

# 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 Reviser 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.

<b>Health</b>
AB 8 / County Health Services
Medically Indigent Services Program – General Fund
Medically Indigent Services Program - SLIAG
County Medical Services Program
Local Health Services
<b>Mental Health</b>
Community Based
Institutes for Mental Disease
State Hospitals
<b>Social Services</b>
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.

	<b>Pre Realignment County Share</b>	<b>Post Realignment County Share</b>
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.

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- 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

	<b>Mental Health</b>	<b>Social Services</b>	<b>Health</b>	<b>Number of Counties</b>
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
<b>Totals</b>	<b>-\$79.7</b>	<b>+145.7</b>	<b>-65.9</b>	

### **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

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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.**

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<b>Year Growth Occurred</b>	<b>DOF Growth Letter Dated</b>	<b>Counties First Received Funds</b>
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

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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>

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