

## COMMISSION ON CALIFORNIA STATE GOVERNMENT ORGANIZATION AND ECONOMY

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and the Members of the Senate

Honorable Leo T. McCarthy  
Speaker of the Assembly and to  
Members of the Assembly

The attached document summarizes the areas of study covered by the Commission in 1979, either for the first time or on a continuing basis. It also points out issues of concern to the Commission--issues which have yet to be resolved by the Administration and the Legislature.

The business of this Commission is to recommend to the Administration and the Legislature ways of making government operations more efficient and effective. Over the 18 years of the Commission's existence, the responsiveness of governors and legislators to Commission recommendations has been varied. Many recommendations have been embraced and implemented. Some have been rejected on the basis of legitimate differences of opinion regarding what constitutes the most prudent administrative technique to pursue and what best serves the public interest.

There have also been many instances in which valid recommendations have been ignored or rejected without objective evaluation because of pressure from special interest groups. Untold tax dollars have been wasted through arrangements which--by design or otherwise--benefit a specific interest at the expense of the general welfare of California's citizenry.

During 1979 this Commission investigated and analyzed a variety of governmental operations to identify needed improvements in their efficiency and effectiveness. Additionally, the Commission has sought to serve as a catalyst to bring about those improvements. Some of our efforts this past year were devoted to subject areas which were new to the Commission, such as civil service reorganization and tax appeals. But much energy was directed toward following up and supplementing previous Commission studies and recommendations, most notably concerning the administration of state health programs.

Health Care Problems. By far the largest portion of this summary is devoted to health program administration, since the time and other resources which the Commission has committed to this area is unprecedented in Commission history. Ironically, this is the most critical area in which the Commission has been unable to convince key legislative committees--and until recently, the Administration--to act decisively.

Virtually all of the urgent, yet unresolved, problems in the health care field are manifest in the Medi-Cal program. Since 1967 the Medi-Cal budget has increased 825% and now consumes \$4.3 billion. Yet hundreds of millions--perhaps even a billion--Medi-Cal dollars could be saved by eliminating provider fraud and abuse of the system, by allowing the state to act as a prudent buyer in purchasing health care services, and by limiting the outrageous inflation rate of medical charges.

For the past five years this Commission has been urging the adoption of health care reforms which would allow the state to realize these savings. The need for medical care cost reform has been unequivocally documented both in testimony presented to this Commission in public hearings and through Commission investigation. But time and again proposed legislation emanating from various sources within the Administration and the Legislature has failed to survive the legislative process because it did not meet the approval of health industry lobbies. It is apparent that these special interest groups have successfully exercised influence in the consideration of reform proposals to the detriment of the general taxpayer. Must we conclude that reform is unattainable through the legislative process--at least as it is traditionally practiced?

California voters have rebelled against wasteful treatment of tax dollars by passing Proposition 13 of 1978 and Proposition 4 of 1979. These expressions of taxpayer discontent have not been translated by the Legislature into corrective action related to the Medi-Cal program and now the specter of Jarvis II looms. Should Jarvis II pass, some \$1.6 billion may have to be lopped off the Medi-Cal budget. But because legislative action has not been taken to make the Medi-Cal program operate efficiently, this cut will not lead to less waste, just less service. Passage of Jarvis II could result in the elimination of Medi-Cal benefits to 300,000 adults who cannot afford medical care.

At the same time that Medi-Cal expenditures have been allowed to run rampant, other state health programs have been denied needed funds. In particular, community care facilities and state hospitals provide totally unacceptable levels of care because they do not have adequate funds.

School Facilities. This Commission has found that the taxpayers' \$16 billion investment in school facilities for kindergarten through twelfth grade students is being wastefully underutilized. Declining enrollment has resulted in hundreds of schools having far fewer students than they were designed to accommodate. We have found single districts which have seen an enrollment decline equivalent to the capacity of a dozen elementary schools. By consolidating inefficiently underenrolled schools and closing unneeded facilities, many millions of dollars in annual operating costs could be saved. Furthermore, hundreds of millions of

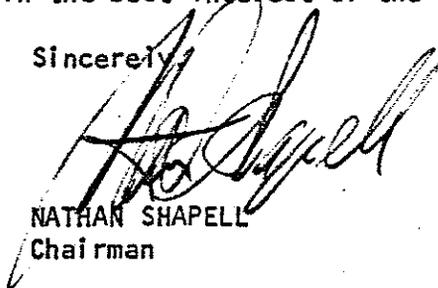
dollars could be generated by the sale or lease of surplus school buildings and land. By conservative estimate, school districts are already holding some 5,500 acres of surplus property, and further consolidation would add substantially to this amount. These public assets must not be allowed to remain financially idle.

The major stumbling block to school consolidation has been intense local pressure to keep open inefficiently underenrolled schools. In essence, other taxpayers are being forced to subsidize uneconomical schools because some parents do not want to send their children to another school. If these parents are determined to keep their uneconomical underenrolled neighborhood schools open in spite of feasible consolidation, they should be entitled to do so, but only if they, and not the general public, pay for it. (This school consolidation issue is separate and apart from issues of desegregation, a matter which has not been a factor in our consolidation studies or recommendations.)

Since local school boards seem unable to cope with the pressure, and since as a result of Proposition 13 taxpayers statewide must now foot the bill for 73%--\$6.6 billion--of local school operations, it appears that state-level control over school facility use is necessary to ensure efficient and equitable utilization of the taxpayers' investment. Unless school districts implement cost-conscious consolidation through local school board authority, loss of local control is a real possibility.

Our concerns over the other critical issues summarized here is unwavering. In each of these areas the Commission will press diligently for improvements. But for improvements to be realized, elected officials--at both state and local levels--must withstand the political pressure applied by narrow interest groups and endeavor to resolve problems in the best interest of the general public.

Sincerely,



NATHAN SHAPELL  
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February 1980



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CURRENT POLICY ISSUES  
STUDIED BY THE COMMISSION--STILL UNRESOLVED

The Administration of State Health Programs

Five years ago, this Commission began a comprehensive review of the administration of state health programs. The study addressed the administrative organization of the State Department of Health and the operation of state programs for comprehensive health planning, containment of the cost of health services, public health, Medi-Cal, state hospitals and community services for mentally ill, developmentally disabled and substance abuse.

The Commission identified a myriad of deficiencies and made numerous recommendations for correction. At first, the Administration was unresponsive to the Commission's report, published in January 1976. Consequently, the Commission conducted 15 additional hearings and published 10 supplemental reports documenting deficiencies in state health programs.

The 1976 report placed a heavy emphasis on the Medi-Cal program, which was described as suffering from unrelenting but justifiable criticism. Its growth has consistently exceeded estimates by a large margin. The state portion of Medi-Cal costs increased from \$252 million in 1966-67 to \$2.33 billion as projected in the 1979-80 budget, an increase of 825 percent. In the same 13-year period, total Medi-Cal expenditures (state, federal and county) increased from \$805 million to \$4.1 billion, an increase of 409 percent.

This growth threatens to encroach upon other essential state services. With the passage of Proposition 13 of 1978, Proposition 4 of 1979 and with the likely passage of Proposition 9 this year, the state simply will not have the resources to perpetuate this rate of increase in Medi-Cal expenditures. If unchecked, the voracious Medi-Cal appetite will either devour funds now allocated to other programs or bankrupt the state. Even now the bloated costs of Medi-Cal deprive other essential health care programs of urgently needed funds.

Curbing Medi-Cal costs would not, however, require a reduction in the level of necessary services or the number of legitimately eligible recipients. Instead, containment of Medi-Cal expenditures requires that the Administration and the Legislature act to

1. bolster efforts to control fraud and abuse,
2. constrain the proliferation of costly excess hospital capacity and high-cost medical equipment,
3. eliminate waste and mismanagement in the administration of the Medi-Cal program and the provision of services, and
4. move quickly away from fee-for-service and cost reimbursement payment practices which encourage providers to charge for performing unnecessary services.

In its September 1977 supplemental report, the Commission noted that with more effective management and the implementation of Commission recommendations the state could expect a 10 to 15 percent reduction in Medi-Cal costs. At that time such savings would range, the Commission stated, from \$300-450 million annually. After assessing the information contained in the Department of Benefit Payments' "Cost Watch Projects" in July 1978, we stressed that our previous estimate of excess Medi-Cal expenditures appeared to be conservative. We pointed out "...it is reasonable to expect that the loose administration of the Medi-Cal program is resulting in 20 to 25 percent (or about \$775 million) of charges being highly questionable if not actually improper."

In February 1979, when Medi-Cal annual expenditures were expected to exceed \$4 billion, we stated again "...without containment of cost, Medi-Cal will consume 25 percent of the entire state budget by the early 1980's, thus threatening other essential state programs." We stated then and we state again now, the gravity of this situation can no longer be ignored.

Repeatedly, however, the Legislature and the Administration have ignored or defeated proposals which, if implemented, would begin to control the financially devastating conditions primarily responsible for inflating the Medi-Cal budget. Certainly, a major factor contributing to the current taxpayer revolt is the public's lack of confidence in their representatives' ability to use tax dollars wisely in the public interest. The inaction on Medi-Cal cost containment only serves to justify that opinion.

Specifically, the Commission notes these failures of the Legislature and the Administration:

- Failure to enact legislation bringing state health planning activities into compliance with federal health planning laws. If corrective action is not taken soon, California may eventually lose over \$600 million in federal funds.

- Failure to enact legislation authorizing state fraud investigators to utilize fictitious Medi-Cal cards for criminal investigation activities.
- Protracted under-staffing of the Audits and Investigations Division of the Department of Health Services.
- Denial by the Administration of a \$100,000 budget augmentation to the Attorney General which would have been matched by \$900,000 in federal funds for use in strengthening Medi-Cal fraud detection and prosecution.
- Rejection of SB 716 which would have enabled the state to contract with providers meeting quality-of-care standards for service to Medi-Cal beneficiaries. This would have permitted the state to begin moving away from its present costly provider payment practices and toward being a prudent buyer of health services.\* Passage of SB 716 would have saved the state up to \$19 million annually.
- Failure to enact strong Certificate of Need laws which would require major capital investments in hospital and out-patient services to be reviewed and approved by local health systems agencies and the Office of Statewide Health Planning and Development.
- Rejection of SB 913 which would have limited hospital cost inflation and restructured the California Health Facilities Commission.
- Failure to sustain the Governor's veto of increased Medi-Cal payments to doctors, dentists and pharmacists; a fiscally irresponsible act in view of the state's uncertain ability to fund increased payments.

In its review of state hospitals, the Commission criticized the Administration for not complying with standards for certification. It called for budgets adequate to assure a safe environment, improved sanitation and nutrition, and staff with sufficient training and experience to carry out effective treatment programs.

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\*Current law prohibits the state from being an economically responsible purchaser of hospital services by forcing it to pay widely varying charges for the same type and quality of care. Our study and public hearings revealed that the cost of a normal appendectomy performed in the same time period under comparable medical circumstances ranged from \$847 to \$3,939 among hospitals in the same area. Similarly, the cost of a normal delivery of a child under comparable conditions in the same time period ranged from \$746 to \$1,463 among hospitals in the same area. The state pays each hospital whatever it happens to cost them because existing law prevents the state from considering cost when paying for hospital services.

The Commission was even more critical of conditions which prevail in many board-and-care homes and nursing homes. The environment in which the residents of many of these facilities must exist is utterly appalling. It is shameful that our society maintains such conditions and then implies that those conditions constitute humanitarian services to the elderly. The Commission insists that the inspection process be improved and that the state stop dealing with institutional providers who are either unwilling or unable to provide adequate care to the aged and to mentally and developmentally disabled citizens located in community facilities.

In 1979 the Commission recommended an increase of \$200 million to improve programs for the mentally disabled in state hospitals and community mental health programs. This increase could be secured from a portion of the savings realized through rapid and forcible action to reduce Medi-Cal costs. In the same way, Medi-Cal savings could meet the need to strengthen programs of public health, environmental health and occupational health and safety.

In its 1976 report, the Commission found the State Department of Health to be poorly organized and badly administered. However, the Commission opposed the Governor's plan to break up the single department into several autonomous departments. Instead, it recommended a specific plan of phased internal reorganizing. However, the Commission's recommendation was ignored and, to date, the alleged benefits of the July 1978 break-up have not materialized. Long-standing deficiencies continue to exist and evidence of improvement in program operations is scant.

In December 1979, Assembly Speaker Leo McCarthy set up a special subcommittee on Medi-Cal reform, in part as a response to this Commission's unyielding criticism and its public expression of frustration over trying to get its recommendations implemented.

At its first hearing on December 10, 1979, Subcommittee Chairman Art Torres commended the Commission and its Chairman for persistence. He pledged that every attempt would be made immediately to revise the Medi-Cal program in accordance with many Commission recommendations. The Commission will watch closely and critically to see what fruit that pledge bears.

#### School Facilities Utilization

In July 1978, the Commission published a report which revealed that, because of a steadily declining student enrollment in grades K-12, many schools throughout the state now have far fewer students than they were designed to handle. During the last 10 years, regular K-12 enrollment has dropped by more than 350,000 students. As a consequence, there is a significant underutilization and surplus of school buildings and sites. Such underutilization is uneconomical, as it increases the per-student price of education and unnecessarily costs taxpayers millions of dollars each year.

A January 1979 survey, which the California Association of School Business Officials conducted in response to the Commission's report, found that at least 473 schools had been or were scheduled for closure, while another 100 were being considered for closure. Despite this finding, the Commission's research indicated that underutilization is still a major problem. Rectification of the problem demands more efficient facility usage through consolidation of underenrolled schools.

School consolidation can produce important financial benefits. Except in instances when local physical conditions or desegregation efforts preclude school closure, consolidation can reduce operating expenses. The sale or lease of the surplus real property freed up by consolidation can generate revenue and reduce district reliance upon tax funds. Surplus property sold to a private party is returned to the tax rolls and thus increases the property tax base.

Even though there is a statewide excess of school space, some schools are severely overcrowded because of localized growth and a lack of capital outlay resources. This unsatisfactory condition could be substantially improved by more efficiently utilizing surplus capacity. Consolidating underenrolled schools and selling or leasing surplus facilities could produce resources necessary for relieving overcrowding. The financing potential of surplus capital assets held by the state's school districts must not be overlooked. This is especially true now that Proposition 13 prevents school districts from issuing bonds to finance capital construction.

By far the largest stumbling block to consolidating schools is community resistance to school closures. Parents whose children attend underenrolled schools consistently, and with great success, pressure district governing boards to reject proposals to economize by closing underutilized schools. This kind of response to a prudent management proposal might have been defensible in pre-Proposition 13 days when the major share of school funding came from local property tax revenue. But today the state provides 73 percent--\$6.6 billion--of the funding for school operations while property taxes account for only 19 percent. Those parents blocking the economically and educationally viable efforts of district administrators to consolidate schools are, in essence, demanding that the other taxpayers of the state subsidize their child's attendance at an underutilized, uneconomical schools. It is unconscionable that some students and teachers are forced into inadequate and overcrowded facilities while the communities around grossly underenrolled schools preserve surplus space and waste district assets.

Achieving maximum benefit from the potential economies of more efficient use of underenrolled schools may require state-level coordination and control. Districts with excess capacity and the ability to consolidate are not necessarily the same ones in need of additional facilities. Now that such a large portion of educational funding is provided by statewide tax payments, it may be more equitable to ensure that the benefits of those payments are distributed more evenly throughout the state. The Commission expects to hold hearings to explore the advisability of greater state control over this matter.

Though dwarfed by the community resistance situation, another factor identified in the Commission's 1978 report as contributing to the inefficient utilization of school facilities is a lack of pertinent training programs and information resources readily available to district administrators faced with facility use problems. Some important progress has been achieved during the past year in this area, however.

In reaction to this aspect of the Commission's report, Assemblyman Leroy Greene called together an ad hoc team of representatives of school administrators to determine the usefulness of following certain Commission recommendations. The team found the recommendations prudent and, as a consequence of the team's work, two major Commission recommendations have been implemented:

- 1) An information clearinghouse operation has been established within the Department of Education to assist districts in exchanging knowledge and expertise regarding techniques for improving facility use efficiency.
- 2) In-service training programs are being developed to improve the facilities management skills of school administrators.

Because of the involvement and human resource contributions of organizations of school officials, these new programs will be operated without adding any personnel to the state government work force.

The Commission is concerned that the massive major maintenance problems pointed out in its 1978 report continue to exist among school facilities throughout the state. Budgetary pressures and, to a lesser extent, other factors have repeatedly resulted in the deferment of major building and grounds maintenance work on the taxpayers' \$16 billion investment in school facilities. The size of the major maintenance problem is not known in detail, but it appears to be on the order of \$700 million--clearly great enough to demand serious and immediate attention. In accordance with the Commission's recommendation, the Department of Finance is currently studying the magnitude of the maintenance backlog. In June 1980, the Department will issue a report of its findings and recommendations for coping with this backlog. The Commission will analyze this report closely and, if necessary, convene hearings to determine what role the state should assume in protecting California's investment in school facilities.

## Civil Service

In his State of the State address in January 1979, the Governor requested this Commission to study the state civil service system and make recommendations for improving it. Fulfilling this request, the Commission issued a comprehensive report on the state's civil service system in August 1979. The report concludes that, although the state government has done relatively well in administering its civil service system and upholding the principles of a merit-based personnel operation, the recent establishment of collective bargaining rights for state workers and other factors now require a fundamental change in the state's management of personnel functions.

There are two basic reasons why change is needed. First, the structure of the current personnel management system is uncoordinated and inefficient. Personnel management responsibilities are spread among too many different agencies, resulting in unnecessarily costly and cumbersome operations for which no central authority can be held accountable. Secondly, the credibility of the civil service system among both the public and state employees needs improving. Although the perception that civil service fosters unproductive workers and inefficient government operations has long been held by the general public, it seems to have become especially pronounced in recent years. Perhaps more surprisingly, however, is the Commission's survey finding that only 25 percent of the state's rank-and-file employees and 12 percent of the state's managerial employees believe that the system encourages a high degree of efficiency, effectiveness and economy. The Commission feels that implementation of its recommendations would have a strong, positive impact on government productivity and effectiveness, and thus would elevate confidence in the system among those inside and outside of it.

Principal among the many recommendations included in this report is the Commission's call for a two-phase restructuring of personnel administration. This restructuring would reduce from six to three the number of agencies handling personnel matters, and it would focus responsibility and accountability for personnel management. Legislative hearings on the Commission's recommendations were held on October 30 and December 4 and 5, 1979. Testimony presented at these hearings verified the advisability of moving ahead with Phase I of the Commission's recommended restructuring of personnel administration.

On December 20, 1979 the Governor submitted to the Commission his "Reorganization Plan Number Two of 1979" for analysis and recommendation to the Legislature. An objective of the Plan was to implement the essence of the Commission's Phase I proposal--restructuring by administrative action. As a result of staff-level discussions between the Governor's Office and the Commission,

however, the Governor's Office subsequently withdrew the Plan for further refinement. The Commission will be working with the Administration and appropriate legislative committees to implement the Commission's recommendations.

Phase II of the Commission's recommended restructuring requires constitutional and statutory changes for its implementation. The Commission looks forward to working with the Executive and Legislative branches to bring about these changes after the first phase of the restructuring is operational.

In addition to the issue of reorganizing and consolidating personnel administration, this report also makes recommendations regarding contracting out personal and consultant services by the state. On May 29, 1979 this issue was discussed thoroughly at a public hearing conducted by this Commission. Assembly Constitutional Amendment 22 (ACA 22, Goggin, 1979) is currently before the Legislature and addresses an important aspect of the contracting out issue. ACA 22 (as amended) is consistent with Commission recommendations on contracting out and the Commission endorses passage of this measure.

#### Professional and Business Licensing

The effectiveness of 18 regulatory boards and bureaus of the Department of Consumer Affairs are examined in a Commission report released in January 1979. These boards and bureaus are responsible for licensing or regulating the activities of various businesses and professionals, including pharmacists, architects, barbers, geologists and others. The Commission recommended that four licensing operations be considered for possible termination through the "sunset" process of legislative review, two boards be abolished outright, two boards be merged into one new licensing body, and four boards be thoroughly audited by the Legislature to identify and correct weaknesses in their operation and the laws which they administer.

Concurring in the belief that certain of the more than 30 regulatory bodies within the Department of Consumer Affairs do not serve the public interest, the Governor proposed in his 1979-80 State Budget that the following boards be phased out:

- Cemetery Board
- Board of Architectural Examiners
- Board of Registration for Geologists and Geophysicists
- Board of Landscape Architects
- Board of Fabric Care
- Nurses Registry Board
- Tax Preparers Program
- Certified Shorthand Reporters Board

Unfortunately, the Legislature voted to continue each of the agencies slated for phase-out by the Administration and the Governor did not repropose the abolition of these regulators in his 1980-81 budget.

Also seeing the need to eliminate unnecessary and industry-serving regulatory agencies, Assembly Speaker McCarthy introduced legislation (AB 46, 1979) calling for the abolition of certain regulatory bodies and the sunseting of others. This bill passed the Assembly easily, but was stopped in the Senate. The Senate Committee on Governmental Organization, however, is expected to reconsider the bill early in 1980, and the Commission urges its passage.

#### Tax Appeals

This year the Commission also examined the system through which individual taxpayers may challenge the accuracy or legality of their assigned tax liability. In May 1979, the Commission issued a report on its examination. The Commission found that most tax appeals are adjudicated by boards which are directly or closely tied to the same agencies which administer the taxes, and that the members of most of these boards are not necessarily required to be experts in tax matters. These and other features of the state's tax appeals system leave it open to bias and incompetence. Regardless of whether the present tax appeals system is actually biased or not, it seems clear that the system is widely perceived to be lacking objectivity and expertise by those who come in contact with it. To remedy this, the Commission recommends the establishment of an independent tax appeals body such as a specialized tax court. A proposal to create an independent tax court is currently before the Legislature (AB 2254, 1980, Knox).

The Commission is dismayed that relatively little attention or support has been focused on this issue, particularly considering the public's present deeply depressed confidence in government. Taxpayers deserve access to an appellate system they believe will respond fairly and competently.