



State of California

LITTLE HOOVER COMMISSION

December 10, 2004

The Honorable Arnold Schwarzenegger
Governor of California

The Honorable Don Perata
President pro Tempore of the Senate
and members of the Senate

The Honorable Fabian Núñez
Speaker of the Assembly
and members of the Assembly

The Honorable Dick Ackerman
Senate Minority Leader

The Honorable Kevin McCarthy
Assembly Minority Leader

Dear Governor Schwarzenegger and Members of the Legislature:

The California Performance Review – and the public debate it sparked – has elevated a painful, undeniable truth: State government needs to be re-engineered to be more responsive and accountable to the public, to focus its priorities and to improve its performance.

The State's unresolved budget deficit represents an acute crisis for California, and responsibility falls to elected officials to make the necessary and difficult choices to solve that problem. California also faces a chronic, equally threatening, and related crisis. Our government in many respects has lost the focus and discipline necessary to wisely use public resources to foster a robust economy, to protect and serve Californians, and to build and pass on a healthy and productive state.

In the near term, re-engineering government can help to reduce – but by itself, cannot resolve – the ongoing deficit. In out-years, however, by improving productivity in the pursuit of public goals, the State can accomplish more, reduce its burden on taxpayers and restore the public's faith and trust in government.

The California Performance Review is the closest California has come in a century to recognizing the need for change and the breadth of change that is necessary. The ambitious proposals – and ensuing public discussion – document the complexity of the task and the absolute requirement that clear goals and priorities be established, that problems be correctly defined, that solutions be well-developed, and that reforms be pursued with the greatest leadership and management skill that the State can muster.

In anticipation of formal reorganization proposals, the Little Hoover Commission consulted with experts who have studied or been involved in transforming major private and public sector organizations about the potential for reorganization to improve government. While this review was brief, several essential elements were identified that should be considered in the development of formal proposals resulting from the CPR, by the Legislature in its deliberations, and by voters when weighing the merits of reforms, particularly if asked to enact them directly.

The first element is leadership. Just as leadership was necessary to initiate the CPR, even greater leadership is needed to further develop and implement changes. Experts recommended the obvious: California needs a seasoned manager experienced in government transformation,

who speaks with the authority of the Governor and has the respect of the Legislature, to manage this mission from start to completion.

The second element is clarity of purpose and goals. The transformation envisioned by the CPR is historic and foundational. Successful transformations, public and private, have been based on clear goals and crafted to focus efforts on what is necessary to improve desired outcomes. Progress should be measured by the improved contribution of public services to the health, safety and prosperity of Californians.

The third element is strategic priorities. Change of this scale cannot be accomplished all at once. In addition, successful reorganizations elsewhere were not isolated from budgeting, personnel, management and other reforms. By acting strategically, initial reforms provided early and meaningful improvements – building the experience of reformers and the confidence of employees, lawmakers, stakeholders and the public.

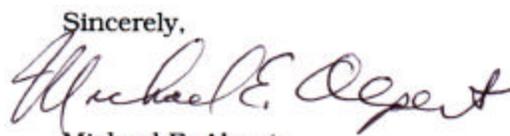
The fourth element is performance and productivity. In the private sector, wealth is generated by gains in productivity. The public sector struggles to even measure productivity, and the first step often must be focusing or refocusing programs on what they are attempting to achieve. But with results-based goals and measurable objectives as a guide, everyone in an organization can help to raise productivity, allowing resources to be put to the highest use.

One means for improving the performance of all agencies is to target the bureaucracy within the bureaucracy – budgeting, personnel, technology and procurement – that in many ways enable or disable public agencies from doing the best job possible. The CPR seeks to fortify these functions by consolidating them into an Office of Management and Budget. While the Commission did not judge the merits of that specific proposal, it fully concurs that improving those functions individually and coordinating their activities strategically could fundamentally improve the capacity of state agencies to pursue their missions.

Improving the management of state operations will require improving the capacity to measure performance. That capacity is predicated on timely and reliable information. Without such information, reforms will be superficial at best and illusory at worst.

The CPR also challenged a common fixture in 20th century California government: boards and commissions. Any comprehensive effort to improve the State's performance must include scrutiny of these agencies. Additional review, however, should go beyond which commissions should be relegated to history, but also identify where commissions are needed and how they should be structured to create the transparent 21st century government the CPR advocates.

Most reform efforts fail to meet their objectives because of inadequate or poorly designed plans for implementation. Changing organizations and statutes are the first steps in a long path to improving performance. Success will require a disciplined commitment to make, monitor and refine the changes necessary to improve results. The Commission is ready to assist in this imperative.

Sincerely,

Michael E. Alpert
Chairman

Historic Opportunities: *Transforming California State Government*

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Historic Opportunities: Transforming California State Government

California's state government faces enormous fiscal, management and performance challenges. These challenges have resulted in three fundamental concerns:

- ❑ ***An unresolved deficit.*** California's annual budget process does not provide for meaningful deliberation on public priorities, sound fiscal decisions or oversight of how public dollars are spent. Thus, policy-makers forgo tough decisions on taxes and spending and as a result, the State is projected to carry deficits of between \$5 billion and \$10 billion into the next decade that will not be resolved through economic growth alone.¹
- ❑ ***Inadequate progress toward goals.*** Policy-makers and state officials rally behind the broad goals of safe communities, a robust economy, an effective education system, accessible health and human service programs and affordable housing, but are unable or unwilling to discipline decision-making based on whether the State is making progress toward those goals.
- ❑ ***Low public trust and satisfaction.*** Polls and voting behavior demonstrate that Californians are distrustful of their government.² Increasingly, stakeholders and special interests are sidestepping the policy-making and budget processes and using public initiatives or the courts to pursue their interests. These directives complicate the operations of government, limit the ability of policy-makers to solve problems, and further diminish public confidence.

Addressing these concerns will require substantial but focused reforms that define priorities for public expenditures, improve how the government operates, and hold state officials accountable for results.

Upon his election, Governor Schwarzenegger called for an exhaustive audit of state operations to uncover waste, fraud and abuse. And he called for a transformation of state government – blowing up the boxes along the way – to return power and authority to the residents of the state. In February 2004, Governor Schwarzenegger created the California Performance Review (CPR) to examine state operations and recommend reforms.³ The 275 state employees enlisted in the CPR were charged with identifying ways to reduce the costs of state operations, increase productivity, improve quality of programs and make government more accountable to the public.⁴

**Reform
Proposals**

The CPR report, a report on correctional reforms issued by an Independent Review Panel chaired by former Governor Deukmejian, and the reports issued by the CPR Commission can be accessed at www.cpr.ca.gov.

Information on the CPR process, and CPR Commissioners and public hearings is also available at that Web site.

The California Performance Review has four principle components:

- **Departmental reorganization.** CPR proposed to reorganize 11 state agencies and 79 state departments into 11 large departments organized around subject matter, with administrative activities centralized within each department and coordinated through an Office of Management and Budget.
- **Performance management and budgeting.** CPR recommended the use of strategic plans, performance contracts, performance assessments and measures to inform and drive budget decisions.
- **Improved services and productivity.** CPR proposed – through the strategic use of technology, consolidation of state operations, promotion of a customer-oriented culture, and enhanced inter-governmental collaboration – to improve the productivity of the state workforce and the quality of the services it provides.
- **Acquisition reform.** CPR identified acquisition reform as a fundamental challenge in state government and proposes to streamline and improve procurement to better enable state offices to meet the needs of the public.⁵

Following the release of the CPR report, the Governor established the California Performance Review Commission and appointed 21 civic leaders to solicit public testimony on the proposals contained in the report. Through a series of public hearings, the CPR Commission heard testimony and issued a summary of comments received. The CPR Commission also issued a Commission report that identified priorities for the Governor’s consideration.

How can reorganization improve performance?

The proposals contained in the California Performance Review are organized around a massive restructuring of state agencies, departments and programs. State statute permits the Governor to reorganize state operations through an expedited executive reorganization plan, which must be transmitted to the Little Hoover Commission for review prior to being submitted to the Legislature.⁶

In anticipation of formal reorganization proposals, the Commission conducted three public hearings to explore the framework of the organizational recommendations offered by the California Performance Review: super-departments, centralized administrative functions, and less reliance on boards and commissions. The Commission's goal was to explore the opportunities and lessons associated with large-scale organizational change.⁷

Four elements of transformational change. The experts consulted by the Commission have led or analyzed reforms in other states, in the federal government and in other countries. They identified the following components of successful efforts to bring about transformational change:

1. **Leadership must be forceful and sustained.** Reform efforts must be led by the Governor, who as the chief executive, is responsible for the operations of state government. To be successful, reforms of the magnitude proposed by the CPR must be the central focus of his administration and cannot be pushed aside by daily emergencies. In exercising leadership, the Governor needs to establish support within the Legislature for reforms. And he must designate a champion – someone skilled in the culture of government and the process of managing change – who speaks with the authority of the Governor and has the respect of the Legislature to manage the effort. That champion must have day-to-day responsibility for planning and implementing reforms.
2. **Goals and purpose of reform must be clear.** Successful reforms require agreement between the Legislature and Governor on the problems to be solved and the results that are expected. To enlist the support of the public, results must be defined in terms of meaningful outcomes that affect communities. Reforms in public safety must make communities safer. Changes in health and human services must reduce the need for services or the cost of providing high quality care. And transformation in infrastructure programs must translate into less congestion on highways, a reliable supply of clean water and improved air quality.
3. **Strategic priorities should be established.** As detailed by the CPR, the challenges facing California government fill more than 2,400 pages. The Governor must identify his priorities and enlist the support of the Legislature to focus reforms on those areas most amenable to improvement with the greatest payoff for Californians. He should consider the recommendations of the CPR Commission to bolster the management capacity of the executive branch, and prioritize particular challenges, such as improving the outcomes from the State’s correctional system.⁸ Many successful reform efforts sought to achieve improvements internally, and then proceed toward more complicated reforms that require the assistance of local governments, the federal government and other partners.
4. **Productivity and performance are key.** As evidenced by the scale of the CPR report, numerous ills undermine the value of public services. Reforms must target improvements in productivity and performance. The transformational change sought by the California Performance Review must occur in the context of the State’s deficit and the revenue limits and program requirements imposed by the

Other Resources
Hearing agendas and a list of experts who were consulted in the review are in Appendix A.
Webcasts of the hearings and written testimony submitted by witnesses is available on the Commission Web site: www.lhc.ca.gov .

voters and the Legislature. Thus, early efforts must bolster productivity and improve performance with the resources currently available.

This report describes these four elements. It also discusses one priority for transformation: internal management. And it comments on how to refine the use of boards and commissions in a 21st century government.

Functions of Government

Government agencies are often organized around subjects or disciplines. In some cases, organizational design has been further refined to focus on purposes or desired outcomes.

The functions of government are tools that are used in nearly all public agencies to accomplish particular goals. The functions include:

Direct services. In some cases state agencies directly provide services, but in most cases those services are provided by local governments or private agencies. The state's organizational design often is not crafted to ensure that services are efficiently and effectively provided by local agencies. In the case of health and human services, nearly 95 percent of funding is allocated to local agencies; state organizational design and operations should focus on ensuring those funds are well used.

Financing. The most frequently used tool is the distribution of funds, yet the Commission has documented that public dollars are often not distributed to other agencies in ways that make sure the resources are well used to solve the most significant problems.

Regulations. Establishing rules and standards, particularly for the marketplace, often requires significantly different skills and organizational designs – such as public boards – than performing administrative or other functions.

Purchasing. The procurement of goods and services – either for public programs or offered to customers of government programs – can often best be accomplished by organizations designed to be entrepreneurial and successful in market environments.

Resource transfers. Either through payments or tax expenditures, governments use subsidies to encourage behaviors. In New Zealand, the national government significantly reduced these subsidies when analyses showed they contributed more to government's debt than toward the stated goal.

Policy-makers should first determine whether the State is using the right tools to achieve a public goal and whether it is using those tools right. In several reports, the Commission has documented the failure to use crime-related grants to fund programs that have been proven to work or to target those funds to the most significant public safety problems.

The next generation of questions deals with organization and management. How can government assemble and manage the right collection of tools to strategically achieve a difficult goal? This task can be very difficult in policy areas such as infrastructure, where government uses virtually all of these tools in different ways and at different times to ensure adequate water, power, telecommunications, transportation and other essentials.

Clarifying Goals, Setting Priorities, Refining Proposals

In its report, *Governing the Golden State: A Critical Path to Improve Performance and Restore Trust*, the Commission defined a continuum for sustainable prosperity. California must gain ground on the five elements of this continuum to achieve the goals of healthy, safe and prosperous communities. This continuum is useful in clarifying goals, setting priorities among possible reforms and refining those proposals to increase the chances of success. It also is helpful in identifying needed reforms that were not within CPR's purview. In its report, the Commission also distilled a "Critical Path" that could be used to develop technically sound and politically supported solutions to difficult public policy issues. The eight steps of the Critical Path are in Appendix B.

1. Robust Economy

CPR recommends an integrated department to coordinate disparate programs and agencies involved in providing infrastructure. CPR also identified the need to align economic development, workforce development and education programs.

Next Steps: State policies use a variety of tools to influence infrastructure decisions, including regulations, financing and tax policies. Organizational changes alone will not lead to a coherent strategy. A public planning process will be needed to involve multiple levels of government.

2. Reliable Revenue System

CPR recommends consolidating the State's four tax collection agencies to improve efficiency and reduce confusion. The proposal reveals the difficulty of reorganizing these functions without changing the Constitution.

Next Steps: Efficient tax collection will not solve the problems with the tax structure. The issues are complex and controversial, and will only be resolved through the kind of methodology outlined in the Commission's Critical Path.

5. Public Support

CPR recommends a dramatic consolidation of departments – along with performance budgets and the reporting of results – to make government more accountable.

Next Steps: CPR's recommendations to eliminate more than 100 boards has spawned a debate that needs to be resolved about the role of public boards in providing access to decision-makers and transparency in government.

3. Rigorous Budget Process

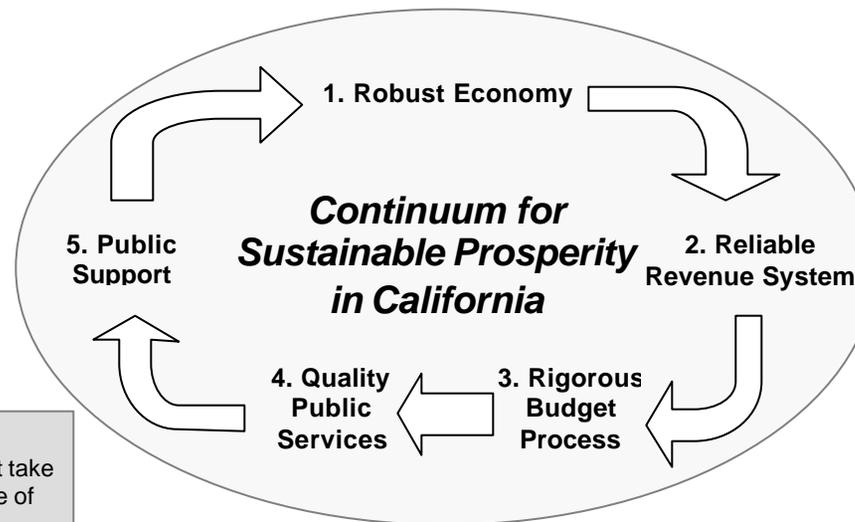
The CPR recommends the State convert to performance-based budgeting, that managers report performance metrics, and the state improve its financial systems to provide accurate financial reporting.

Next Steps: The Legislature needs to be integrally involved in developing and implementing reforms to the budget process so that its decision-making procedures correspond with the executive branch's management tools.

4. Quality Public Services

CPR recommends literally scores of ways - structural or otherwise – to improve the quality or efficiency of public services.

Next Steps: The Governor and Legislature need to set priorities that take into consideration the strategic value of specific proposals. For example, improving the performance of correctional programs could improve public safety and curtail the high costs of operating prisons.



To Transform State Government

Implementing transformational change in an organization as large and complex as the State of California is a daunting challenge on the scale of the most difficult public or private sector transformations. The effort will test the resolve of all parties involved. But it is a challenge to be overcome. The chances for success will be increased if California learns from the successes and failures – both here and elsewhere. That experience can be distilled into the following essential elements.

1. Leadership must be forceful and sustained

The problems facing state government are the product of decades of incremental decision-making, short-term problem solving and political compromise. And the strategies of improving efficiency, effectiveness, productivity and performance have few champions. Only the Governor has the political capital needed to achieve reforms based on long-term improvements in the governance of the State and the results that could be achieved. The 120 elected officials who make up the Legislature should not be criticized for rejecting ill-defined solutions. But having been involved in the process of setting goals and defining solutions, they should be receptive to enacting and supporting those reforms.

California needs a seasoned administrator experienced in government transformation who speaks with the authority of the Governor and has the respect of the Legislature to manage this mission from start to completion.

The task before the Governor, therefore, is difficult. He represents all Californians, and must keep in mind the diversity of views and interests that collectively make the state golden. He is a political leader, and must wield his veto authority to ensure that public policies result in a manageable government. As the chief executive, he must ensure a balanced budget, capture the respect of the bond markets, and monitor the spending of the departments that operate under his authority. He must also lead a workforce of more than 200,000 state employees.

To succeed, the Governor must ensure that all partners – particularly state employees – understand the need for change, the rationale behind particular proposals and how their behavior supports the transformation. Success will hinge on the ability and willingness of state employees and their partners in local governments and elsewhere to support improved outcomes. The people who do the work find unofficial ways to improve upon official rules and procedures, and are equally capable of resisting change.⁹ When transformational change fails to meet its goals, failure is most often linked to employee resistance or management behavior that is not supportive.¹⁰ The Governor's cabinet, department directors, and the state employees who

work under those leaders, must take ownership of reforms and guide their implementation for the effort to succeed. And the reform process must capture the support of the public to temper the concerns of stakeholders adversely impacted by short-term disruptions.

The reforms envisioned by the CPR will require the Governor to exert leadership, internally and publicly. And he will need a leader at the helm of a competent team to leverage his authority into systemic reforms.

An initial step for the Governor should be to designate that leader. The candidate – whether drawn from his senior staff or a new addition to his team – should have experience managing large, complex public agencies and a veteran of successful change management efforts. He or she should have the confidence of the Legislature, the Governor’s cabinet and the state employees who are integral to bringing about change. This leader should have a senior position in the chain of command, be assigned full-time to the task and have final responsibility for planning and implementing reforms, subject to the direction of the Governor.

Transformational change requires the full attention of those involved. It cannot be done during the spare time of a department director or cabinet officer. And to prevent empire-building and shortsighted decision-making, change efforts should be led by someone who will not be in charge of the organization that results.

Value of Structural Reforms

Peter Szanton, former associate director of the U.S. Office of Management and Budget and a fellow with the Institute of Politics at Harvard University, outlines six reasons cited for reorganizing government. The first three he argues, are not worth the effort.

Reorganization is a weak tool when used to:

- ❑ **Reduce costs** Organizational change is not the best way to reduce costs. Other tools are often easier and more effective at capturing savings.
- ❑ **Shake up organizations** Shaking up the bureaucracy is insufficient reason for reorganization.
- ❑ **Simplify organizations** Government is by nature complex and cannot easily be simplified.

Reorganization is a powerful tool when used to:

- ❑ **Improve the effectiveness of programs** Organizational change can overcome cultural resistance to collaboration.
- ❑ **Symbolize new priorities** Establishing new departments can enhance visibility.
- ❑ **Promote policy integration.** Organizational reforms that resolve the tensions between competing priorities can improve outcomes.

Source: Peter Szanton. 1981. “So You Want to Reorganize the Government?” In *Federal Reorganization: What Have We Learned?* New Jersey: Chatham House Publishers, Inc.

2. The goals and purpose of reform must be clear

Successful transformation of the State of California will require agreement between the Governor and the Legislature on the goals to be achieved and the ongoing discipline to focus on those goals. The California Performance Review asserted that state government is failing the residents of California to whom it reports and fails the state employees who have dedicated their careers to public service.¹¹ The report thoughtfully documented the challenges internal to state government: The State's organizational structure is chaotic and cumbersome. Its management system is outdated and ineffective. Public programs linger long after they have served their purpose. The CPR also pointed out that the State faces a significant turnover in its workforce, for which it is ill prepared, and has been unable to capture the value of technological advancements to improve its processes and procedures.¹²

The report outlined several necessary improvements in state operations:

- Establish standards for public programs.
- Improve access to services.
- Enhance intergovernmental relations to improve quality.
- Empower workers to do their jobs.
- Hold state employees and officials accountable for outcomes.
- Make government accountable by documenting efforts, expenditures and outcomes.
- Enhance incentives to improve performance and outcomes.

While these objectives are important, reforms must be predicated on – and tailored to achieve – desired outcomes. Before the work of transforming state government can begin, the Governor and the Legislature must set overarching goals, such as giving Californians greater opportunities to be safer, healthier and more prosperous. They also must set specific and measurable goals: Improvements to the corrections system, for example, should result in lower crime and violence by parolees.

In preparing specific reform proposals, the Governor should specify the goal to be achieved, the problem that must be resolved to make progress, the strategy for moving forward, the result to be expected and what it will cost. After agreeing to the goals the Legislature should support and adopt realistic and valid commitments, and monitor the results.

Focus on Measurable Outcomes

The fundamental goal of CPR should be to improve outcomes. In establishing reform goals, the Governor and Legislature should target specific improvements that can be measured, will be monitored and reported publicly. These policy areas are examples of points on the Continuum for Sustainable Prosperity where outcomes must be improved:

In the area of employment: California is among the 10 states with the highest unemployment. And many Californians are under-employed with one in seven involuntarily working only part-time. Reforms in workforce and economic development should track investments in job training, business development and other avenues to bolster employment.

In public safety and corrections: California ranks 41st in the nation for violent crime and 26th for property crime. The state parole system has one of the lowest success rates in the nation – six out of 10 parolees return to prison. In 1980, it was just one of four. The State should ensure that its correctional system provides state-of-the-art services. Forty-eight other states do a better job transitioning inmates from prisons to communities – and the tools are straightforward: education, job training and drug treatment. Reforms should document progress toward catching up to the leaders.

In health and human services: California has failed to meet federal standards for children in the child welfare system. One-fourth of children removed from their homes do not receive timely medical care; one-half do not receive appropriate mental health services. The State fails to ensure that children in its care receive the education and support they need to succeed as adults. As a result, the child welfare system shunts young adults into homelessness, unemployment and prison. Reforms must indicate whether the State is moving in the right direction – and how quickly – for these children and their families.

For the environment: California's major cities have the worst air quality in the nation. The Los Angeles metropolitan area is the most ozone-polluted urban area in the nation. Six other California cities rank among the top 10 most ozone-polluted cities. The State has made great progress in reducing ozone levels, particularly in industrial pollution, but it has far to go and must continue to address the primary contributor to air pollution – highway vehicles. Reforms must allow Californians to understand whether air quality is a priority, the steps taken to make improvements and the progress made each year.

Sources: Corporation for Enterprise Development. 2003. "Development Report Card for the States." Data for 2001. Washington, D.C. http://drc.cfed.org/measures/invol_pt_emp.html. Accessed December 3, 2004. U.S. Department of Justice, Federal Bureau of Investigation. "Crime in the United States, 2003." Table 5, Index of Crime by State, 2003. Rates per 100,000. Washington D.C. <http://www.fbi.gov/ucr/03cius.htm>. Accessed December 2, 2004. Michael P. Jacobson, Ph.D., Professor, John Jay College of Criminal Justice, New York. Testimony to the Little Hoover Commission, January 23, 2003. U.S. Department of Justice, Bureau of Justice Statistics, "Trends in State Parole, 1999-2000," October 2001. California Department of Corrections. May 2004. "Rate of Felon Parolees Returned to California Prisons, Calendar Year 2003." Sacramento, CA. U.S. Department of Health and Human Services. January 2003. "Final Report: California Child and Family Services Review." California Department of Health Services. December 19, 2002. Letter to the Commission. Sacramento, CA. On file. "Mental Health Screening, Assessment, and Treatment Services and Additional Costs for Children in Foster Care or on Probation and Their Families." A report to the Legislature in response to Chapter 311, Statutes of 1998. June 30, 1999. Sacramento, CA. On file. American Lung Association. April 2004. "State of the Air: 2004." Washington, D.C. <http://lungaction.org/reports/stateoftheair2004.html> Accessed December 3, 2004.

3. Strategic priorities should be established

The CPR proposes changes to nearly all aspects of state government. More than 200,000 employees could be affected. The allocation and expenditure of over \$100 billion is in play. And the lives of 36 million Californians could be impacted. Given the scale of the challenges, and the consequences of failure, not all changes should be pursued at once.

In setting priorities, the Governor and Legislature must consider which aspects of state government must be addressed first. In New Zealand, the country that has most assertively transformed its government, reformers started with the most “doable” reforms that also would yield the greatest improvements.

The National Performance Review intentionally avoided structural changes, and instead examined and refined the work that goes on within those agencies.¹³ The lesson for California is that the State must have a clear understanding, based on thoughtful analysis, of which reforms will most likely improve performance.¹⁴

The State could start with proposals that are fully mature, will yield meaningful improvements, and are politically feasible. Focus on proposals that will improve outcomes or reduce costs. Gain experience from less complex problems, use early efforts to gain allies for more challenging tasks, be honest about setbacks and document the value of success.

One priority for California is its correctional system. Numerous reviews have documented deficiencies, and the challenges to be addressed fall within a single agency and the authority of the State. As outlined later in this report, state leaders also should consider cross-cutting improvements to management and budget. Effective reforms in these areas could contribute to addressing budget shortfalls to increasing public confidence in government.

Mechanisms for Improving Performance

Experts consulted by the Commission unanimously encouraged the State to consider a range of tools to address the challenges facing government. Rarely is performance based on a single factor and reform efforts must address the array of factors that limit outcomes. Historically, chief executives have prioritized organizational reforms because they have enhanced authority to make organizational changes. In contrast, changes in budgeting, personnel, programs and procedures are more difficult to implement but are more likely to improve outcomes. Among the mechanisms policy-makers should consider:

- ***Organizational change.*** When organizational change is appropriate, restructuring can have a profound and beneficial impact on the performance of an organization. Organizational structure that is aligned with broad public goals or strategies to meet them can ensure that authority and responsibility is appropriately distributed and accountability for outcomes clear. But many of the problems that beset government agencies and programs may not be resolved by organizational redesign. Reorganization alone will not solve problems of interagency coordination, poor leadership, unmotivated staff, insufficient resources, and glacial or irrational procedures. Reorganizations can save money when they target duplication, particularly among programs, capturing administrative savings while minimizing the costs associated with the change.
- ***Operational reforms.*** The State should explore changes in operations within specific departments and programs. Problems associated with limited authority, responsibility, overlapping jurisdictions or conflicting roles and responsibilities may best be addressed through operational reforms.
- ***Improved leadership.*** Leadership is key to success in all organizations. Reform proposals should ensure that senior officials have the talents, training and experience needed to lead the complex organizations of state government. The State must invest in leadership training, mentoring and other strategies to build a corps of competent leaders capable of managing state departments and programs.
- ***Financial management improvements.*** Fiscal incentives and disincentives drive behavior. Changes in financial management efforts can provide administrators with the authority they need to do their job, the incentive to reduce costs and the ability to improve outcomes.
- ***Oversight enhancements.*** Compliance-oriented monitoring encourages compliance. In contrast, oversight that prioritizes outcomes and systemic improvements in operations will result in greater attention to how well programs are meeting goals.
- ***Policy-making improvements.*** Among other reform strategies, lawmakers should consider how the legislature’s policy-making process can contribute to improved outcomes and create incentives for ongoing improvements. For example, the Legislature could align the jurisdictions of policy and oversight committees with the jurisdictions of executive branch departments, which in turn should each have a clear mission and work toward agreed upon goals.
- ***Budgeting reforms.*** State leaders also should explore opportunities to better align budget decisions and the budget-building process with broad public goals and specific programmatic objectives.

The California Performance Review identified or recommended some of these “tools.” But the separate and accelerated nature of the reorganization process may over-emphasize physical restructuring. At the least, reorganization efforts must be integrated with other management-focused reforms. And in many instances, reorganization must follow process re-engineering and other changes.

4. Productivity and performance are key

Capturing short-term cost savings is an insufficient rationale for the reorganization envisioned by the CPR. Most reorganizations in the public sector fail to result in cost savings and only about half do so in the private sector.¹⁵ Policy-makers must instead focus on improving outcomes for Californians and – given forecasted budget shortfalls – must do so while increasing productivity.

Improving productivity and performance in any area of government will require thoughtful analysis of what drives performance and how best to make improvements. In its work, the Little Hoover Commission has explored the need for reforms in organization, funding and fiscal incentives, the distribution of authority and responsibility, regulatory environments and programmatic decisions. It has found that not all agencies and departments are facing the same challenges. For some, organizational designs hinder their performance. For others, operational restrictions limit their responsiveness.

Each component of a priority area must be thoroughly explored, including an organization's mission, desired outcomes, authority, incentives and disincentives, funding, and reasons for inadequate performance. The analysis must explain how the existing system is structured, why the present system is inadequate and the concerns of stakeholders who will be affected by proposed changes.

At a minimum, situational analysis should produce agreement on the problem to be addressed, an assessment of the costs and benefits of the existing system and potential alternatives, and a clear understanding of the disruptions associated with change and how to mitigate or minimize those disruptions. Only then can a strategy for improvement be developed. An appropriate strategy must thoroughly document how particular proposals will result in improved outcomes and productivity, who is responsible for bringing about changes and when and how they will be achieved.

Information and a commitment to make fact-based decisions are essential to improving performance. That discipline needs to be applied by policy-makers and program managers.

As described in the following section, improving and coordinating budget, technology and human resource assets could have a greater impact than organizational structure.

Factors to Consider in Reorganizing

Several concerns will complicate large-scale reorganizations and must be considered before restructuring state departments and agencies.

Organizationally, government is complex. The activities of government – even those just within the executive branch – vary substantially. Government regulates and encourages markets, and it is a consumer in the marketplace. It protects individuals – workers and consumers. And it serves segments of society – vulnerable people, such as children and the elderly. To accomplish these objectives, government has multiple tools, including direct services, regulations, tax expenditures and financial incentives. Assessment of a particular problem must explore the role of government, the available tools and whether organizational design, funding mechanisms or other structures help or hinder outcomes.

State-local relations are as important as state organization. Because of its scale, the State often relies on local governments, usually counties, to deliver state programs. But this relationship is often defined by conflict more than cooperation. Public policies are permeated with funding disputes and blame games, the struggles of state vs. local control, and of state priorities vs. local priorities. And while the organization of state entities should be designed based on the State's functional responsibilities in these areas, it often is not. Reforms must be based on – and improve – state-local partnerships if the goal is to improve performance.

Even large departments need to cooperate. To be effective, many state programs need to work together. No matter how many of the programs are consolidated into super-departments, the super-departments will still need to work together. This is important, because reforms that seek to reduce fragmentation through consolidation alone, and do not provide for coordinating the efforts of the consolidated departments, will ultimately fail in their goals. In addition, if the only solution to fragmentation is consolidation, then departments may become too big to be effective. Thus problem assessment should explore how organizational structures, the size of departments and related challenges might complicate efforts to collaborate, cooperate or coordinate efforts to realize goals.

Some roles conflict. State government has many roles that inherently conflict. Generally speaking, government relies on boards and commissions to provide some independence, such as the regulation of public utilities. In the past, policy-makers have traded direct accountability of a department director for a board structure that can withstand undesirable political influence and is better suited for making public, fact-based decisions. But government architects have been less effective at developing strategies for resolving the inevitable disputes that arise among public agencies that pursue conflicting missions. The historic disputes between the Energy Commission and the Public Utility Commission are an example. This problem analysis must address existing conflicts, the potential for new conflicts and examine opportunities for resolving disputes at the appropriate level.

One priority: Improving management

The ambitious recommendations of the California Performance Review accurately reflect the public's growing dissatisfaction with government. The challenge for policy-makers is to institute reforms that will reestablish the public's faith that government is well-managed and effective. Californians deserve nothing less from their leaders.

Office of Management and Budget

Leon Panetta, former chief of staff to President Clinton and director of the U.S. Office of Management and Budget, testified that the Governor must have timely information on spending, revenues and the performance of public programs. The opportunity of a new OMB is to produce fiscal discipline through a strong emphasis on management and budgeting. The two main components:

- ***Budgeting.*** The Governor must have an office with the knowledge and capacity to prepare and enforce a budget that brings discipline to spending.
- ***Management.*** The Governor must have an office with the capacity to evaluate whether departments are doing their job and the capacity to improve financial management and performance.

The federal OMB is organized into teams of subject matter experts. In developing budgets, those teams assess the performance of agencies and programs, not just the proposed changes to those budgets.

The agency should be focused on oversight and performance. Combining oversight responsibility with line operations, such as procurement, will distract attention from the important functions of ensuring fiscal discipline and improving performance.

The CPR report called for improving the internal operations of state government. The infrastructure of government operations includes budgeting, management, personnel, business services, and technology activities. The California Performance Review labeled the entities that operate these services as the "backbone of state government."¹⁶ These services are the primary tools available to the Governor to formulate and communicate policy, ensure compliance, create incentives for performance, and provide enterprise-wide support to state programs. While they are a fraction of state expenditures and human resources, these efforts influence the performance of virtually every program.

Consistent with proposals elsewhere, the CPR highlighted the fragmented nature of these functions and recommended the consolidation of budgeting, management, personnel, procurement and information technology services into a single Governor's Office of Management and Budget.

Experts in government transformation caution that centralizing or decentralizing internal government functions is seldom the key to improving operations.¹⁷ Reforms

must be driven by a detailed assessment of goals, an exploration of the functions of the various agencies and alternative strategies to improve outcomes.¹⁸ To improve the internal management of government, experts recommend focusing on the five capacities highlighted in the CPR report.

Budget and financial management. State and national governments are increasingly using outcome measures and other metrics to guide allocation and expenditure decisions. In many cases, elected

officials are scrapping budgets based on program allocations and replacing them with results-based budgets. In New Zealand, the national government adopted a results-based budget that helped eliminate deficit spending, improve economic competitiveness, and restore public trust. While policy-makers debate the choices New Zealand made, those choices were explicit and the results were publicly reported. Clear information on priorities, expenditures and outcomes boosted public approval ratings from 40 percent to 70 percent. A results-based budget helped policy-makers focus on improving the services that citizens wanted.¹⁹

Results-based budgets detail the public outcomes that are desired, rather than prescribing the activities to be performed. By removing the prescriptive requirements from budgets, and replacing them with outcomes, administrators are empowered to manage toward those results. Under results-based budgeting, a number of changes in traditional budgeting activities are required:

- In the budget, lawmakers must have the capacity to establish goals, and they must have the information to hold state officials accountable for meeting them.
- The budget agency must have the ability to measure performance and regularly inform lawmakers and the governor of progress toward agreed upon goals.
- Fiscal and administrative restrictions must be removed. Administrators must be granted the discretion to pursue the most effective strategies to achieve the goals specified in the budget.

In short, budgeting – as a tool to improve government performance – should document desired goals, monitor progress toward those goals and provide the authority that administrators need to meet them.²⁰

Management capacity. Improving government performance and restoring public confidence requires more than crisis management. It requires management based on strategic thinking that “steers” the State toward sustained improvements. The capacities needed to think and manage strategically include:

- The ability to measure public needs, to anticipate future challenges and opportunities, and to develop policy recommendations that “steer” government toward high performance.
- The capacity to facilitate interagency and intergovernmental cooperation to improve services, including the ability to apply the best mix of personnel, technology and funding to achieve goals.

- The capacity to use technology to collect, compile and analyze fiscal and administrative data for improved decision-making. It also includes the ability to identify problems early and resolve them before they become crises, and to test and adapt promising technologies and business processes.
- The capacity to function both as a leader and as a partner with local and federal agencies to leverage the best possible services.²¹

Traditionally fiscal and budget agencies are asked to perform these management tasks. But veterans of the federal Office of Management and Budget and state budget offices caution that long-term management concerns are overshadowed by short-term fiscal challenges and control functions.²² In the private sector, corporations often have separate officers for fiscal, technology, procurement, and human resources, which encourages these factors to be given adequate consideration when making critical business decisions.

Human resource management. The performance of state agencies is largely determined by their ability to employ the right people, with the necessary skills to get the job done. A large portion of state operating costs are the salaries of employees. But the State does not have in place a strategic effort to recruit, develop and retain the employees and the skills it needs. The CPR report documented the potential for significant turnover in the coming years as baby boomers retire.²³ Businesses and public agencies across the nation are scrambling to recruit new talent or to encourage employees to postpone retirement.²⁴

To address its human resource challenges, the State will need to reassess its personnel practices. The efforts of other states and the federal government suggest a number of lessons:

- Create greater capacity for partnerships with employees and their unions. The president of the largest state employee union said labor is ready to work with policy-makers to meet workforce needs and improve government performance.²⁵ In New Zealand, the support of employee unions was integral to successful reforms.²⁶
- Sharpen tools for attracting the best and the brightest into public service. In some cases, examination and selection requirements may need to be changed.
- Invest in workforce development. New technologies, business processes and management techniques can increase worker productivity, but require an adequate investment in employee training and development.²⁷

- Embrace performance management. As recommended in the CPR report, public agencies are increasingly using written agreements and other tools to outline job expectations and performance goals.²⁸

Improving the State's capacity to manage its workforce could fundamentally improve the operation of state programs. California, however, does not even have a manager responsible for helping state agencies strategically meet their human resource needs.

Business services. Many governments have recognized that introducing competition into internal services is an effective strategy for improving quality and productivity.²⁹ Great Britain, New Zealand, and the U.S. federal government are using market forces to improve business services. Most business service agencies operate as monopolies, as the exclusive provider of these services. For example, most state agencies are required to procure their office space through the Department of General Services (DGS). Likewise, state agencies must purchase their telephone services from DGS. And most state agencies are required to pay the Department of Personnel Administration and the State Personnel Board for certain personnel services.

These agencies often dictate the cost, type and quality of services that are available. When business service agencies have authority to set policy and service standards, they tend to adopt standards favoring themselves over their customers. Separating responsibilities for delivering services from setting procurement standards prevents this conflict.³⁰

Increasingly, governments are allowing departments to look beyond internal business service agencies for meeting their needs. For example, agencies might be allowed to purchase services from outside vendors rather than through internal departments. A second strategy is to establish independent boards or customer councils to set service requirements using industry benchmarks; those standards then drive the quality or price of services offered through departments such as the Department of General Services.³¹

Experience elsewhere suggests a number of lessons for improving the quality of business services:

- Business service agencies cannot be monopolies and must offer services on a fully competitive basis.
- Customers should have the ability to go elsewhere for services.
- Business service costs should not be subsidized; fees charged to departments should reflect full costs.
- Resources should be available for capital investment and expansion to accommodate surges in service demand.

- The State should have cost and quality benchmarks to measure performance and make purchasing decisions.³²

Applying these lessons in California could dramatically improve the operations of state agencies. But most of these reforms are not structural in nature, and some require centralized policy-making and decentralized service delivery. Management experts generally counsel caution against consolidating too many functions into one agency because they tend to favor business service agencies at the expense of customers and performance.³³

Information technology. In a number of studies, the Commission has found that the State is not capturing the value of new technologies to improve performance. In its November 2000 study of e-government, the Commission recommended strengthening the State's management of technology. Since that report was issued the structure for managing technology has been dismantled, leaving the State without a statutory framework for managing its enterprise technology.

The appropriate application of technology can increase productivity and performance across state departments.³⁴ For the State to benefit from technological advances, it should develop the following management structures:

- A Chief Information Officer (CIO) with statutory authority to enhance technological capacity. The CIO should be a cabinet-level position. The CIO should facilitate the strategic use of technology to promote improvements in all government initiatives.
- An independent council. The council should be granted the authority to set enterprise-level policies, review and approve major technology initiatives, and independently validate and verify state technology initiatives. The council should include stakeholders with an interest in the success of technology investments. The CIO should serve on, but not control, the council.
- A technology agency headed by the CIO. The agency should manage the State's enterprise technology assets, including all data centers, networks, state Internet portals, and telecommunication systems. The technology agency should compete with outside vendors to serve departments based on the value it offers. Departments should have the flexibility to purchase technology services from other vendors provided those vendors meet the enterprise requirements set by the technology policy body.

The CPR report recommended appointing a CIO to advise the Governor on technology strategy and a separate Chief Technology Officer to administer enterprise technology services. CIOs in other states

recommended that a single executive be responsible for technology leadership and administering enterprise-wide services. They also recommend vesting technology policy and fiscal oversight in an independent body with broad customer and stakeholder membership to eliminate conflicts between internal policy-setting and service delivery functions.³⁵

Enhancing the capacity of the State to harness technology will permit dramatic improvements in performance. Many of the recommendations in the CPR report are premised on the ability to use information technology – such as using performance measures and performance-based budgeting. Additionally, smart investments in technology create opportunities for the State to redefine its partnerships with local governments to improve services to the public.

Georgia Technology Authority

When Governor Roy Barnes wanted to transform Georgia state government he passed up the typical tools of reorganization and reinvention for the tool of technology.

The Georgia Technology Authority was created to expedite the deployment of technology. The authority is a publicly chartered corporation with an independent board. The authority was self-financing through fees for services offered to other public agencies and royalties from the sale of state-owned data.

Larry Singer, the state's Chief Information Officer and director of the authority, said the governor knew that technology could be used to revolutionize government and improve its performance without having to overcome the traditional resistance to organizational changes. Among the authority's accomplishments:

- ***Reducing Purchasing Costs.*** GTA saves the state between \$9 million and \$18 million annually by leveraging purchases of telecommunication and technology hardware. The authority saved the state \$28 million for desktop software licenses.
- ***Bridging Programs to Share Technology.*** The authority operates a state data center that supports 76 public agencies, providing personnel, payroll, purchasing, and revenue collection technology systems. The authority also leads a partnership among state CIOs to share the costs of online data storage.
- ***Increasing Medical Access.*** In partnership with Georgia's Department of Corrections and the Medical College of Georgia, the authority implemented a telemedicine program to provide medical services and instruction.
- ***Helping Students Learn.*** Using lottery funds, the authority provides laptop computers to schools. In addition to providing hardware, the authority provides technical support, lesson plans, and software to correlate with Georgia's core curriculum.
- ***Protecting Children.*** The authority is helping to improve outcomes for children in foster care by managing data regarding placements, tracking families with child abuse cases when they move from county to county, and by linking this data with Georgia's sex offender registry.
- ***Simplifying Payment.*** The authority operates a system that allows residents to make online payments to public agencies, including college tuition, professional and driver's licenses and corporate filings.

Sources: Larry Singer, Senior Vice President and Strategic Insight Officer, Sun Microsystems, Inc. Menlo Park, CA. October 25, 2004. Personal communication. Georgia Technology Authority, Progress Report 2003, February 2003.

Strategic use of five management functions

Government reform initiatives often focus on the need to improve the management tools that chief executives have available to establish internal policies, manage operations, and drive productivity and performance improvements. Improving these mechanisms can help the State regain the public's confidence that tax dollars are being used wisely to provide needed government services.

The California Performance Review recommended consolidating internal management functions into an Office of Management and Budget. Strategically coordinating these efforts, such as human resources and technology, is as important as reforming them individually. However, a number of experts voiced concern that in consolidated structures, the immediacy of budget and fiscal concerns almost always overshadows the importance of these other management tools – and thus limits their effectiveness.³⁶

Implementation and Monitoring

Most transformation efforts fail to meet their objectives because of inadequate or poorly designed plans for implementation. The Achilles heel of reorganizations is the implementation phase. Individual efforts need a start date and date for projected completion, with milestones charted along the way. Plans need to clearly convey what changes will be implemented, who is responsible for making those changes, and how the behavior of employees and others will need to shift. And they need to convey in clear ways how policy-makers, the public and others will know if the implementation has been successful. If well planned, individual change efforts should rarely take longer than six months, although the full implementation of all required changes may require significantly more time.

All transformation efforts require early and ongoing evaluation and monitoring to ensure the support of internal and external stakeholders. The change effort should include an internal program to evaluate progress toward implementation, monitor outcomes along the way, adjust strategies and the implementation as needed, and report progress publicly. Upon completion, evaluation, monitoring and reporting should shift to the executive office of the Governor.

Boards for 21st century government

California, like many states during the last century, built a government that relied heavily on boards and commissions to improve government decision-making. Boards and commissions – if well structured and managed – can be effective mechanisms for serving the public.

But boards and commissions also are frequently cited as examples of waste and abuse of government resources. The case is usually made through examples of bodies that are too independent – not accountable to the people, to the legislation that authorizes their activity, to the appointing powers or even the facts before them. There are some instances where members are given full-time pay for part-time work. Some boards are too close to the profession or business they are expected to regulate. And there are even more boards that are not providing the advice or oversight that is expected of them.

In examining the organization of state government, the CPR team looked at consolidating departments (and boards and commissions) around major functions or more accurately subjects. Separately, the team reviewed 339 boards and commissions and concluded that 118 should be eliminated. In most cases, the activities of those bodies would remain intact, and be transferred to the director of the proposed super-departments.

The CPR made an important point that many of the State's boards and commissions have outlived their usefulness, while others are in need of structural and other changes to ensure they are serving the public. But a comprehensive solution must go beyond deciding which boards California can live without. If nothing else, some boards that are not working well, need to work well, rather than being eliminated. In other cases, well functioning boards need to be focused on activities that only boards can perform.

For example, the Board of Corrections performs functions, including the distribution of grants, that does not require a board. But as the Little Hoover Commission has previously recommended, the board – with its multidisciplinary and intergovernmental expertise – would provide great benefit if it were tasked with reviewing the performance of state and local correctional agencies and making public recommendations to the Governor and the Legislature.

In its review of the Health and Human Services Agency, the Commission concluded that 20-some advisory boards in that agency could more

effectively influence the bureaucracy if they were consolidated into a single, well-staffed and highly visible advisory panel.

In addition to saving money, the California Performance Review was attempting in some instances to streamline decision-making, increase coordination between related programs, and make programs now governed by boards more accountable to the Governor. While those are all noble goals, in many cases boards were intentionally created to ensure that regulatory decisions were based on facts and insulated from the political influences of elected officials. In other cases, boards provide a necessary separation between conflicting government functions, such as purchasing services from an industry that the State also regulates.

The CPR's *Form Follows Function* begins by describing the need to create an organizational structure for a 21st century government, and concludes by recommending the elimination of one in three boards. The CPR Commission contributed to this debate by outlining principles for more consistent application of boards and commissions. Before determining the fate of specific boards, criteria should be established that would allow policy-makers to make consistent and rational decisions and for the public to understand the basis of those decisions.

The initial goal of this effort should be to determine which boards California needs for a 21st century government, and then create a mechanism for consolidating or otherwise transforming the current portfolio of entities into the portfolio of needed boards. The long-term goal should be to create a process to periodically evaluate the work of individual boards and determine whether they should continue or how they should be changed to best contribute to an accountable, effective government.

Conclusion

The need to improve some fundamental state policies and improve the performance of state programs is clear and compelling. The State's unresolved deficit is a cancer that is thwarting California's recovery. The State is not making adequate progress toward important goals, including a high quality education for all, a healthy environment and an efficient transportation system. Appropriately, the public has expressed its dissatisfaction and lack of trust, which must be restored.

The continuum of sustainable prosperity

In determining the focus and nature of reforms, policy-makers must keep the end in mind. The State needs a robust economy. Over the long-term state policy and the performance of specific programs can significantly influence the health of California's economy. In turn, the State needs a reliable, fair and efficient revenue system that provides government with the means to accomplish the public's business. The State needs a sound mechanism for allocating those resources – one that incorporates clear goals and accurate information on the performance of programs. Those programs must be well-managed, providing high quality services at an affordable price. Documented improvements will in turn increase public satisfaction and rebuild public trust.

While the CPR did not set out to improve each of those policy areas, a successful reform strategy for California will need to address each of those issues. In focusing on the quality and efficiency of public services, the CPR offers literally hundreds of programmatic solutions, the establishment of performance-based budgeting and management, as well as a massive and complete reorganization of the state bureaucracy.

Leon Panetta, who served California and the nation in Congress, as director of the Office of Management and Budget and as President Clinton's Chief of Staff, said the next step is to move ideas to actual reforms:

Now begins the hard work of piecing together the kind of compromises you need to get it done. My experience is that nobody in any bureaucracy likes to change their turf. That's just a hard reality.

It happens one of two ways. It happens by crisis, which we saw with September 11. We wouldn't have a Homeland Security Agency if not for September 11. Or it happens by leadership.³⁷

Essential elements of reform

Those who have championed large-scale transformations agree on the essential elements of successful reorganization:

First, the Governor must persistently push reforms. Practically speaking, he must designate a leader to manage the effort and leverage the talents of the cabinet, Legislature, the State's workforce and the public to bring about meaningful improvements.

Second, the Governor must assertively define the goals of reforms and translate those goals into meaningful outcomes for Californians. Crime will go down. Employment will go up. Traffic congestion will be reduced.

Third, the Governor must designate his priorities and enlist the support of the Legislature, starting with those reforms that are both possible and will produce meaningful improvements. Not all reforms should be pursued at once.

And fourth, the Governor must focus on reform efforts on improving the performance and productivity of state programs. The long-term value of transformation is to make progress toward public goals with the same or fewer resources.

The application of these four essential elements should be employed to develop and refine, propose and implement those reforms – offered by the CPR or others – that are deemed most valuable.

In short

Restructuring is essential to improve performance, ensure the State operates within its means, and restore public trust in government. The California Performance Review has focused policy-makers and stakeholders on the need and potential for transforming state government. The lessons from large-scale reorganizations provide valuable insight that California must incorporate into its efforts if it expects to be successful. The Commission submits this report because it believes the Governor must seize this opportunity to transform state government and it must succeed.

Appendices & Notes

✓ *Public Hearing Witnesses & Additional Experts Consulted*

✓ *The Critical Path*

✓ *Notes*

Appendix A

Little Hoover Commission Public Hearing Witnesses and Additional Experts Consulted

***Witnesses Appearing at Little Hoover Commission
Principles of Reorganization Hearing on November 17, 2004***

Edward K. Hamilton, Chairman
Hamilton, Rabinovitz & Alschuler, Inc.

Susan Robison, Consultant
National Conference of State Legislatures

Robin MacGillivray, President
Business Communications Services
SBC West

Thomas H. Stanton, Fellow
Center for the Study of American
Government
Johns Hopkins University

Lenny Mendonca, Chairman
Bay Area Economic Forum

Public Comment Received From:

John M. Basler, former Vice President
Support Services, Pacific Bell

J. J. Jelincic, President
California State Employees Association

Carole D. Chesbrough
Chief Deputy Commissioner
Department of Financial Institutions

***Witnesses Appearing at Little Hoover Commission
Organizing and Managing Executive Branch Functions Hearing on November 18,
2004***

John W. Ellwood, Professor
Goldman School of Public Policy
University of California, Berkeley

Maurice P. McTigue, Director
Government Accountability Project
Mercatus Center, George Mason University

John M. Kamensky
Associate Partner and Senior Fellow
IBM Center for the Business of Government

Carolyn Purcell, Chief Executive Officer
Purcell Ventures, LLC
former Chief Information Officer, State of
Texas

Stuart McKee, National Technology Officer
U.S. Public Sector, Microsoft Corporation
former Chief Information Officer, State of
Washington

Lester M. Salamon
founding Director and Principal Research
Scientist
Center for Civil Society Studies
Johns Hopkins Institute for Policy Studies

Public Comment Received From:

Margarita Maldonado, Bargaining Chair
Unit 1, SEIU Local 1000
California State Employees Association

***Witnesses Appearing at Little Hoover Commission
Boards, Commissions and Public Accountability Hearing on December 8, 2004***

Joseph E. Bodovitz
former Executive Director
California Coastal Commission
former Executive Director, California Public
Utilities Commission

Bruce Cain, Director
Institute of Government Studies
University of California, Berkeley

Robert C. Fellmeth, Executive Director
Center for Public Interest Law
University of San Diego

Judith Frank, Member
California Health Facilities Financing
Authority
former Member and Chair, California State
Parks and Recreation Commission

Steven B. Frates, President
Center for Government Analysis
Senior Fellow, Rose Institute for State and
Local Government, Claremont McKenna
College

Bill Hauck, Co-Chair
California Performance Review Commission
President, California Business Roundtable

Tim Hodson, Executive Director
Center for California Studies
California State University, Sacramento

Elizabeth M. Imholz, Director
West Coast Office, Consumers Union

Jacqueline Jacobberger, President
League of Women Voters

Joanne Corday Kozberg, Co-Chair
California Performance Review Commission
Regent, University of California
former Secretary, State and Consumer
Services Agency

Leon C. Panetta, Director
Leon & Sylvia Panetta Institute for Public
Policy
California State University, Monterey

Anne Sheehan, Executive Director
California Performance Review Commission
Chief Deputy Director for Policy, California
State Department of Finance

Robert M. Stern, President
Center for Governmental Studies
former General Counsel, Fair Political
Practices Commission

Paul H. Turner, Senior Program Manager
Greenlining Institute

Additional Experts Consulted in Little Hoover Commission Review Process

Eugene Bardach, Professor of Public Policy
Richard & Rhoda Goldman School of Public
Policy
University of California, Berkeley

Robert D. Behn, Lecturer in Public Policy
Kennedy School of Government
Harvard University

Robert Boerner, Consultant
National Conference of State Legislatures

David Brady
Deputy Director and Senior Fellow
Hoover Institution, Stanford University

Lester Breslow, Dean Emeritus
School of Public Health
University of California, Los Angeles
former Chair, California Public Health
Board

Jonathan D. Breul, Senior Fellow
IBM Center for the Business of Government

John Carver, President
Carver Governance Design, Inc.

Effie Poy Yew Chow, former Member
White House Commission on
Complementary and Alternative
Medicine Policy

David Davenport
Distinguished Professor of Public Policy and
Pepperdine University Research Fellow
Hoover Institution, Stanford University

Soap Dowell, former Chair
Managed Risk Medical Insurance Board

Christine Essel, Chair
California Film Commission
Senior Vice President, Paramount Pictures

Richard Figueroa, Member
Managed Risk Medical Insurance Board

Mark A. Forman, Executive Vice President
Worldwide Services, Cassatt Corporation
former Chief Information Officer, U.S. Office
of Management and Budget

Nick Franklin, Senior Vice President
Public Affairs
PacifiCare Health Systems, Inc.

Stephen Goldsmith, former Mayor
City of Indianapolis
Professor of Public Administration, Ash
Institute on Innovation and Democratic
Governance, Kennedy School of
Government, Harvard University

Sean Hecht, Executive Director
Environmental Law Center
School of Law
University of California, Los Angeles

Ruth Holton, former Director
California Common Cause

Edward Howard, Chief Consultant
Joint Committee on Boards, Commissions
and Consumer Protection
California State Senate

Steve Kolodney, Vice President
Strategic Business Development CGI-AMS
former Chief Information Officer, State of
Washington
former Director, Washington State
Department of Information Services

Rich Koppes, Counsel
Jones Day
former Chief Counsel, CalPERS

Peter V. Lee
President and Chief Executive Officer
Pacific Business Group on Health
former Member, Managed Health Care
Improvement Task Force

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Kenneth Levine, Assistant Director
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Jill Kaiser Newcom, Executive Director
League of Women Voters
former Member, Sacramento Arts
Commission

David Osborne, Senior Partner
Public Strategies Group

Jacquelyn Paige, Executive Director
California Health Policy and Data Advisory
Commission

Richard Paul, Policy Staff
Senate Committee on Governmental
Organization, California State Senate

Jeffrey Pfeffer
Thomas D. Dee II Professor of
Organizational Behavior
Graduate School of Business
Stanford University

Lisa Rawlins, Senior Vice President
Warner Bros. Entertainment
first Executive Director, California Film
Commission

Clifford Rechtschaffen
Professor of Law and Director
Environmental Law, Golden Gate University

Jan Sharpless, former Member and Chair
Air Resources Board
Member, Western Electricity Coordinating
Council

Fred Silva, Senior Advisor
Governmental Relations
Public Policy Institute of California

Larry Singer
Senior Vice President and Strategic Insight
Officer, Sun Microsystems, Inc.
former Chief Information Officer, State of
Georgia
Executive Director, Georgia Technology
Authority

Hannah Sistare, Executive Director
National Commission on the Public Service
Brookings Institution
Fellow, National Academy of Public
Administration

Peter L. Szanton, President
Szanton Associates
Fellow and Chair of Board of Trustees,
National Academy of Public
Administration

Paul Volcker, former Chairman
Board of Directors, Federal Reserve System
Chairman, National Commission on the
Public Service

Richard D. Young
Director of Governmental Research
Institute for Public Service and Policy
Research
University of South Carolina

Appendix B

Eight Essential Steps of the Critical Path

In its report, *Governing the Golden State: A Critical Path to Improve Performance and Restore Trust*, the Commission distilled a critical path that could be used to develop technically sound and politically supported solutions to difficult public policy issues. The report is available from the Commission's Web site at www.lhc.ca.gov. Developing sound solutions that can be widely supported requires a combination of analytical capacity and political skill. Reformers must have the political sponsorship to get the right stakeholders to the table and clear direction to solve specific problems. The process itself must be framed with integrity – via meaningful involvement of the public and civic leaders, good faith negotiation to resolve differences, and the courage to stand by agreements.

The Commission identified eight essential steps that a reform process should follow to do this:

1. **Recognize and define the problem and set the reform goal.** The Governor, Legislature and other elected leaders must formally agree on the problem that needs to be solved and the goals for reform.
2. **Create a structure for success.** The reform process could be managed by the executive branch, or a collaboration of executive and legislative resources or regional and local leaders. A State Executive Council could be established to define statewide issues, help to define specific goals for reform and acceptable solutions, and facilitate agreements at the local and regional level.
3. **Establish the parameters of an acceptable solution.** The Governor and the Legislative leaders should validate or amend the problem and validate the scope and schedule for work by formally establishing the parameters of an acceptable solution.
4. **Identify and agree on solutions.** Through a series of public meetings, informed by the best available analysis, key stakeholders should explore alternatives and develop the best solutions with broad public support.

Essential Values

At every step of the critical path, everyone involved in the reform process must be guided by essential values.

Leadership. Commit to a reform, prioritize the goal with the public and enact the reform.

Trust. Build trust among participants and the public by honestly working toward common goals and keeping promises.

Transparency. Clearly and openly evaluate all issues, identify goals, acknowledge agreements and establish ground rules.

Public Involvement. Educate and engage the public in identifying problems and solutions.

Inclusiveness. Identify and include all stakeholders throughout the process.

Commitment. Commit to reform and prioritize the goal. Participants in the process must obtain agreement and a commitment from constituents.

Timeliness. Accomplish reforms while there is consensus on the need for reform. Establish a timeline for the reform process and the implementation.

5. **Validate and vet solutions.** The Executive Council needs to make sure that the proposed solutions are technically sound and politically viable. The product at the end of this stage should be a technically sound solution that has a critical mass of solid support.
6. **Enact the proposal.** The Legislature needs to assess the proposal based on the established parameters and the support stated by interest groups throughout the process, and, if consistent with the parameters, enact it.
7. **Implement and monitor reform.** The Governor and the Legislature should support the implementing agencies by providing clear direction, adequate resources, and an effective means for communicating progress and making refinements to the plan.
8. **Refine the reform as necessary.** The Governor and the Legislature should periodically assess the need for refinements or the next generation of large-scale reform, and be willing to repeat all or part of the critical path to ensure progress toward desired goals.

Notes

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