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June 30, 2010

To: The Honorable Darrell Steinberg, Senate President pro Tempore

From: Paul McIntosh, Executive Director
Jean Kinney Hurst, Legislative Representative

Re: **Senate Democrats Multi-Year Government Restructuring Proposal**

Thank you for providing us the opportunity to provide a written response to your recently announced proposal to restructure critical programs and services provided to Californians by the state and counties. We sincerely appreciate the outreach and dialogue that you and your staff have afforded us. We share your goal of preserving the critical safety net programs for our most vulnerable populations, and also share the belief that restructuring merits significant attention and effort. We caution, however, that such an endeavor is a challenging one, particularly given the time constraints and political pressures associated with the 2010-11 budget negotiations. The 1991 realignment occurred over many months, involving daily bipartisan meetings with legislators and stakeholders who worked to carefully craft a workable realignment plan. Considering the scope of this proposal and the inclusion of such a broad array of programs, such a restructuring will warrant considerable time and effort. That said, counties remain committed to working hard to develop feedback and alternatives for your consideration as you work toward an eventual budget resolution.

This memo is intended to provide you with a broad response to the proposal. We want to assure you that we are continuing our technical work to evaluate the details of the various components of the proposal with a focus on developing a workable restructuring plan. We will offer our feedback and suggestions as these efforts continue.

Principles to Restructuring. In general, we agree with your principles and have attached CSAC's draft 2010 Realignment Principles, which differ in some areas, for your review. We wish to highlight a few points on this matter:

- 1. Future state costs.** From the state perspective, we can appreciate why you are interested in limiting the state's exposure to future mandate claims. However, one of the key lessons learned from the 1991 realignment was that once a program was realigned, it was difficult to limit future legislative changes to the program that did not consider the adequacy of revenues available in realignment to fund those changes. In-home Supportive Services (IHSS) is the prime example of a program that merely resembles the program it once was. IHSS costs have skyrocketed, in large part due to state law changes that failed to consider the implications of such changes on the funding of the program within the realignment construct. Securing appropriate and adequate funding for programs in which future changes may occur – whether by the legislature, the federal government, or the courts – will be critical to counties as we continue these discussions.
- 2. Fiscal capacity.** While counties support new countywide revenue-raising authority to fund desired local programs and services, we want to make clear that local revenue-raising authority is not an appropriate funding source for realigned programs, particularly those with requirements for statewide access. Not only will it be challenging for counties to get such measures approved, but even if residents within a county were inclined to vote for them, it would be exceptionally difficult for various economies to generate the revenue necessary to provide these critical services.

3. Multi-year endeavor. We agree that restructuring should occur over a period of years to allow for transitions in programming, financing, and infrastructure. However, the proposal does not seem to be structured in a phased-in manner, other than the recognition that caseload will likely increase over a period of years.

4. Revenue adequacy. A paramount concern for counties is a means to address current and ongoing shortfalls in the existing realignment that have resulted in an effective increase in the county share of program costs.

Part I: Improving Public Safety. The proposal to shift certain low-level offenders for incarceration and supervision is likely the most difficult proposal to contemplate, given the scale of restructuring proposed. Additional details are necessary to understand the size of the population to be shifted and the assumptions as to how these offenders are treated once they become the responsibility of counties.

Fundamentally, counties are concerned about existing local jail population constraints and the near-term ability of jails to accommodate inmates who would otherwise go to state prison. Resources and staffing across county probation departments have been dramatically reduced, leaving them ill-prepared to assume a broad new responsibility for parole supervision. It is possible that we could – with sufficient time – design a new and different community corrections model, but it is difficult to see how we achieve this level of savings/program transfer in the short-term.

Counties are open to discussing restructuring alcohol and drug treatment services to counties, but are concerned about the financing and practical effect of realigning only a portion of the Drug Medi-Cal proposal, as the outline seems to contemplate.

Part II: Improving Welfare-to-Work Program. Counties are open to a discussion about changes to sharing ratios that carefully consider the incentives involved in such changes.

Part III: Improving Protective and Aging Services for Adults. Counties are open to a discussion about developing a secure funding stream and local flexibility for important aging programs.

Part IV: Financing. The most troubling aspect of the proposed financing options is the inclusion of as-yet-unknown county savings from the implementation of federal health care reform in 2014. We believe it is extremely premature to assign a dollar figure and timeline associated with any potential savings resulting from health care reform. Because we cannot accurately estimate the costs associated with the residual responsibilities and obligations of counties to provide indigent health care, nor can we predict how quickly individuals will obtain coverage and access after January 1, 2014, it is inappropriate to rely on any level of savings for a restructuring plan. Further, we believe that any savings that are achieved will decline over time due to increased state shares of cost during the ramp-up period. Assumed savings from federal health care reform is not an appropriate revenue source for funding realigned programs.

Process. As previously stated, we are committed to working with you on developing a sustainable restructuring proposal and have convened a working group of county stakeholders to respond to your proposal in greater detail as well as discuss more effective and efficient delivery of various services. We have technical working groups focused on

accomplishing this objective with meetings scheduled over the next two weeks. The complexity of services, programs and revenues involved have challenged us; however, we look forward to providing you with our additional thoughts and ideas as soon as possible. Certainly, there are many complex details that, if resolved, can make the service delivery system better, which we understand is one of our mutual objectives in any restructuring.

We appreciate your commitment to ensure that counties are directly involved in negotiations to develop a practical, effective restructuring plan that ensures that these services will be effectively administered, funded, and sustainable for all communities throughout California.