In mental health, realignment's reliable funding stream and increased flexibility have allowed counties to develop innovative and less costly approaches to providing services.
- A lack of data in the health area makes evaluating realignment's impact on these programs difficult.
- Realignment's complicated system of formulas for allocating new dollars limits counties' incentives to control their program costs.
- Transfer provisions that allow counties to shift funds among program areas have been used by 22 counties and provide an opportunity for counties to reflect their local preferences.
- By emphasizing realignment's original goals of efficient fiscal incentives and performance accountability, realignment could serve as a useful model for future program changes in the state-county relationship.

LAO Recommendations

To strengthen realignment, we recommend that the Legislature:

- Implement a simplified allocation structure for new revenues that relies on a single formula. Counties could spend these new dollars on any realigned program--increasing local flexibility and improving the incentives to control costs.
- Explore the feasibility of collecting meaningful health data at the state level.
- Create a realignment reserve to help mitigate the need for program reductions during periods of economic difficulty.

Introduction

In 1991, the state enacted a major change in the state and local relationship--known as realignment. In the areas of mental health, social services, and health--realignment shifted program responsibilities from the state to counties, adjusted cost-sharing ratios, and provided counties a dedicated revenue stream to pay for these changes. While there have been other significant changes in the broader state-county relationship since the enactment of realignment, the effects of realignment over the past decade have not been reviewed in a comprehensive manner.

In this piece, we (1) summarize the major components of realignment, (2) evaluate whether realignment has attained its original goals and its ability to meet current and future needs of the state, and (3) provide recommendations to improve the workings of the state-local relationship in this area.

Background

In 1991, the state faced a multibillion dollar budget problem. Initially responding to Governor Wilson's proposal to transfer authority over some mental health and health programs to counties, the Legislature considered a number of options to simultaneously reduce the state's budget shortfall and improve the workings of state-county programs. Ultimately, the Legislature developed a package of realignment legislation that:

- Transferred several programs from the state to the counties, most significantly certain health and mental health programs.
- Changed the way state and county costs are shared for social services and health programs.
- Increased the sales tax and vehicle license fee (VLF) and dedicated these increased revenues for the increased financial obligations of counties.

The specific programs that were transferred and the changes in cost-sharing ratios are summarized in Figure 1 and discussed below.

Figure 1
Components of Realignment
Transferred Programs--State to County
Mental Health
▪ Community-based mental health programs ▪ State hospital services for county patients ▪ Institutions for Mental Diseases

M. Smith Open Forum BOS 7/28/15

Board of Supervisors, July 28, 2015 – Mark E. Smith, Garden Valley, Public Comment
StemExpress Human Chop Shop

I rise today to speak on the topic of the business license for StemExpress, and to ask the Board to revoke that license, removing this activity from our County. I realize this is a significant reversal from the previous invitation to this company, but I think the Board was mislead about the operation and it's time for them to go.

If I wanted to open an auto parts business and dismantle vehicles, I'd be regulated to death, chased away from any so called "proper" business area, and relegated to the outlands of society where no one would see me. I'd get regular visits from the police to inspect the books, and I'd be under suspicion at all times. And that is IF I was allowed to do business at all.

Yet the primary business of StemExpress is that of a human chop shop. It can be disguised with lot's of not so fancy words like harvest, research, cure, materials, tissue, and so forth, however when it comes down to it the actual process is quite grisly. We should remember at this point that these "materials", this "tissue", are children. Children manipulated in such a way that during their death, their functioning organs will not be harmed.

The StemExpress statement says "Everything we provide is solely at the request of the nation's and the world's great research institutions". That's just great. If those same institutions asked for soylent green, would they provide that too? Would you allow it?

And how about this one, again from the StemExpress statement, "Written donor consent is required for any donation". I wasn't aware that a 6 1/2 month old could write. This is the age we are talking about, and several states allow "donations" even later than that.

Reading from the StemExpress catalog "fresh cells from a fetal liver" is enough to make me sick. If that is what it takes to cure me, and believe me I suffer severely every day, the price is too high. If society cannot live without killing the most helpless among us in the name of science or medicine, then we all have lived too long.

1 of 2

How tragically ironic it is that we care more about a chop shop for cars than we do for kids.

This Board sets the tone for the ethical and moral behavior for the entire County. To be sure, there is great pressure from the National and State level to have no ethics or morals at all. That only increases the need for this Board to stand up and set the example for others to follow.

Please do your duty and revoke the business license of StemExpress.

Thank You
Mark E. Smith

Attachments (1):

1. This document, 2 pages

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