#60

STATE OF CALIFORNIA

GEORGE DEUKMEJIAN, *Governor*

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Assemblyman

BRUCE YOUNG
Assemblyman

RICHARD C MAHAN
Executive Director

1982-83 ANNUAL REPORT

A SUMMARY OF ACTIVITIES

AND STATUS OF RECOMMENDATIONS

MARCH 1984

A N N U A L R E P O R T

THE ANNUAL REPORT ON THE ACTIVITIES OF THE COMMISSION ON CALIFORNIA STATE GOVERNMENT ORGANIZATION AND ECONOMY

MARCH 1984

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Executive Director

March 1984

Honorable George Deukmejian
Governor of California

Honorable David A. Roberti
President pro Tempore of the Senate
and Members of the Senate

Honorable James Nielsen
Senate Minority Floor Leader

Honorable Willie L. Brown, Jr.
Speaker of the Assembly
and Members of the Assembly

Honorable Robert W. Naylor
Assembly Minority Floor Leader

Dear Governor and Members of the Legislature:

The Commission on California State Government Organization and Economy, also known as the Little Hoover Commission, respectfully submits its 1982-83 Annual Report. The purpose of this Annual Report is to summarize the findings and status of principal recommendations from reports issued since June 1982. The report format is designed to highlight recommendations which we believe should be considered in legislative budget or policy committee hearings.

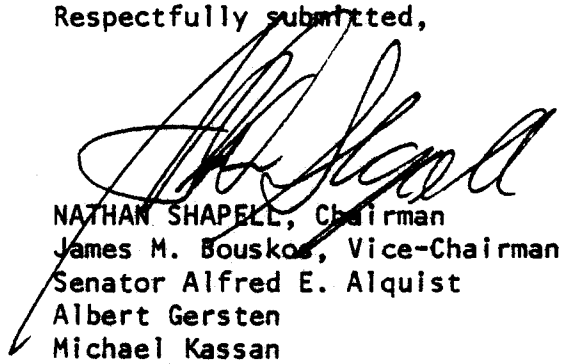
The recommendations reviewed in this report constitute a summary of, and a necessary selection from, the more than 150 recommendations included in the nine subject reports. For this reason, the original reports may provide valuable additional information relative to your consideration of any specific recommendation.

Specifically, this Annual 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.

More than 30 bills which would implement Commission recommendations are currently before the Legislature. We earnestly solicit your support in initiating these reforms which will result in necessary improvements

to State programs and consequent benefits to all Californians. Additionally, we encourage the Administration and the Legislature to review these recommendations during this year's deliberations on the State budget.

Respectfully submitted,



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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-eight 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.

INTRODUCTION

Origin and Organization of the Little Hoover Commission

The Commission on California State Government Organization and Economy was created by the Legislature in 1961 and became operational in the Spring of 1962. The enabling legislation introduced by former Assemblyman (now Senator) Milton Marks authorized the Commission to examine any aspect of the operations of the Executive Branch of State government and to recommend measures to the Governor and the Legislature for program improvements. The Commission was later assigned the additional responsibility to review all reorganization plans initiated by the Governor prior to their submission to the Legislature.

The Commission's short appellation, "The Little Hoover Commission," is based on Senator Marks' regard for the work of the Federal "Commission on Organization of the Executive Branch" initially chaired by Herbert Hoover which presented its first report to then President Harry Truman in 1949. The Federal commission provided a model of an independent, bipartisan body which could recommend ways to improve the organization and management of government.

Although it is considered to be within the Executive Branch of State government for budgetary purposes, the Little Hoover Commission functions independently from both the Legislature and the Administration. By statutory design (Government Code Section 8501 et seq.), five citizen members are appointed by the Governor, four citizen members are appointed by the Legislature, and two Senators and two Assemblymen are appointed by the Legislature. Additionally, no more than seven of the thirteen commissioners can be from the same political party. Thus, the Commission is able to conduct its organizational and procedural studies and make recommendations in a unique role and capacity differing from other governmental agencies.

Resources and Methods of Operation

In the current fiscal year, the Commission's permanent staff consists of an executive director, a program analyst, and an administrative and secretarial position. The budget of approximately $336,000 also includes funds equivalent to one personnel-year for temporary help.

Because of its policy of retaining a small professional staff, the Commission contracts with consultants to assist in the conduct of some of its extensive studies. Otherwise, assistance is sometimes provided by other State or legislative agencies such as the State Controller and the Auditor General.

Besides contracting for services, the Commission is empowered to hold public hearings, issue subpoenas, and secure the assistance of law enforcement agencies to help in the conduct of its investigations.

Commission studies are typically self-initiated or arise from legislative requests. Major studies may receive policy direction from a standing or ad hoc subcommittee appointed by the Commission Chairman. In some instances, the Commission forms external advisory bodies or conducts workshops to facilitate formal legislative, administrative, and public participation in issue definition, fact-finding, and the formulation of recommendations. Although it is not required to do so, the Commission almost invariably conducts one or more public hearings in the course of each study.

Objectives and Scope of Annual Report

The purpose of this Annual Report is to summarize the findings and status of principal recommendations from our recent reports. 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.

Our discussion in this report of "Actions Taken" is not intended to suggest that the actions were necessarily the direct result of a Little Hoover Commission recommendation. Our Commission recognizes that there frequently are numerous organizations and/or individuals recommending a specific action for the Legislature and the Governor to initiate.

SUMMARY OF MAJOR FINDINGS AND
STATUS OF RECOMMENDATIONS BY REPORT

THE ROLE OF THE STATE DEPARTMENT OF EDUCATION IN CALIFORNIA'S K-12 PUBLIC EDUCATION SYSTEM

Total expenditures for K-12 education ($14 billion in the current fiscal year) are expected to be more than three times the amount of Medi-Cal expenditures. As the largest State program, accounting for one-third of all expenditures, even modest improvements in program efficiency offer a tremendous potential for fiscal savings or the redirection of resources. Additionally, the largest prospective savings must come from the improvement of local and regional operations since school districts account for about 93 percent of all K-12 expenditures and regional agencies including county offices of education comprise most of the remainder.

Although the primary objective of our schools is to educate, our Commission has concluded that there is insufficient accountability for the prudent and efficient use of school districts' enormous resources. The status of major recommendations which could materially improve the fiscal and managerial accountability of California's K-12 education system are discussed below by subject area.

Staffing

Findings

Our June 1982 report on K-12 education included the following findings on changes in school district staffing relative to the number of students between 1970-71 and 1979-80:

- Staffing increased by 29 percent, equivalent to an augmentation of about 81,000 employees (full-time equivalent).
- The salaries and benefits paid to these extra employees totalled about $1.4 billion annually.

On the basis of subsequent unaudited information from the State Department of Education, we estimate that there are currently about 60,000 extra nonteaching employees receiving a total of about $1 billion annually in salaries and benefits. Superintendent Honig has acknowledged that the tremendous growth in the number of nonteaching employees is "a major problem in California."[1/] Despite increased staffing and corresponding costs, the academic attainment of California's K-12 pupils has continued to decline.

Recommendation

Our Commission recommended that the Superintendent thoroughly study the reasons for increases in local staffing related to the growth of particular K-12 classroom and ancillary programs.

Action to Date

Senate Bill 813, enacted as the Hughes-Hart Educational Reform Act of 1983, implemented this recommendation by including a provision to establish the Commission on School Governance and Management (CSGM). The CSGM is charged with the responsibility of conducting specified studies and making its initial recommendations to the Legislature and the Governor by October 1, 1984. The CSGM is required, in part, to prepare "An evaluation of the growth of nonteaching school personnel over the past 12 years, an assessment of the reasons for the growth of, and the need for, personnel, and recommendations regarding ways for schools to increase efficiency in the management and use of nonteaching personnel." (See Education Code Section 33602.) If, as a result of this study, the total number of nonteaching employees could be reduced by only 10 percent through improving administrative efficiency and restructuring education programs, concomitant savings would exceed $200 million annually.

1/ Testimony in public hearing conducted by the Little Hoover Commission on February 24, 1983, in Los Angeles.

These potential savings are not ephemeral and may be realized through the deliberate implementation of locally developed plans. For example, the Los Angeles Unified School District has reduced its nonteaching managerial and quasi-managerial personnel by a total of about 500 positions since the 1978-79 school year with consequent on-going State and local savings of about $17 million annually in the 1983-84 year. Cumulative savings from this action will exceed $30 million by July 1, 1984.

Further Action Needed

Senate Bill 813 did not contain an appropriation for the work of the CSGM but only stipulated that the Superintendent should provide necessary staff support and information. Therefore, the effectiveness of the CSGM studies and recommendations is contingent on an appropriation for fiscal year 1984-85 or the redirection of necessary resources from the State Department of Education.

Our letter of November 30, 1983, to Superintendent Honig requested that he give the CSGM a high priority and that he detail the resources which he intends to make available to support the CSGM. According to the Superintendent, he will request a legislative appropriation of approximately $150,000 to support the initial work of the CSGM. Our Commission strongly encourages the Legislature and the Governor to appropriate the necessary funds.

Utilization of School Facilities

Findings

Through its numerous public hearings and reports on this subject, our Commission has given impetus to State- and locally-initiated efforts to assure that education funding is not wasted through the continued operation of underenrolled facilities.

Recommendation

Our Commission has recommended that the State Department of Education should initiate a study of all school facilities in the State to identify underutilized facilities which could be consolidated or closed for significant savings. At the very least, this recommendation requires that the Superintendent of Public Instruction initiate the following actions:

- Develop general criteria and guidelines for school districts to use in identifying underutilized schools;
- Develop an on-going data base and automated management information system to monitor local facility utilization; and
- Exercise greater leadership in disseminating technical assistance to local districts with severely underenrolled schools.

The Department's School Facilities Planning Unit staff has estimated that applications for pending school construction projects and additional school construction needs total $1.2 billion. In addition to these estimated construction requirements, districts are reported to need to acquire new sites for a total of about 9,500 acres at an estimated cost of $400 million.[2/] Therefore, we have also recommended that State Allocation Board review procedures be strengthened to assure that school districts which apply for construction funds are efficiently utilizing existing facilities to the maximum extent practicable.

Action to Date and Benefits

Senate Bill 813 partially implemented these recommendations. First, SB 813 requires the Department to report to the Legislature by March 1, 1984, on the feasibility of a management information system which would include site inventory, utilization, and maintenance data. This preliminary study

2/ Information recently updated in the Department's December 1983 "Report to the Infrastructure Review Task Force, Office of the Governor."

could be instrumental in the establishment of the State-level information system which we have recommended. Second, SB 813 strengthens controls intended to ensure the cost-effective use of schools by requiring proof that districts which apply for State construction funds after December 1, 1983, are getting the maximum use out of existing school facilities.

Our Commission's hearings and other studies have provided ample evidence of potential savings which should be expected if the improved controls accomplish their intended purpose. For example, a study prepared for the Office of the Legislative Analyst concluded that the closure of one-half of the Los Angeles Unified School District's underutilized schools would save about $8 million annually in operating costs. Additionally, the study found that the sale of these sites would provide a $50 million off-set against the $323 million which the district reported to be necessary for new construction and additions to reduce overcrowding.[3/] Although this study may be somewhat conservative in its estimate of possible savings since it is based on unaudited data provided by the district, it suggests that very large savings may yet be possible from an improvement in the facilities utilization practices of major school districts.

The Los Angeles Unified School District closed or converted a total of twelve underutilized schools in 1982 and 1983 for savings of approximately $1.4 million annually in 1983-84 net operating expenses. Since the school board decided in February 1984 to close five more schools and study thirteen more for possible closure, savings from more efficient utilization of facilities in this district may soon exceed $2 million annually.

The savings which will result from the controls which became effective December 1, 1983, and additional savings if the State implements the information system which we have recommended, are presently unknown but could

3/ The Study of the Los Angeles Unified School District, Volume II, pages B52 - B53, Clare Rose, Project Director, Evaluation and Training Institute, Los Angeles, CA, May 31, 1982.

- This backlog increases more than $100 million annually.
- Combined State and local capital outlay since 1980 have not been sufficient to reduce this dangerous backlog.

Recommendation

- The Board's "Guidelines of Typical Life Expectance of School Facilities' Components" should be reviewed since they may be optimistic and could result in underestimates of deferred maintenance needs.

Action to Date and Benefits

Although Senate Bill 813 provided for a continuous appropriation to the State School Deferred Maintenance Fund, it did not modify or require an examination of the adequacy of this funding.

Senate Bill 813 implemented our recommendation concerning school maintenance standards by requiring the Department to study and report to the Legislature by March 1, 1984, on the appropriateness of these standards.

Further Action Needed

The Legislature should examine the adequacy of its future funding to meet the immediate billion dollar deferred maintenance needs of school facilities. Although the institution of our Commission's recommendations to promote efficient utilization of local school facilities may provide substantial State savings which could offset some of the need for additional funds, historic funding for this program has not been adequate.

Administrative Oversight of School Districts

Findings

Commission studies have identified wide discrepancies in the adequacy of administrative and business practices of the more than 1,000 autonomous school

districts which annually spend billions of "local assistance" dollars. Our Commission found that although State funding for schools has increased drastically since the enactment of Proposition 13, necessary oversight has not increased commensurately to ensure program accountability.

Recommendations

- In order for the Superintendent of Public Instruction to effectively discharge his responsibility to promote the fiscal and performance accountability of schools, the Department should systematically develop, monitor, and publicly disclose measures of school district administrative and program costs, staffing, facilities utilization and maintenance, and student achievement to identify exceptional districts.
- The Superintendent should use performance and financial information as a basis for initiating such technical assistance, fact-finding, and management audits as he may deem appropriate.
- California Assessment Program testing should be expanded to evaluate student achievement at additional grade levels.
- The State Board of Education should establish basic standards for academic achievement.
- The Legislature should consider the merits of caps on local administrative expenditures and incentives to reward particularly effective and efficient school districts.

Action to Date and Benefits

Consistent with our recommendations in this area, SB 813 implemented the following measures:

- As previously indicated, a feasibility study which could lead to

implementation of a system to monitor the efficiency of local facility utilization.

- Expanded California Assessment Program testing to evaluate student achievement at additional grade levels.
- Administrative caps which require that at least 85 percent of specified categorical funds be spent on direct services for students.
- Established a program to award financial bonuses to high schools that demonstrate improved student performance on basic skills achievement tests (initial funding in 1984-85).
- Requires uniform statewide graduation standards in English, mathematics, science, social studies, fine arts and foreign languages by 1986-87.

Further Action Needed

The independent annual audits of school districts should be expanded and more thoroughly utilized to improve district management practices and reduce the incidence of insolvency. At our request, Assemblywoman Hughes has introduced AB 3755 which would require that these annual audits be expanded to provide an early warning when districts run the risk of fiscal insolvency in the following year.

In the next twelve months, Commission staff will determine whether the Department is making optimal use of financial and performance information to ensure the efficiency and effectiveness of school district programs. Additionally, the Superintendent of Public Instruction has acknowledged the need for a comprehensive approach to improved oversight of school districts. To this end, he has proposed the formation of a "School Financial Management Advisory Committee" to assist him in the implementation of our recommendations in this area.

Finally, our Commission believes that the State must develop practicable intervention strategies which may be applied on an exception basis to correct serious deficiencies in district financial management and program performance. In December 1982, then Superintendent-elect Honig stated that in certain extreme cases of district mismanagement the State might need to place districts in trusteeship or apply financial sanctions. We continue to urge the Superintendent to give high priority to this fundamental policy question concurrent with the development by his School Financial Management Advisory Committee of necessary measures of district efficiency.

Sanctions

Findings and Recommendations

The effectiveness of Commission recommendations to improve the State's administrative oversight of school districts is contingent in part on the availability of sanctions which we have recommended as sometimes necessary to enforce sound management practices. Our Commission has recommended that sanctions including suspension or revocation should be imposed against the administrative credentials of school officials who incompetently manage education resources or knowingly report false information concerning the costs, staffing, or results of any program.

Action to Date and Benefits

Assembly Bill 415 (Floyd, enacted as Chapter 854, 1983) partially implemented this recommendation by requiring the Commission on Teacher Credentialing to revoke the credential of any person who knowingly and willfully reports false fiscal expenditure data relative to the conduct of any educational program.

Further Action Needed

The Legislature could further strengthen the fiscal accountability of California's K-12 school system by authorizing the Superintendent to initiate hearings before the Commission on Teacher Credentialing to suspend or revoke local superintendents' administrative credentials when school districts cannot be certified by local CPA's as "going concerns" using national professional association standards for audits. These hearings would be based upon the rebutable presumption of administrative incompetency in cases of impending district insolvency.

HORSE RACING IN CALIFORNIA: REVENUE & REGULATION

In July 1982, our Commission reported its findings and recommendations concerning State revenues from horse racing and the adequacy of industry regulation exercised by the California Horse Racing Board. Pari-mutuel wagering which totalled $2.1 billion in each of the 1981 and 1982 racing years averaged about $120 per capita for every Californian over 17 years of age.

Since the horse racing industry is a licensed and taxed monopoly in California, it is essential that tax provisions strike an equitable balance between the industry's need for profitability and the State's need for derivitive revenues. Additionally, the State and the wagering public must be assured that the Board effectively regulates the industry according to its delegated responsibility and sound managerial practices.

Findings and Recommendations

Our report concluded that available information did not corroborate the industry's need for statutory changes in the distribution of horse racing revenues which became effective in 1981 and had the net effect of reducing the State's share of revenues from $.70 to $.47 for every dollar paid to racing associations (tracks) and horsemen. These changes cost the State an estimated $32 million in potential revenues in each of the 1981 and 1982 racing years. Our report therefore recommended legislative action to amend the horse racing law and restore a more equitable share of racing revenues to the State.

We also reported that the Board did not deposit State license fees on a timely basis, resulting in a loss of earnings, and did not administer uniform penalty guidelines to assure the equity of penalties assessed for racing infractions.

Subsequent to this report, a study prepared by Commission staff indicated that the State could moderately increase revenues from wagering not returned to bettors without causing an adverse reduction in the level of revenue-generating wagering activity.

Action to Date and Benefits

These Commission studies provided the catalyst for recommendations by the Governor's Efficiency Teams (GET) and three bills which contained provisions to increase State revenues from horse racing license fees. Assembly Bill 1428 (Brown) incorporated the GET proposal for statutory changes which would have increased State racing revenues by about $25 million annually. Assembly Bill 2058 (Wyman) would have increased State revenues by $31 million at the then current level of wagering. Although the relevant horse racing provision was ultimately deleted from the "tax loophole" bill (AB 1428), a similar provision was incorporated in the budget trailer bill (AB 223) which was approved as Chapter 323, Statutes of 1983. No legislative action was taken on AB 2058.

Chapter 323 increases 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.

As a result of recommendations made by our Commission, the Board states that it has improved the timeliness of its collections of State license fees from racing associations and has issued uniform penalty guidelines for the use of its stewards. Although the Board has not adopted the Monday collection day recommended in our report, its issuance and strict enforcement of a directive requiring Wednesday payments may have resulted in increased, indeterminate State interest earnings of up to $50,000 annually. Additionally, the Board's recently adopted penalty guidelines

will improve the fairness and deterrent value of civil penalties assessed for specific types of horse racing infractions.

Further Action Needed

We were not able to identify any administrative actions by the Board to monitor or improve the dispersal of charity racing revenues "as soon as practicable" after their collection as required by the Business and Professions Code (Section 19555, Chapter 4, Division 8). Although many racing associations make timely donations of their net profits from some race meets to charities in accordance with the State Racing Law, our July 1982 report (page 25) identified vagueness in the statutory language which permitted racing associations to inappropriately earn interest income on the tardy dispersal of charity monies. We reported that $676,000 charity race revenues collected by one Southern Thoroughbred Racing Association earned approximately $50,000 in interest over a nine-month period. Therefore, we recommended that the Board ensure the prompt payment of charity monies pending legislative clarification of existing statutory language. Since the Board has failed to act in this area, the Legislature should consider an appropriate clarification of this ambiguous statutory provision.

Further, if the Legislature chooses to indefinitely extend the provision of Chapter 323 which increases State revenue from exotic pari-mutuel wagering, additional revenue of approximately $10 million or more will recur annually.

OFFICE OF SPECIAL HEALTH CARE NEGOTIATIONS

Through the years, the continuing rise of health care costs in California has been a major concern of this Commission and has been the subject of several reports. Our leadership in making the State a prudent purchaser of hospital services under Medi-Cal was acknowledged by the former director of the Department of Health Services, Beverlee Myers, who stated that this Commission was the "earliest and most continuous supporter" of proposals for selective hospital contracting.[4/] Therefore, our Commission welcomed the Selective Provider Contracting Program and related reforms which were initiated by the provisions of AB 799 (Chapter 328, 1982) and SB 2012 (Chapter 1594, 1982). The first negotiated contracts for inpatient Medi-Cal services were effective on February 1, 1982.

Estimated month of payment savings as a result of competitive hospital contracting are about $14 million in fiscal year 1982-83, $180 million in 1983-84, and $236 million in 1984-85.[5/]

Findings

As a result of its analysis of relevant issues and two meetings with former Special Negotiator William Guy, our Commission issued a letter report in March 1983 concerning potential problems in the negotiation and implementation of contracts for the inpatient care of Medi-Cal beneficiaries.

Our Commission found that the requirement that all terms and conditions of virtually all hospital contracts must remain confidential created administrative problems and appeared to circumvent necessary public oversight.

Under the innovative system of hospital contracting, fiscal incentives encourage providers to reduce the cost of care or to find lower cost

4/ Public meeting of Commission, August 26, 1982.

5/ Report to the Legislature on the Operations of California Assistance Commission, January 1984, and communication from CMAC staff.

alternatives to high-cost procedures. While these incentives are expected to lead to hospital-initiated management controls, our Commission and the State Department of Health Services have observed that in extreme cases they could also lead to such abuses as skimming and dumping of patients with heavy care needs and underutilization of appropriate services.

Recommendation

Our report recommended that the enabling statutes should be amended to require that all of the contracts become part of the public record after all negotiations in an area have been completed. Additionally, we recommended thorough monitoring to ensure adequate client access to appropriate hospital services.

Action to Date and Benefits

Assembly Bill 1167 (Connelly) effectively implemented our recommendation concerning public disclosure by requiring that all contracts or amendments thereto entered into on or after January 1, 1984, for inpatient Medi-Cal services shall be open to inspection one year after they are executed. Additionally, if the California Medical Assistance Commission enters into contracts with health care providers for other than inpatient hospital services, these contracts are also required to be open to inspection one year after they are executed.

The Department has responded to identified potential abuses by expanding and augmenting its contract monitoring systems to assure hospital compliance with contract terms. Besides increasing its oversight of hospital compliance through expansion of the activities of its Audits and Investigation Division and the Licensing and Certification Division, the Department has added two special "Contract Officer's Medical Oversight Teams" to quickly

evaluate potential problems and has developed an "Incident Reporting System" to identify perceived problems relating to hospital contracting.

The Department's system of "incident" review and resolution is initiated by reports which can be filed by an individual (beneficiary, relative, nursing personnel, Medi-Cal field office staff, onsite reviewers, etc.) who observes a situation involving a contract hospital that seems inappropriate. Additionally, incident reports are completed by staff within the Department who receive complaints from beneficiaries and providers concerning contract hospitals.

Although the Incident Reporting System was only recently implemented and is still undergoing modifications, the Department has already found the system to be instrumental in providing its staff with accurate indications of how contract hospitals are complying with the requirements and conditions of their contracts and where areas of abuse or difficulty may exist. As of November 1, 1983, 393 incident reports were filed. While many of these reports were undergoing analysis or had been resolved as allowable "non-incidents," 13 reports were determined to indicate contract violations. In these instances, the Department sent warning letters which required corrective behavior of the affected contract facilities.

Further Action Needed

Our Commission considers the Department's incident reporting system to be a necessary and useful means to monitor problems which may develop under the State's Selective Provider Contracting Program. Therefore, we intend to periodically review information from this system in connection with any future Commission studies of health care services provided under the Medi-Cal program.

REVIEW OF COST SAVINGS ASSOCIATED WITH CONVERSION OF GUADALUPE COLLEGE INTO A WOMEN'S PRISON

During the past few years, California has enacted several new laws which have increased the number of people sentenced to prison and extended the length of time they remain incarcerated. However, these changes in the State's sentencing laws have not been accompanied by an equal expansion of the number of State correctional institutions. As a result, California today faces a significant problem of overcrowding in our prisons. Recent Department of Corrections' reports indicate that our institutions are currently at about 130 percent of their capacity. Furthermore, the criminal population is continuing to grow at a net increase of 400-500 inmates per month.

In response to this overcrowded condition in State prisons, the citizens of California approved Proposition 1 authorizing the sale of $495 million in bonds for new prison facilities. In addition to planning for the construction of new facilities, the Department of Corrections periodically investigates opportunities for the State to purchase existing facilities which are adaptable for use as correctional institutions.

In response to a legislative request, our Commission evaluated information on the feasibility and cost-benefits of the State purchasing Guadalupe College and converting it into a minimum security women's correctional institution. As part of our study, we also reviewed the Guadalupe College for other potential uses which could be beneficial to the State.

Findings and Recommendations

- The college is in excellent condition and is adaptable for use as a minimum security women's prison.

- If the purchase and conversion of the college were authorized in lieu of a planned facility in Stockton, the State could save an estimated $9.8 million in prison bond funds.
- The college could possibly be converted for use sooner than the Stockton facility could be built.
- The college appears adaptable for other potential State use such as an instructional institution.
- Since it is not the role of this Commission to decide what properties the State should purchase, our issue and cost analysis was intended only to provide direction should the Legislature choose to authorize this purchase.

Action to Date and Benefits

Subsequent to our March 1983 report on the subject, Assemblyman Art Agnos introduced a bill authorizing the Department of Corrections to purchase Guadalupe College for use as a minimum security women's prison. This bill was later withdrawn by the author.

Further Action Needed

None required.

REVIEW OF THE DEPARTMENT OF TRANSPORTATION'S HIGHWAY PLANNING AND DEVELOPMENT PROCESS

In June 1983, our Commission released its report on the State Department of Transportation's highway planning and development process. This study was undertaken because of concern expressed by legislators, local government officials, and others that the Department has historically been unable to produce expected projects as originally conceived and scheduled. These delays have also affected local transportation needs that depend on State highway projects.

Our study examined State highway financing, the planning of improvements, and the scheduling and budgeting of projects through the Department's State Transportation Improvement Program. Attention was also given to highway maintenance which protects the public's multi-billion dollar investment in the 15,200-mile State highway system which carrys about 87 billion vehicle miles annually.

The most significant findings from this study and the status of corresponding recommendations are summarized below.

Ten-Year Highway Systems Plan

Findings and Recommendations

Our report observed that the lack of a State highway systems plan results in undue emphasis on individual projects rather than the priority needs of the whole system. We recommended that the Department, in cooperation with other appropriate agencies, should develop a 10-year highway systems plan.

Action to Date and Benefits

The Department has established a new unit within its Division of Transportation Planning to develop a systemwide identification and

prioritization of projects. If the Department completes this plan by December 1984 as it intends, the plan will play a central role in legislative consideration of highway revenue measures and investment decisions in 1985.

To ensure that there is legislative input to this process, Assemblyman William Lancaster recently introduced Assembly Concurrent Resolution 110. This measure would request the Department of Transportation to submit a status report to the Legislature by August 31, 1984, on its highway system planning process and to submit a final draft report on October 15, 1984, in order for the Legislature to have sufficient opportunity to review and comment on the highway system planning effort while work is in progress.

Further Action Needed

None required.

Standby Projects

Findings and Recommendations

We found that the Department does not have an inventory of approved "shelf" projects that would be ready to go to bid when there are major delays in projects underway, or changes in policies or revenues. We therefore recommended the development of a proposal to determine the requirements, costs, and impacts of creating this comprehensive inventory.

Action to Date and Benefits

Although both the Department and the California Transportation Commission have reservations about implementing this recommendation on a high priority basis, the Department has taken an initial step by recently retaining the firm of Arthur Young and Company to assist in the improvement of its project development process. This study would begin to address issues including the need for an inventory of standby projects.

Further Action Needed

None required.

Life Cycle Costs

Findings and Recommendations

Our study found that the Department does not systematically consider estimates of life cycle costs when it decides to undertake new highway projects or improvements to existing highways. We recommended that the Department examine the feasibility of introducing these estimates to make informed investment decisions and to develop adequate information concerning the long-range maintenance and reconstruction needs of our highway system.

Action to Date and Benefits

The Department currently engages in limited trade-off cost analyses but agrees that full life cycle costs are very important and informed us that it will be expanding its "efforts" in this area. Due to a lack of specificity in the Department's response, we are not currently able to assess the extent to which it will implement this recommendation.

Further Action Needed

Our Commission will continue to monitor the Department's implementation of this recommendation.

Maintenance Priorities

Findings and Recommendations

We recommended that the Department should review its criteria for prioritizing pavement rehabilitation projects because it assigned more than $300 million worth of major structural repair needs to a lower priority than that assigned to improve structurally sound pavements with an "unacceptable ride."

Action to Date and Benefits

No action.

Further Action Needed

Although the Department is reluctant to re-examine its established method for prioritization, in part because it believes that increased funding for this program will virtually eliminate the current backlog of repairs in five years, we would urge the Department to avail itself of the California Transportation Commission's expressed offer to work with the Department in reviewing and improving its prioritization system.

Environmental Review Process

Findings and Recommendations

In order to speed up highway project development while at the same time assuring adequate consideration of the environment, our study recommended that the Legislature and the Administration should seek Federal legislation that would sanction the State environmental process as acceptable in lieu of the Federal process.

Action to Date and Benefits

Since no provision exists for delegating environmental approvals to the State, the Department is attempting to implement the intent of this recommendation by the alternative approach of soliciting Federal legislation to expand Certification Acceptance under Title 23 of the Federal Highway Administration Code so that it applies to the National Environmental Quality Act (NEPA). Acceptance of a certificate by the Secretary of Transportation permits a state to discharge those responsibilities otherwise assigned to the Secretary under Title 23. Thus, the addition of NEPA to those responsibilities already covered by the Certificate Acceptance process would enable the Department to approve NEPA environmental documents.

Further Action Needed

Assembly Joint Resolution Number 64, introduced by Assemblyman Lancaster on June 15, 1983, would memorialize the President and Congress to enact this legislation. If AJR 64 clears both houses of the California Legislature by March 1984, Congress will have an opportunity to consider it early in the upcoming session which commenced January 23, 1984.

User-Beneficiary Participation in Financing

Findings and Recommendations

Our Commission reported that California needs a broader user-based highway financing mechanism in order to meet priority needs despite fluctuating highway construction costs, gallonage tax revenues which are not commensurate with increases in highway travel, and restrictive criteria for Federal funding. Among user-related sources of revenue that are worthy of examination, we suggested weight-distance fees for commercial trucks and contributions from local sources for improvements to State highways which are of benefit to specific communities.

Action to Date and Benefits

The California Transportation Commission has devoted considerable time in the last six months to analyzing this issue. It reports that it has recently adopted a policy for private sector and local government participation in the financing of guideway development and is working towards achieveing a consensus with the Department and regional agencies early this year.

Additionally, Assemblywoman Gwen Moore has introduced Assembly Concurrent Resolution Number 109 which requests the Department of Transportation to conduct a highway cost allocation study and to report to the Legislature by January 1, 1985, its findings concerning the respective cost responsibilities

of automobiles, buses, and the various classes of trucks which use State highways. The Department would also be requested to report to the Legislature by April 1, 1985, its findings with respect to an evaluation of alternative taxes to meet the cost responsibilities of the classes of motor vehicles.

Further Action Needed

Legislation to implement the final version of the California Transportation Commission's policy on this matter subject to amendment after April 1985 if ACR 109 study recommendations so warrant.

Allocation Formula

Findings and Recommendations

Our report recommended that the Legislature, the Department, and the California Transportation Commission should find an alternative to the "county minimum" requirement in order to better allocate highway revenues to projects which are most critical to the achievement of systemwide transportation objectives. California's county minimum requirement mandates that at least 70 percent of the funds in each county group must be distributed according to a formula based on population and highway miles. The remaining 30 percent of the funds may be allocated at the discretion of the Transportation Commission.

Action to Date and Benefits

Both the Transportation Commission and the Department agree with our recommendation for reform of the current allocation formula. The Transportation Commission has informed our Commission that any reform could include either a reduction in the total number of individual guarantees (from the 58 county minimum to a lesser number of multi-county minimums), a reduction in the percentage of total expenditures subject to the county minimum formula

(from the current 70 percent to a lesser percentage), or the identification of circumstances of statewide significance under which these requirements could be suspended.

Further Action Needed

Currently, there are no pending bills to implement this reform.

THE BUREAUCRACY OF CARE - CONTINUING POLICY ISSUES FOR NURSING HOME SERVICES AND REGULATION

The Little Hoover Commission has had a long-standing interest in nursing home issues. Since 1976, we have conducted several public hearings on conditions in these facilities. In October 1982, the Commission again conducted a public hearing which documented that many nursing home residents were being subjected to substandard conditions, neglect, and physical and sexual abuse. The Commission concluded that the system for licensing nursing homes and monitoring conditions in these facilities lacked the strength necessary to eliminate the most severe problems.

In response to these continuing problems, the Commission appointed a Blue Ribbon Advisory Committee chaired by Lieutenant Governor Leo T. McCarthy and represented by the Assembly and Senate policy committee chairs responsible for aging issues, the State Department of Health Services, the legal profession, consumer groups, the State Ombudsman, academia, the California Nurses Association, and the nursing home industry itself.

This Advisory Committee invested hundreds of hours assisting the Commission's expert consultants in collecting extensive information and contacting scores of individuals, analyzing eighteen different nursing home policy issues, and developing over 80 detailed recommendations for the Legislature and the Administration to implement.

Findings and Recommendations

The Commission's report, entitled "The Bureaucracy of Care," was released in August 1983 and concluded that more needs to be done to protect the 105,000 frail and elderly individuals living in California's 1,170 nursing homes. The report details findings and recommendations in the following areas:

- Changes in inspection procedures,
- Greater statutory rights for complainants,
- Increased fines for violations,
- Criminal penalties for abuse or neglect,
- An information service for consumers,
- Ease restraints on the supply of available beds,
- Prohibit discrimination against Medi-Cal recipients, and
- Study the need for a ceiling on profits realized by care providers.

Action to Date and Benefits

Although it would be premature to anticipate the specific benefits of this recent study, it is already evident that it will have extensive impact on the licensing and certification of nursing homes. The State Department of Health Services either supports or is neutral on 75 of this report's 83 recommendations. Moreover, virtually all of the 35 recommendations which require legislative action were introduced this January in a bipartisan reform package (Senate Bills 1340 through 1347 and Assembly Bills 2257 through 2265). Assemblyman Wyman and Senator Carpenter each have also introduced legislative packages the provisions of which incorporate certain Commission recommendations.

Among other things, the legislation currently proposed includes:

- Increasing fines for violations,
- Varying inspection periods and make them less predictable,
- Prohibiting discrimination against patients on Medi-Cal,
- Expanding the State's "Ombudsman" program that hears complaints of nursing home conditions,
- Prohibiting retaliation by nursing homes against patients who complain or have relatives who complain about treatment, and

- Allowing patients or relatives to file cases in municipal or small claims courts.

Further Action Needed

The Commission intends to continue monitoring implementation of the recommendations.

CONTRACTING OUT OF GOVERNMENTAL SERVICES

At the request of Assemblyman Mike Roos, Majority Floor Leader, our Commission conducted a review of Los Angeles County's program for contracting out governmental services. We analyzed and updated information originally prepared by the Los Angeles County Grand Jury, clarified issues, and made recommendations concerning contracting activities specifically authorized by the County's Proposition A in 1978.

County contracting programs which shift governmental services to the private sector should be carefully studied to ensure that participating State funds are being well spent and also to make observations which would be relevant if the State itself were to consider contracting out certain services in the future.

As part of our review process, we conducted a hearing in Los Angeles in conjunction with the Assembly Committee on Governmental Organization. The hearing received testimony from the project manager of the Grand Jury study, representatives of labor unions, and executive staff of the Los Angeles County Chief Administrative Office.

Findings

Our Commission, in conjunction with the Assembly Committee on Government Organization, reported that contracting out of services could reduce governmental operating costs but should be approached with caution because anticipated savings might be achieved only at considerable cost to the public work force. Specifically, we found that:

- Estimated cost savings were historically overstated because the County included savings from non-Proposition A contracts and committed various methodological errors.

- determine the effectiveness of County affirmative action programs to encourage minority contractors' participation in the contracting out program;
- evaluate the effects on minority public employees; and
- evaluate contractor performance trends.

Action to Date and Benefits

Too soon to evaluate.

Further Action Needed

Continue to monitor program and review any subsequent evaluation.

COMMUNITY RESIDENTIAL CARE IN CALIFORNIA - COMMUNITY CARE AS A LONG TERM CARE SERVICE

California has 22,000 community care facilities which are State- or county-licensed to provide living arrangements for approximately 150,000 individuals who are subject to some condition that makes independent living impossible or undesirable. These homes provide supervised shelter, meals including special diets, personal care as needed, housekeeping services, and bedside care during periods of minor illnesses. Although some residents are not ambulatory, they do not require such high levels of medical supervision as residents of intermediate care or skilled nursing facilities.

In addition to conducting public hearings and making unannounced visits to facilities, our Commission sponsored three all-day workshops in which we brought government officials, facility operators, residents and family members, local enforcement officials, and consumer advocates together to work with our commissioners, staff and project consultant to develop recommendations to solve identified problems. Our study and workshops focused on the adequacy of services, protection and funding for the elderly, developmentally disabled, and mentally disabled residents of community care facilities.

Findings

The Commission's December 1983 report, entitled "Community Residential Care in California," documented numerous instances of abuse and neglect of facility residents. Other findings included the following:

- The number of unlicensed community care facilities appears to be increasing, thereby posing a danger for unsuspecting clients.
- In the existing community care system, facilities are licensed but certification of administrators is not mandated by State law.

Additionally, the system for screening individuals applying for facility licenses is inadequate.

- Information systems do not adequately monitor facilities and residents or assist consumers.
- Edlerly residents are particularly subject to abuse because they are rarely monitored by outsiders.
- Current investigative resources are inadequate in number, expertise, and geographic allocation.

Recommendations (Not a complete listing)

- Clarify the definition of unlicensed facilities and create a citation system, similar to traffic tickets, to assist in taking action against them.
- Increase fines for licensing violations and triple the fines for repeat offenders.
- Establish an automated licensee information system.
- Establish an Ombudsman Foundation to recruit and train volunteers to monitor residents.
- Implement a case management system for the elderly and mentally disabled client groups.
- Implement a pilot project for cluster administration of small facilities.
- Encourage private action against abusive facilities by allowing recovery of legal fees through attachment of administrators' property.

Action to Date and Benefits

The State Department of Social Services, Licensing and Certification Division, has acknowledged the validity and anticipated usefulness of the major recommendations in this report. Eleven bills have been introduced in the Legislature that implement certain recommendations. Additionally, the Chair of the Senate Subcommittee on Aging and the Assenbly Committee on Human Services have each pledged to conduct hearings on the report's recommendations.

Further Action Needed

Monitor implementation of recommendations.

A STUDY OF THE ORGANIZATION AND COORDINATION OF ELECTRIC ENERGY PLANNING & ELECTRIC UTILITY REGULATION IN CALIFORNIA

In 1974, the State created the California Energy Commission to address such energy issues as conservation, development of alternative energy sources, assessments of energy needs, and the siting of new power plants. At the same time, the California Public Utilities Commission (PUC) has continued to fulfill its responsibilities in regulating utilities.

Critics have charged that the Energy Commission and the PUC have failed to coordinate effectively, resulting in inefficiencies and diseconomies for both organizations, the public, and the regulated utilities. Although the electrical energy planning and regulatory activities of these Commissions are not supported by general fund money, their work affects literally billions of dollars paid annually by electrical energy ratepayers including the State of California.

Findings and Recommendations

Our study determined that there is virtually no linkage between the development of State electrical energy policy, as conducted by the Energy Commission, and the implementation of policy through the PUC's rate-setting process. Recommendations include the following:

- Communication and coordination between the highest levels of the Energy Commission and the PUC must be improved by establishing formal structures and procedures for mutual participation.
- Duplication between the two Commissions in the areas of bad management, forecasting, and research and development should be eliminated.
- The PUC should determine and express in advance a policy construct for each of the major cases it considers.

- The Energy Commission's Biennial Report must be improved to be more responsive to PUC needs. Additionally, the report should outline recommendations that are sufficiently specific to facilitate their implementation and evaluation.
- The number of PUC Commissioners should be increased from five to seven to permit greater personal involvement in all phases of PUC business.

Action to Date and Benefits

On February 8, our report was the subject of a joint legislative hearing conducted by the Assembly Utilities and Commerce and the Senate Energy and Public Utilities committees. This hearing provided assistance in establishing legislative priorities for the implementation of specific recommendations.

Legislative and administrative adoption of specific recommendations presented in this report will streamline certain government operations and reduce operating costs, create a more coherent approach to energy issues, reduce the cost to utilities which must respond to State regulatory agencies, and help ensure that future electrical energy rate increases are minimized.

Further Action Needed

Monitor implementation of recommendations.

STATE OF CALIFORNIA GEORGE DEUKMEJIAN, Governor

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