

Federation of Tax Administrators
2016 Revenue Estimating Conference
October 15-19
Asbury Park, New Jersey

California: Governor Jerry Brown and Subsidiarity

Jay Chamberlain, PhD
Chief, Revenue and Taxation Section
California Department of Finance

- Subsidiarity

Political power should operate at the lowest level possible and at the highest level necessary

- History
 - *Serrano v. Priest*
 - Proposition 13
 - State bailout
 - 1991 Realignment

- Governor Brown's philosophy of state/local governmental relations. Subsidiarity is important, not only because it allows for efficiency and accountability, but also because it more properly aligns incentives for program administrators.

- Realignment program as part of 2011 budget
- Program Goals
 - Protect California's essential public services.
 - Create a government structure that meets public needs in the most effective and efficient manner.
 - Have government focus on core functions.
 - Assign program and fiscal responsibility to the level of government that can best provide the service.
 - Have interconnected services provided at a single level of government.
 - Provide dedicated revenues to fund these programs.
 - Provide as much flexibility as possible to the level of government providing the service.
 - Reduce duplication and minimize overhead costs.
 - Focus the state's role on appropriate oversight, technical assistance, and monitoring of outcomes.

- Two components
 - Health and human services and public safety programs
 - Substance Abuse Treatment Programs
 - Adult Protective Services
 - Foster Care
 - Child Welfare Services
 - Adoptions and Adoption Assistance
 - Child Abuse Prevention
 - Mental Health Managed Care
 - Early Periodic Screening, Diagnosis, and Treatment (EPSDT) Program
 - Court Security
 - Local Law Enforcement Programs
 - Juvenile Justice Programs
 - Community Corrections Programs

- Health and human services and public safety programs
 - These programs already run by counties
 - Funding was combination of federal, state, and local
 - Realignment converted the state funding to a stable and permanent funding source

- Community Corrections Programs
 - Prospectively affected three groups
 - County Jail vs State Prison for low-level offenders
 - County probation vs State Parole
 - Eliminated automatic sentencing to state prison of parole violators
 - Counties were required to come up with their own custody plans
 - Transferred funding for these programs to the counties
 - Funding formula based on number of offenders in the three categories

- Summary of 2011 Realignment

Health and Welfare and Public Safety - Counties received dedicated funding source and given additional flexibility for administering programs.

Community Corrections Programs - Low-level offenders have been moved from state custody to county custody. Individuals can be supervised in the counties that they come from and where they are known. Shifted funding to the counties that needed it most. Allows for greater flexibility in treatment options and encourages innovation and responsible action on the part of counties.

- K-12 Education – Local Control Funding Formula - 2013
 - Prior to 2013 – Revenue Limits and categorical grants
 - Revenue limits tied to pre-Prop 13 funding levels.
 - Categorical grants based on specific programmatic spending.
- The revenue limit/categorical grant approach tended to give more money to districts with wealthier populations

- New Program – Local Control Funding Formula
 - Base amount for each ADA
 - Additional funding for each disadvantaged student (low-income, English learner, foster child)
 - Additional funding for districts whose population has more than 55% disadvantaged students
 - Reduces categorical grants from 70 to 17 categories and from \$12.5 billion to \$ 5 billion)
 - Funding levels not changed, but method of allocating funds have changed
 - Gradually shifts funding towards districts with higher levels of disadvantaged students

- Why the change?
 - Greater flexibility for districts
 - Easier to administer from state perspective
 - Make sure money goes to districts with the greatest need
 - Treat schools with similar socio-economic characteristics the same

- Medicaid expansion – sometimes subsidiarity means administering a program at the state level
 - California opted into Medicaid expansion under the federal Affordable Care Act
 - Expansion included many indigent adults previously covered by county programs
 - Rather than shifting some responsibility for administering Medicaid to the counties, the care of these indigent adults was shifted to the state
 - State General Fund relief provided by transferring some of the indigent care funding (part of the 1991 realignment funding stream) to other county programs that had previously been a state General Fund expenditure

Conclusions

- Events in the 1970s created problems in California's state local governmental fiscal relations.
- 2011 realignment and 2013 K-12 Local Control Funding Formula
 - Provides dedicated funding to counties,
 - Allocates funds in a way that better matches needs
 - Provides incentives for counties to seek efficient methods for delivering services.

- Questions?

Jay Chamberlain, PhD
Chief, Revenue and Taxation Section
California Department of Finance
(916) 322-2263
jay.chamberlain@dof.ca.gov