



LITTLE HOOVER COMMISSION

Daniel W. Hancock
Chairman

March 4, 2011

The Honorable Edmund G. Brown, Jr.
Governor of California
State Capitol
Sacramento, CA 95814

Dear Governor Brown:

Thank you for your letter requesting the Little Hoover Commission's suggestions for specific actions California can take to reduce government waste and operate more efficiently. I am pleased to offer you the benefit of the Commission's work to help improve state policy and operations as the state works through this challenging period. The current crisis presents opportunities for change not possible in good times.

In constructing this list, the Commission limited itself to ideas that are the product of its public study process. Each study involves engaging experts throughout the state and country, reviewing the latest research, receiving public input and analyzing potential solutions to our state's most pressing problems. This list does not include Commission recommendations that already are part of the Governor's budget proposals, such as public safety realignment or community college funding, nor does it include Commission recommendations that are about to be implemented, such as expanded Medi-Cal managed care enrollment.

Based on the Commission's work and my experience serving on the Commission for more than a decade, I believe that the measures below will produce lasting improvements in reducing waste and improving government efficiency. Some also are aimed at creating a foundation for economic growth, mindful that the state's difficult fiscal situation also must be addressed from the revenue perspective.

This list is divided into actions that could be implemented through a reorganization plan, actions that can be undertaken by Executive Order and actions that require legislation. The dates of the reports from which the recommendations are drawn are noted in parentheses.

Reforms Through Reorganization

Health and Human Services. The Governor's budget proposal outlines an ambitious realignment of key programs in the Health and Human Services Agency, including mental health, substance abuse treatment, and foster care and child welfare services, areas in which success can reduce overall demand for state services, implementing previous Commission recommendations. This realignment, together with recent federal health care reforms, reinforces the need for a reorganization of the agency, consistent with the agency's changing role as the state realigns responsibilities and takes on new Medi-Cal responsibilities from counties in coming years. As a first step, the Governor should create a strong leadership team to begin setting clear statewide goals for social and health care in the state. (May 2004) The reorganization should focus on helping counties enhance their systems of care and creating incentives to coordinate services across programs. (March 2008, February 2003)

Employee Relations. The state should eliminate the State Personnel Board and merge its personnel management activities into the Department of Personnel Administration. This would require an amendment to Article VII of the California Constitution. (April 1995)

Juvenile Justice. The Governor should eliminate the Division of Juvenile Justice within the California Department of Corrections and Rehabilitation and consolidate all juvenile justice programs and services into a Governor's Office of Juvenile Justice. This small and streamlined office should provide statewide leadership on juvenile justice policy and oversight of county programs funded by the state. This office also could administer and oversee the contracts with counties that choose to house violent youth offenders in state facilities, as detailed in the Governor's refined public safety realignment proposal, and manage the operations of the remaining state facilities. (July 2008)

Reforms Through Executive Order

Contract Flexibility. The Governor should provide greater flexibility in contracting requirements for the Department of Water Resources to buy and sell energy for the State Water Project, and allow the department more flexibility to enter into contracts that take advantage of short-term market opportunities as well as new alternative energy markets and transmission options. The Governor should use this effort as a pilot to determine how streamlining contracting requirements more broadly can increase efficiency and lower costs. (August 2010)

Infrastructure Finance. The Governor should take advantage of the flexibility the state has in the time left under SB 4 X2 (2009) to finance and deliver infrastructure projects through the use of public-private partnerships and stop using General Obligation bonds for infrastructure projects where proven alternatives exist. The Governor should develop a strategy for infrastructure finance that is aligned with the mission of the Strategic Growth Council and includes demand management approaches to maximize existing resources and strengthen California's economic foundation for long-term health. (January 2010)

Bond Oversight. Debt service on General Obligation bonds is one of the fastest growing segments of General Fund expenditures. It has to be paid. It is critical that bond money be effectively managed to ensure that funds are spent wisely and as voters intended. The Governor can increase taxpayer confidence in the state's use of borrowed money and ensure increased value for that borrowing by establishing greater bond oversight. Bond spending on water quality and management is especially in need of greater planning and accountability. One way to do this is to charge the newly revived California Water Commission with setting priorities on bond-funded spending, consistent with bond initiative language, and overseeing outcomes for all resource-related bonds. (June 2009, August 2010)

Performance Measurement and Management. The Governor should develop a performance leadership and accountability system that both supports existing performance measurement efforts and articulates a vision for how performance measurement can be used to better manage California state government, aided by examples set by Washington and Virginia. This would help the state develop the capacity needed within state government to adopt performance-based budgeting. (November 2008, October 1995)

Sentencing Reform. The Governor should establish an independent commission to review California's sentencing laws and make recommendations to improve public safety and make the best use of resources to reduce crime in California communities. (January 2007)

Economic Development. The creation of the Governor's Office of Economic Development in 2010 implemented a key part of the Commission's recommendations on economic development governance. The Governor should continue to bolster the state's ability to foster economic development and create jobs by seeking ways to better coordinate and align economic development activities now located in different parts of the government, including opportunities for reorganization. (February 2010)

Reforms Requiring Legislation

Pension Reform. The Governor and the Legislature should enact a measure that clearly articulates that the state has the authority to alter future pensions for new and current state and local government employees. The Governor and Legislature should give state and local governments more plan options, such as reduced formulas and hybrid plans that are actuarially sound and reduce costs over the short and long term. Reform actions should include measures to eliminate abuses, improve transparency about the true cost of the size of obligations and improve oversight by adding more independent voices to pension plan boards. Immediate pension reform could signal to financial markets that California is serious about addressing its financial issues, potentially lowering borrowing costs and reducing pressure on the General Funds of state and local governments. (February 2011)

Realignment of State and Local Roles. The Governor and Legislature should pursue further opportunities to realign responsibilities and resources, refining the state role to create the best conditions for county success by:

- Setting clear but flexible goals for program outcomes,
- Ensuring a reliable, flexible funding structure that promotes long-term planning and efficient operations,
- Creating incentives for counties to meet state goals and to reduce state expenses,
- Monitoring performance and quality,
- Providing a hub of information about best practices and innovative programs, and
- Holding counties accountable for results and stepping in where counties fail to deliver.

None of the Commission's recommendations are quick fixes, as many of the problems the Commission addresses have been decades in the making. Each would require leadership as well as commitment to work through difficult issues.

I look forward to working with you on these and other ideas to improve state government and am available, as is the Commission's staff, for further discussion.

Sincerely,



Daniel W. Hancock
Chairman