

## 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 60 reports on a wide variety of government programs resulting in savings of hundreds of millions of dollars. Additionally, many recommendations have resulted in important but less tangible benefits such as increased program accountability and responsiveness to public needs.

The purpose of this biennial report is to summarize the findings and status of principal recommendations from reports issued from February 1984 to February 1986. 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 accountability of California's K-12 education system, regulation of nursing homes and of community residential care, state employee air travel, the management of toxic waste programs, the regulation of pesticide residues in food products, the organization and management of State telecommunications, improved detection and enforcement of the deterrence of California's underground economy, the imposition of impact fees for financing school facilities construction, and government activities which compete with private enterprise. 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.

During the last two years, the Commission's recommendations have resulted in two major economic benefits to the State of California. Specifically, there have been or will be within the next year at least \$65 million per year of increased revenues and cost savings to the State resulting from the implementation of our recommendations from only two studies. First, our recommendation for the State to contract directly with a major air carrier for State employees travel is producing \$5 million in savings annually. Second, recommendations we presented and which are being implemented through the 1986-87 budget will expand audit penetration to combat the underground economy and generate at least \$60 million in new tax revenues.

An additional benefit, and in many ways the most important result of our recommendations, has been the improved health, safety, and quality of life for millions of Californians by preliminary reforms in the management of State toxics program, the enhancement of current laws regarding agricultural pest control, and the continued reform of the

State's regulation of the nursing home industry. Collectively, these critical areas touch the lives of millions of people in our State.

Below is a brief description of the Commission's major activities from February 1984 to February 1986.

#### K-12 Public Education

Two years ago, we indicated that the landmark Hughes-Hart Educational Reform Act of 1983 embraced various remedial recommendations of our Commission including (1) a required analysis of the increase in local non-teaching employees and potential duplication of functions between education agencies (2) new incentives and controls to promote the cost-effective utilization of school facilities (3) more adequate maintenance of schools and (4) uniform graduation requirements. Subsequent to the Education Reform Act, our Commission has taken further action to increase accountability in the K-12 public education system through two major reforms. First, the Commission sponsored legislation which establishes an "early warning" reporting system to identify local education agencies which are financially precarious and verge on insolvency. Second, we successfully advocated the enactment of legislation to create a master inventory system to monitor the use of school facilities to ensure their efficient utilization.

#### Nursing Homes

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. The Legislature responded to our report immediately. A bipartisan package of bills, referred to as the Nursing Home Patients Protection Act, was introduced. After a hard-fought battle, the final elements of this legislation were enacted in March of 1985. Collectively, the landmark reforms have strengthened the licensing and enforcement system and resulted in substantial increases in the number of citations issued, fines levied, and licenses revoked.

#### Community Residential Care

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. The 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, our Commission sponsored 16 bills implementing our report recommendations which were enacted into law.

#### State Employee Air Travel

Partially as a result of our Commission's report on State Employee Air Travel, the Department of General Services has awarded State contracts to airlines for discounted rates on major State employee travel routes. These contracts are currently resulting in approximately \$5 million per year in savings to the State.

### A Review of the Organization and Management of the State "Superfund" Program for Cleaning Up Hazardous Waste Sites

In July 1984, our Commission reported on the State "Superfund" program for cleaning up hazardous waste sites. In order to accelerate the identification and clean up of Superfund sites and improve the organization and management of the program, the Commission developed over 30 detailed reforms and actions.

In response to the report, four bills sponsored and supported by the Commission were enacted into law, and two additional measures have been introduced this session. Although the Governor and the Legislature have each proposed plans for reorganizing toxic programs, all attempts have failed to date. Our Commission strongly believes that politics must be put aside and action taken to reorganize these programs and centralize accountability.

### Control of Pesticide Residues in Food Products

In March 1985, our Commission reported on the State's programs to regulate pesticide residues in food and water. The Commission made more than 40 recommendations which could result in improvements and efficiencies in the management of these regulatory programs. Based on these recommendations, our Commission sponsored three bills in 1985 to implement the report recommendations. Two of these bills were signed into law. These bills transfer the responsibility for monitoring residues in raw agricultural produce grown in California from the Department of Health Services to the California Department of Food and Agriculture and authorize county agricultural commissioners to levy a civil penalty against a person who violates pest control provisions.

### A Review of the Organization and Management of State Telecommunications

In April 1985, our Commission released a report on the management of the State's telecommunication system. We found that since deregulation of the telecommunication industry and divestiture of AT&T, the State has not developed the organization and management system necessary to manage its \$250 million asset. Therefore, the State is missing productivity gains and the opportunity to offset rising expenditures by at least 20 percent or \$50 million. Our report contained 39 recommendations which included the reorganization of existing and central telecommunications and data processing activities into a Department of Telecommunications and Information Technology. Last year, Assembly Bill 808 was introduced which would establish a new Department of Telecommunications and Information Technology. However, AB 808 was held over to permit further discussion during the interim period on how the bill could achieve the objectives of the author, our Commission, and the Administration.

## A Review of Selected Taxing and Enforcing Agency Programs to Control the Underground Economy

The purpose of our Commission's study on the underground economy was to identify ways the State can be more effective in deterring these activities through improved detection and enforcement. During our review, we determined that the underground economy accounts for up to \$40 billion in otherwise legal business transactions without any taxes being paid to the State resulting in a loss of more than \$2 billion in taxes.

Based, in part, on the results of our study on the underground economy, the Governor has responded by authorizing the Franchise Tax Board and Board of Equalization a staff increase of 174 person years which is expected to generate \$60 million in additional revenues at a cost of \$7 million. Additionally, the Legislature has requested and our Commission is in the process of conducting a study of the benefits that might be derived from a major reorganization of the State's revenue and taxing agencies.

### Impact Fees for School Construction Finance

In December 1985, our Commission released a letter-report focusing on impact fees imposed on developers by local government. Our Commission proposed that the Legislature authorize benefit assessment districts to finance the local costs of school construction and enact standards for defining overcrowding. Our letter report is currently being reviewed by both the Department of Finance and the Governor's Office. We urge action this year by both the Governor and the Legislature.

### Government Competition with the Private Sector

In January 1986, our Commission released a report on government activities which may compete with private enterprise which determined whether there was a significant number of unauthorized competitive activities by State agencies. Our analysis of government activities which were perceived as being competitive with the private sector found that each reported case was in fact authorized by statute. Therefore, we concluded that it is unlikely that any State agency is currently engaged in unauthorized business activities.