

EXECUTIVE SUMMARY

The Commission on California State Government Organization and Economy, also known as the "Little Hoover Commission," is an advisory body charged with the responsibility of making recommendations to the Legislature and the Governor on ways in which the State can improve the economy, efficiency, and service of the Executive Branch of State government. Since its inception in 1962, the Commission has issued more than 50 reports on a wide variety of government programs resulting in savings of hundreds of millions of dollars. Additionally, many recommendations have resulted in such important but less tangible benefits as increased program accountability and responsiveness to public needs.

The purpose of this Annual Report is to summarize the findings and status of principal recommendations from reports issued since June 1982. The Commission generally allows a six-month period before reviewing actions taken on its recommendations. This permits a preliminary assessment of the extent to which recommendations have been implemented, the immediate benefits of these measures, and identification of further legislative and administrative actions which may prove necessary to effect or monitor the indicated changes.

This report includes information on the status of recommendations concerning K-12 education, horse racing revenues and management, contracting for inpatient hospital services for Medi-Cal recipients, potential cost savings from the conversion of Guadalupe College into a women's prison, transportation planning and development, nursing homes, contracting out of governmental services, community residential care facilities, and electric energy planning and regulation. The findings presented in these reports collectively identify opportunities to save millions of dollars, improve the organization of government, and better serve the taxpayers of California.

To date, the Legislature and the Administration have taken significant action on many of these recommendations and saved the State at least \$9 million. Additionally, our Commission has increased public awareness of opportunities for possible economies in school district operations including efficient consolidation of underutilized schools and reductions in nonteaching personnel. Currently, combined State and local savings from these administrative initiatives to reduce operating costs are estimated to total between \$18 million and \$20 million annually in the Los Angeles Unified School District with indeterminate additional savings of millions of dollars in other districts.

The Role of the State Department of Education In California's K-12 Public Education System

Despite significant increases in the number of education staff since 1970, student achievement has generally declined and the 1,043 autonomous school districts have demonstrated varying degrees of ability and responsibility in their management of available resources. The landmark Hughes-Hart Educational Reform Act of 1983 embraces various remedial recommendations of our Commission including a required analysis of the increase in local nonteaching employees and potential duplication of functions between education agencies, new incentives and controls to promote the cost-effective utilization of school facilities, more adequate maintenance of schools, and uniform graduation requirements.

Since our Commission found that an historic increase in the number of nonteaching staff relative to the number of students currently costs about \$1 billion annually, operation of underutilized schools costs California millions of dollars annually, and since pending capital outlays for school construction exceed \$300 million, even slight mitigation of these costs through the implementation of our recommendations will result in savings of

many millions of dollars. As noted above, the Los Angeles Unified School District, which comprises about one-eighth of California's K-12 student enrollment, alone saves at least \$18 million annually from actions taken. Additionally, the implementation of measures such as uniform graduation standards will improve the accountability of school districts for curricular excellence and will result in tangible economic and social benefits.

Horse Racing in California: Revenue & Regulation

As a result of our Commission's July 1982 report and subsequent analyses of horse racing revenues in California, at least three bills (AB 223, AB 1428, and AB 2058) introduced in the 1983-84 legislative session contained provisions to increase State pari-mutuel tax revenues. The budget trailer bill as approved (Chapter 323, 1983) will increase State revenue from exotic pari-mutuel wagering (daily double, exacta, and pick six) by an estimated \$9.1 million between August 1, 1983, and July 1, 1984.

Office of Special Health Care Negotiations

Our Commission issued a letter report in March 1983 concerning potential problems in the State's new Selective Provider Contracting Program for the provision of inpatient hospital services for Medi-Cal beneficiaries. Although our Commission was one of the leaders in recommending a prudent buyer approach to the purchase of hospital care under Medi-Cal and supports hospital contracting in concept, our report stated that the confidentiality provisions of negotiated contracts created administrative problems and may circumvent necessary public oversight. Additionally, the program suffered initially from costly delays and uncertainty concerning the sufficiency of beneficiary access to adequate hospital services.

Consistent with our recommendation that contracts with hospitals should be made public after all negotiations have been completed, AB 1167 was enacted (Chapter 621, 1983) to require that they be open to inspection one year after they are executed. Additionally, the Department of Health Services has instituted an "Incident Report System" to monitor some of the other potential problems we have identified.

Review of Cost Savings Associated with Conversion of Guadalupe College into a Women's Prison

Our Commission issued a report in March 1983 on the feasibility and cost-benefits of the State purchasing Guadalupe College and converting it into a minimum security women's correctional institution. We reported that if the Legislature and the Governor chose to authorize the purchase and conversion of this facility in Santa Clara County rather than a planned \$26 million facility in Stockton, the State could save an estimated \$9.8 million in prison bond funds.

Review of the Department of Transportation's Highway Planning and Development Process

In June, 1983, our Commission reported its findings and recommendations regarding the Department of Transportation's programs for highway planning development, and maintenance. These recommendations have been characterized by the Chairman of the California Transportation Commission as "very important" and worthy of "considerable attention."

While the Department supports and is making progress on a number of these recommendations including long-range planning, decisive legislative action is necessary to implement our recommendations for improvement of the program revenue structure and methods of allocation to more adequately reflect statewide priorities.

The Bureaucracy of Care - Continuing Policy Issues
for Nursing Homes Services and Regulation

Our August 1983 report on nursing homes, entitled "The Bureaucracy of Care," analyzed 18 policy issues and developed over 80 detailed recommendations for legislative and administrative implementation. Virtually all of the 35 recommendations which require legislative action were introduced this January in a bipartisan reform package consisting of 17 bills. At least two other reform packages incorporating a portion of our recommendations have also been introduced.

Contracting Out of Governmental Services

Our Commission released a letter report in November 1983 which reflected our findings and recommendations concerning the Los Angeles County contracting program. This program has shifted various operations to the private sector since 1979. The report concluded in part that contracting out offers tremendous potential to reduce the cost of government, but the County had exaggerated savings claimed in the past and there was uncertainty concerning the magnitude of probable future savings.

Community Residential Care in California -
Community Care as a Long Term Care Service

In December 1983, our Commission reported on the inadequacy of services, protection, and funding for the elderly, developmentally disabled, and mentally disabled residents of community care facilities. This report included 37 recommendations for legislative reform, reorganization of certain State functions, operational improvements, and sources of new revenue to support certain activities. In response to the report, eleven bills were introduced in the Legislature that would implement many of the recommendations.

A Study of the Organization and Coordination of Electric
Energy Planning & Electric Utility Regulation in California

Our Commission's most recent report examined the organization and coordination of energy planning and utility regulation by the California Public Utilities Commission and the California Energy Commission. We found that there is virtually no linkage between the Energy Commission's development of policy and the PUC's implementation of policy through its rate-setting process. Our report offered various recommendations to substantially improve the articulation and integration of these functions. On February 8, 1984, the Assembly Committee on Utilities and Commerce and the Senate Committee on Energy and Public Utilities conducted a joint hearing to receive testimony on the report's recommendations. The Chairs of the two committees called for the Little Hoover Commission, the PUC, the Energy Commission, and the Auditor General to report back within 60 days on agreed upon methods for correcting problems outlined in the report.