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COMMISSION ON CALIFORNIA STATE GOVERNMENT ORGANIZATION AND ECONOMY

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Assemblyman

RICHARD C. MAHAN
Executive Director



BIENNIAL REPORT

FEBRUARY 1984-86

**A SUMMARY OF ACTIVITIES
AND STATUS OF RECOMMENDATIONS**



MAY 1986

BIENNIAL REPORT

FEBRUARY 1984-86

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

MAY 1986

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May 1986

The Honorable George Deukmejian
Governor of California

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

The Honorable James Nielsen
Senate Minority Floor Leader

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

The Honorable Patrick Nolan
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 Biennial Report: February 1984 to February 1986. The purpose of this Biennial Report is to summarize the findings and status of principal recommendations from reports issued during the past two-year period. 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 200 recommendations included in the 10 subject areas. For this reason, the original reports may provide additional information relative to your consideration of any specific recommendation.

Specifically, this Biennial Report includes information on the status of recommendations concerning accountability in California's K-12 education system, regulation of nursing home services, regulation of community residential care facilities, savings available in the procurement of 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, the enforcement of California's underground economy, the use of impact fees for financing school facilities construction, and government activities which compete with private enterprise.

During the past two years, the Commission has fought aggressively for the implementation of our recommendations. We have sponsored and supported more than 50 legislative bills of which more than 50 percent have been enacted. This year, we are sponsoring and supporting more than 15 bills which would implement further Commission recommendations. We earnestly solicit your support in enacting these reforms which will result in necessary improvements to State programs, substantial cost savings and new revenues, and consequent benefits to all Californians.

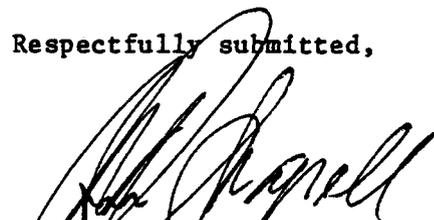
Additionally, we would like to focus your attention to the State's toxics and telecommunications programs--two key areas where immediate gubernatorial and legislative support is essential. Specifically, we have recommended that the Governor and the Legislature reorganize the Superfund management to centralize authority, establish accountability, and improve coordination. The potential and real health risk from exposure to toxic waste is a critical danger to our citizens. Consequently, our Commission strongly believes that immediate action is imperative.

The second area that the Commission would like to stress is the management of the State's telecommunications program. Without implementation of the Commission's recommendations, the State is missing productivity gains and the opportunity to offset telecommunication costs by at least \$50 million annually.

As previously stated, this report discusses the status of past reports, accomplishments to date, and actions still required. These studies have already led to millions of dollars in cost savings and new revenues for California taxpayers. Our work, of course, is not limited to these subjects, but will also focus on upcoming reports. As this report was being prepared, our Commission was releasing its latest report on the State's management of real property which identifies opportunities for hundreds of millions of dollars in new revenues. Additionally, the Commission during the next 30 days will release its report on the cash management practices of State revenue and taxing agencies which will outline detailed recommendations which would increase State revenues by more than \$130 million over three years.

We encourage the Administration and the Legislature to review carefully the recommendations outlined in all of these reports and act upon them immediately.

Respectfully submitted,



NATHAN SHAPPELL, Chairman
James M. Bouskos, Vice Chairman
Senator Alfred Alquist
Mary Anne Chalker
Albert Gersten, Jr.
Haig Mardikian
Senator Milton Marks
Assemblywoman Gwen Moore
Lester Oshea
Abraham Spiegel
Jean Kindy Walker
Assemblyman Phillip D. Wyman

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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 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.

of its extensive studies. Otherwise, assistance is sometimes provided by other State or legislative agencies such as the State Controller, the Auditor General, and the Legislative Analyst.

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 studies.

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 the Biennial Report

The purpose of this Biennial 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 organization and/or individuals recommending a specific action for the Legislature and the Governor to initiate.

CHAPTER II

SUMMARY OF MAJOR FINDINGS AND STATUS OF RECOMMENDATIONS BY REPORT

K-12 PUBLIC EDUCATION

For more than a decade, our Commission has conducted numerous public hearings and prepared analyses, reports, and recommendations to improve the quality and economy of K-12 public education. Since K-12 education currently accounts for approximately \$17 billion in annual expenditures, and nearly 70 percent of this amount consists of State funding, it is apparent that even modest improvements in program efficiency offer an enormous potential for State fiscal savings or the redirection of resources. However, the largest prospective savings are dependent upon improvements in local and regional programs still governed by school boards and boards of supervisors despite the significantly diminished role of local funding since the enactment of Proposition 13 in 1978. Consequently, the State's financial participation and interest has significantly increased while the operational responsibility has remained at the local level.

Findings and Recommendations

Historically, our Commission has identified for legislative and administrative action the diseconomies of under-utilized school facilities, inadequate maintenance of schools, annual costs of \$1 billion or more associated with increased staffing relative to the number of K-12 students since 1970, and a myriad of other problems.

In general, our Commission's 1982-83 Annual Report: A Summary of Activities and Status of Recommendations summarizes our specific recommendations and achievements through 1983 resulting in the improved fiscal and performance accountability of local education agencies. For example, we reported that our Commission has been a catalyst stimulating critical local review of unneeded school facilities. In the Los Angeles Unified School District alone, documented savings from the closure of 20 schools exceed \$2 million annually. Additionally, we reported that the landmark Hughes-Hart Educational Reform Act of 1983 (SB 813) successfully implemented a number of our major recommendations. The breadth and utility of some of these and various K-12 education recommendations of our Commission were candidly acknowledged by Superintendent of Public Instruction Bill Honig when he testified in 1983 that he intended to incorporate them as elements of his reform program.

Action to Date and Benefits

Subsequent to the enactment of SB 813, our Commission worked to increase accountability in the K-12 public education system by initiating or taking further action on the following items:

- o At the request of our Commission, Assemblywoman Teresa Hughes introduced a bill (AB 2743) to provide for the development and implementation of an automated school facilities inventory

essential to efficiently plan, prioritize, allocate, and control future State expenditures of billions of dollars for new school construction, deferred maintenance, and rehabilitation. Enacted as Chapter 1680, statutes of 1984, the bill gives the State Allocation Board primary responsibility for the development and maintenance of the system, and reappropriates funds for this purpose from the State school Building Lease Purchase Fund.

- o Additionally, at our request, Assemblywoman Hughes introduced AB 3755 in 1984 to establish an "early warning system" to identify local education agencies which are financially precarious and verge on insolvency. According to annual financial audits, for example, approximately 150 school districts were operating at risk of insolvency with budgeted reserves equivalent to only 2 percent or less of their budgeted general funds. Although AB 3755 was vetoed by the Governor, Assemblywoman Hughes introduced AB 1366 in 1985 to accomplish the same early warning purpose through an alternative means of requiring and utilizing submission of interim financial budgetary reports to school boards. The latter bill was enacted as Chapter 741, statutes of 1985, to permit local governing boards, the Superintendent of Public Instruction, and the State Controller to assist financially-troubled school districts and county offices of education to avoid the need for emergency State loans.

Further Action Needed

- o Although the now defunct Commission on School Governance and Management was established to study several topics including two of particular interest to our Commission--the increase in non-teaching personnel in the K-12 public schools which has occurred since 1970, and regionalization of education services--it did not offer any independent observations on the first topic and only superficially addressed the second of these topics. Therefore, our Commission believes that there is a need for further action in this area.
- o Additionally, based upon expert testimony received at our most recent hearing on K-12 education, our Commission concludes that the deferred maintenance of school facilities has not been adequately funded since at least 1980 and may currently exceed \$2 billion.
- o Our Commission believes that considerable benefits may be derived from objective studies of the following three topics: (1) the increase in non-teaching staff in K-12 public schools, (2) possible regionalization of County Offices of Education, and (3) the adequacy of the State's program for addressing school facilities' maintenance needs. However, we further believe that if a study of the regionalization of county offices is undertaken, it should also include an analysis of possible educational benefits and economies from the consolidation of small school districts.

NURSING HOME SERVICES AND REGULATIONS

The Little Hoover Commission's most significant achievement during the past two years has been a total overhaul of the system that regulates the nursing home industry.

In October 1982, our Commission made surprise visits to several nursing homes in California, and conducted an exhaustive public hearing that 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 lacked the strength necessary to eliminate the most severe problems. In summary, although most nursing homes may provide adequate or excellent care, government had all but forgotten thousands of frail elderly who are particularly vulnerable to the abuse and exploitation found in many very bad facilities.

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 over 80 findings and recommendations in the following areas:

- o changes in inspection procedures,
- o greater statutory rights for complainants,
- o increased fines for violations,
- o increased criminal penalties for willful and repeated violators,
- o an information service for consumers,
- o easing of restraints on the supply of available beds,
- o prohibition of discrimination against Medi-Cal recipients, and
- o a study of the need for a ceiling on profits realized by care providers.

Action to Date and Benefits

The Legislature responded to our report immediately. Under the guidance of the Lieutenant Governor, a bipartisan package of bills, referred to as the Nursing Home Patients Protection Act (NHPPA), was introduced in the Legislature. Simultaneously, support for the package

of bills was solicited and resulted in over 100 statewide organizations and senior groups endorsing the NHPPA. After a hard fought battle, the final elements of this landmark legislation were enacted in March of 1985. Collectively, the reforms have strengthened the licensing and enforcement system where it had been far too weak.

Attachment A of this report is a summary of the Commission legislative recommendations, prior provisions of law, and changes under the new laws.

Listed below are a few highlights from that summary and the results of the implementation of that statute where appropriate.

1. A new Class "AA" category was created establishing penalties from \$5,000 to \$25,000 where the facility is responsible for the death of a resident. (As of December 31, 1985, 32 "AA" citations have been issued to facilities which have resulted in assessments of \$777,000).
2. The maximum fine for Class "A" violations was increased from \$5,000 to \$10,000. The range of fines for Class "B" citations were increased from \$50-\$250 to \$100-\$1,000. (In 1985, there were 54% more citations, 282% more fines, and 100% more facility licenses revoked).
3. Complainants and their representatives now have the right to participate in citation review conferences which were previously limited to representatives of facilities and the department.
4. Consumers are now able to call a toll-free number and obtain current information on the records of facilities near them.
5. The practice of evicting nursing residents who have exhausted their private funds is now illegal.
6. Fines for nursing homes who retaliate against residents or employees for filing complaints has been increased from a maximum level of \$500 to \$10,000.
7. New categories of violations for willfully falsifying and omitting information on medical records were created with a maximum penalty of \$10,000.
8. Commission staff appeared before the budget subcommittees and were successful in augmenting the department's budget by \$200,000 to enable the department to conduct surprise off-hour and weekend inspections. With 33% of the 1985-86 fiscal year elapsed, the department has conducted 750 off-hour inspections.

Further Action Needed

In January 1986, the Commission held a follow-up hearing to determine whether the new laws have been fully implemented and to identify what results and improvements there have been to date.

The Commission plans to continue to monitor the implementation of the reform legislation to ensure that nothing is done to misinterpret or undo our original intent and to identify any areas requiring corrective action.

COMMUNITY RESIDENTIAL CARE IN CALIFORNIA

In December of 1983, our Commission issued a report describing the living conditions in community care facilities throughout California which provide "non-medical" residential care to 151,000 children or adults unable to live without care or supervision.

During the months in which we conducted our investigation, our Commission made unannounced visits to community care facilities and received extensive testimony on numerous other facilities guilty of subjecting their residents to severe abuse, neglect, and generally unhealthy and uncaring conditions.

Conditions such as these make it unthinkable and immoral for government to allow such facilities to operate, let alone place individuals into them. Yet, the Commission found that these facilities have continued to operate, and thousands of residents have continued to be subjected to these horrors. Moreover, where the State had taken action against some very bad facilities by taking away their licenses, many of them have continued to operate without a license.

Our Commission, in addition to conducting public hearings, held three all-day workshops in which we brought both elected and appointed governmental officials, facility operators, residents and family members, local enforcement officials and consumer advocates together to work with our commissioners, staff and project consultant towards the objective of developing new approaches and recommendations to solve the problems.

To improve the system for providing community care to residents of these facilities and to ensure that the State adequately protects these individuals, the Little Hoover Commission developed over thirty detailed recommendations for legislative reform, reorganization of certain State functions, operational improvements, and sources of new revenue to support certain activities. Included in our recommendations were the following:

1. Integrate community residential care into the long term care system. Coordinate policy development, coordinate the definition of services, and extend case management services to the elderly and the mentally disabled.
2. Create an automated licensee information system.
3. Structure coordination of enforcement activities.
4. Clarify definition of unlicensed facilities and create a citation system similar to traffic tickets, to assist in taking action against them.
5. Increase fines for licensing violations; triple the fines in cases of repeat violators.
6. Require all licensees to be bonded.

7. Authorize Community Care Licensing (CCL) to place a facility in receivership.
8. Establish a "crisis team" within CCL to step in and operate extremely bad facilities temporarily.
9. Impose an annual licensing fee to support increased monitoring.
10. Authorize the establishment of Ombudsman Foundation.
11. Information systems need to be improved so that placement agencies do not place individuals into unlicensed facilities or facilities with a history of poor compliance.
12. Applicants for licensure should be required to know what the State regulations require.

Action to Date and Benefits

During the 1984 and 1985 legislative sessions, our Commission sponsored 16 bills implementing our report recommendations which were enacted into law. Among the provisions included in these bills were the following:

- o Requires the Department of Social Services to establish an automated license information system on licensees and former licensees of community care facilities to maintain a record of any information that would be pertinent to licensure (AB 3474 - Wyman, Chapter 1524 - Statutes of 1984)
- o Requires every licensed community care facility, at the request of a majority of its residents, to assist its residents in establishing a residential-oriented facility council. Failure to respond to residents request results in the facility being made subject to administrative fine. (AB 3589 - Mojonier; Chapter 1272 - Statutes of 1984)
- o Requires the Office of the State Long-Term Care Ombudsman to establish a 24-hour, toll free, telephone hotline to respond to crises discovered in either a long-term health facility or a licensed community care facility. (AB 3662 - Filante; Chapter 1623 - Statutes of 1984)

Further Action Needed

The Commission plans to continue to monitor the implementation of the reform legislation to ensure that nothing is done to misinterpret or unravel the original intent and to identify any areas requiring corrective action.

STATE EMPLOYEE AIR TRAVEL

Each year, the State spends over \$21 million on airline tickets for State employees to travel throughout California and to other states on official business. The busiest routes are from Sacramento to Los Angeles, Orange County, and San Diego; and from San Francisco to Los Angeles.

Between 1980 and 1984, our Commission dedicated portions of several public hearings and conducted additional outside research on various ways in which the State could reduce the cost of State air travel. We analyzed alternatives such as: (1) the State chartering its own aircraft for major commuter trips; (2) the State obtaining travel agent status to become eligible for commissions; (3) contracting directly with the major air carriers for discount air fares; and (4) contracting out the air travel management responsibilities, including negotiating air fares, to a private travel agency. We conducted our research of these alternatives by reviewing reports and statistics on State travel, receiving testimony at public hearings, and meeting with airline and travel industry executives.

Findings and Recommendations

We concluded that the State should, through a competitive bid process, obtain discounted air fares for State air travel. We also concluded that State utilization of a major travel agency offered the best opportunity to obtain air fares and additional services. These additional services would enable the State to better manage its overall travel activities, control costs, and hold State departments accountable for efficient travel practices. Moreover, a private travel agency would provide these services at no direct cost to the State since the agencies receive their income through airline commissions.

We recommended that the Department of General Services carefully analyze the direct and indirect costs and benefits the State would receive from contracting out travel services to a private travel agency.

Action to Date and Benefits

Based upon the same considerations and potential savings discussed in our letter-report, the Department of General Services in January 1984 released a Request For Proposals (RFP) to airlines soliciting discounted rates on major State employee travel routes. This resulted in the award of State contracts to a number of airlines providing discounted air fares for official business trips between specified cities. To date, these discounted air fares have saved the State approximately \$5 million in each of the first two years.

Additionally, in March 1984 the Department released an RFP for travel services required for authorized State travel. A contract for specified service was subsequently awarded to Cardillo Travel Systems, Inc., and was continued through June 30, 1985.

In his review of centralized travel services, the Director of the Department concluded that this arrangement did not satisfy departments which prefer more flexibility in making transportation arrangements to meet "mission requirements." Therefore, he elected to not solicit an RFP for centralized travel services in the 1985-86 fiscal year. Instead, he directed that individual departments provide the Department of General Services with specific air travel data for 1985-86 which would be the basis for negotiating discount air fares in 1986.

Further Action Needed

The State should continue to explore opportunities for future savings for authorized employee air travel. This should include considerations of potential savings which might be possible through a reinstated, regionalized travel service with programs more carefully designed to meet the needs of individual departments.

A REVIEW OF THE ORGANIZATION AND MANAGEMENT OF THE STATE "SUPERFUND"
PROGRAM FOR CLEANING UP HAZARDOUS WASTE SITES

California was the first state to recognize the dangers resulting from the indiscriminate dumping of hazardous wastes. In 1972, the State Legislature enacted the Hazardous Waste Control Act followed nine years later by the establishment of the State "Superfund" program--a ten year \$100 million program managed by the Department of Health Services to clean up California's most hazardous toxic dumps.

However, California's progressiveness in identifying the dangers of toxic waste was followed by years of failures in regulating the disposal of hazardous wastes and cleaning up our toxic dumps. Because the State continued to fail to adequately protect the public from harmful effects of hazardous waste in November 1983 our Commission initiated a major study of the California "Superfund" program. The objectives of the study were to develop findings and recommendations which would (1) accelerate the identification and analysis of abandoned dump sites; (2) remove obstacles that have prevented the State from cleaning up the superfund sites; (3) protect citizens who live near toxic dump sites; and (4) prevent the creation of new superfund sites.

Findings

The Commission's findings include the following:

- o The potential and real health risks from exposure to toxic waste is a critical danger to our citizens. There is a growing body of evidence indicating that exposure to chemicals can lead to specific health problems. Moreover, our precious groundwater resources are being contaminated which may spread the exposure well beyond the immediate boundaries of a toxic dump site.
- o The Department of Health Services (DHS) cannot accurately predict the cost of cleaning up the hundreds of toxic waste sites in California because it has not systematically assessed the magnitude of the problem.
- o The DHS is underestimating the number of sites which will require clean up under the State Superfund.
- o The system for ranking State Superfund sites attempts to be unrealistically precise and in fact is not. This results in constant and misleading changes in clean up priorities.
- o The DHS has no policies (1) for notifying residents about potential health hazards near toxic dumpsites; (2) to guide decisions on when and how to deal with site security; (3) to guide decisions on when to evacuate residents; (4) for determining the extent to which a site should be cleaned up; and (5) to force action by responsible parties and trigger Superfund expenditures.
- o The Superfund program receives inadequate attention, support, and priority within the Department of Health Services.

- o There have been major delays and inefficiencies in hiring staff.
- o The DHS has failed to develop an effective and efficient process for awarding and monitoring Superfund contracts.
- o The DHS has failed to provide important information to residents living near toxic dump sites.
- o There is inadequate coordination among State, federal, and local agencies in the clean up of contaminated sites.
- o The State Superfund is seriously underfunded; yet the Commission has serious concerns about using general obligation bonds to generate revenues to pay for clean up of toxic dump sites.
- o Existing legal and regulatory tools have not been effective to pay for the clean-up of Superfund sites.
- o The cost of cleaning up a Superfund site ranges from 10 to 100 times greater than the cost of properly operating and safeguarding these sites.
- o California's existing regulatory program is not adequate for preventing the creation of new Superfund sites.

Recommendations

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 under the following six major areas of recommendation:

1. The Governor and the Legislature should create an Office of Superfund Management within the Governor's Office to centralize authority, establish accountability, and improve coordination. The Office would exist for two years while major reorganization proposals are considered and evaluated.
2. The Governor and the Legislature should immediately double the resources available to clean up toxic dumps. The Legislature and Administration should determine the percentage of clean up costs to be borne by the general taxpayer prior to developing any long-term financing for Superfund.
3. The Director of the DHS should create a special task force to resolve serious management and administrative problems.
4. The Legislature should enact new legal procedures to accelerate the collection of funds from responsible parties.
5. The Legislature should require that all existing hazardous waste facilities meet the requirements and standards of new facilities.

6. The Legislature should require the DHS to develop regulations prohibiting the land disposal of hazardous wastes which present serious risks to human health and the environment.

Action to Date and Benefits

Since the Commission's report was issued, we have worked to promote the implementation of the recommendations through the sponsorship and support of the following legislative measures.

- o Senate Bill 1465 (Lockyer) Chapter 376, statutes of 1984. Provided for the issuance of \$100 million in 30-year general obligation bonds to be used for clean up of abandoned sites, and increased the State Superfund from \$10 million to \$15 million.
- o Assembly Bill 3121 (Filante) Chapter 1460, statutes of 1984. Created the Hazardous Substance Clean-up Financing Authority and authorized the authority to issue up to \$100 million in revenue bonds, notes, and other indebtedness to assist participating indebtedness to assist participating parties in financing remedial actions for release of hazardous substances.
- o Senate Bill 1465 (Lockyer) Chapter 376, statutes of 1984. Established a Hazardous Substance Clean-up Arbitration Panel to negotiate clean-up agreements and apportion costs.
- o Assembly Bill 3566 (Katz and Tanner) Chapter 1543, statutes of 1984. Prohibited the discharge of wastes into surface impoundments after January 1, 1989 unless the impoundment is double-lined and equipped with a leachable collection system and groundwater monitoring is conducted. This legislation also prohibited the discharge of any restricted waste into any surface impoundment after January 1, 1985 and prohibited the use of surface impoundments after June 30, 1988.
- o Senate Bill 972 (Nielsen) Required the Department of Health Services to establish an Abandoned Site Program and complete an initial survey in counties where surveys have not been completed.

Reorganization

In addition to the above legislative activity, we have supported budget changes for increased staffing as well as conducting our statutory review of formal documents outlining reorganizations of the management of the toxic programs.

Last year, the Governor proposed a comprehensive reorganization plan which was rejected by the Legislature because of contentions that it would weaken several existing laws concerning contaminated water. In August 1985, the Governor offered a revision to his plan. It would create an independent cabinet level Department of Waste Management consolidating the Toxic Substances Control Division, the Waste Management Board, and some of the functions of the Water Boards. This proposal was passed by the Senate, but did not obtain Assembly approval

last session. When the Legislature reconvened in January, the Assembly voted to reject the Governor's proposals and instead passed Senate Bill 1048 authored by Senator Torres. The major difference between the two bills involved the authority of an appointed part-time, 13-member, statewide Commission which would advise the Director of the new Department of Waste Management. In the Governor's proposal, the Commission would advise the Director on the new Department, but could be overruled by him or her. In Senate Bill 1048, the Commission would have appeal powers to overrule the Director. Although this bill passed in both houses of the Legislature, it was ultimately vetoed.

Although, we have seen some actual improvements and have been encouraged by the Administration's reports of intent to take action to correct major areas of problems, we have not yet seen documented measurable accomplishments.

Further Action

Last year, Senator Roberti authored Senate Bill 470 which would have prohibited, after January 1, 1990, the use of any land disposal method for the disposal of any hazardous waste which has not been treated and rendered non-hazardous. Though this legislation was vetoed by the Governor, it has been reintroduced by Senator Roberti as Senate Bill 1500 for the 1986 session. Additionally, Assembly Bill 2132 has been introduced by Assembly members Connelly and Stirling to amend the liability provisions in the State Superfund law so that they conform more fully to those in the Federal Superfund Law.

Additionally, there are two measures concerning reorganization that are active. The first is Assembly Bill 650 authored by Assemblywoman Sally Tamer. The reorganization portion of this bill was rejected by the Assembly, and therefore, the bill is in the conference committee. However, the reorganization portion of the bill was amended into the second active measure, AB 2048 authored by Assemblyman Filante. Additionally, Senator Rebecca Morgan has authored a conceptual proposal for reorganization.

Unfortunately, partisan politics has been and continues to be a very negative force in resolving the toxics dilemma. We continue to believe that a reorganization plan must be implemented immediately. Therefore, Commission staff will work closely with legislative members and the Administration to ensure the fullest possible implementation of our recommendations including the passage of Senate Bill 1500 and Assembly Bill 2132, and the reorganization of the State toxics program.

CONTROL OF PESTICIDE RESIDUES IN FOOD PRODUCTS

In March 1985, our Commission reported on our major study of the State's programs to regulate pesticide residues in food and water. The study was undertaken in part because our Commission, through an earlier study of State toxic programs, had become aware of the potential dangers from letting toxic substances in our environment go undetected. The scope of our study was also designed to be responsive to a request we had received from members of the Legislature to conduct a study of pesticide regulatory programs as managed by the Department of Food and Agriculture.

The State of California in fiscal year 1984-85 spent more than \$22 million to register pesticides, monitor and enforce their use, monitor the environment, and oversee certain aspects of related worker health and safety. It was the objective of our study to determine how effective the Departments of Food and Agriculture (CDFA) and Health Services (DHS) are in fulfilling their responsibilities including the protection of public health. Additionally, our Commission evaluated the operations of these programs to identify opportunities for improved efficiencies and associated cost savings.

During the course of our study, the Commission conducted public hearings in Los Angeles and Sacramento; interviewed in excess of 70 government and industry officials and experts in the field; attended major conferences and seminars on pesticide issues; and conducted extensive research and analysis.

Findings and Recommendations

Our study revealed that the great uncertainties in science, as well as inadequate information regarding how, when, and by whom pesticides are used, prevent government regulators from making perfect regulatory decisions in all cases. We also learned, on the other hand, that to the extent scientific assumptions are correct and pesticide use is reported, the California program of pesticide regulation is in many ways excellent in comparison to other states.

Nevertheless, our Commission developed more than 40 recommendations which could result in important improvements and increased efficiencies in the management of these regulatory programs. These recommendations include the following:

- o the Legislature should amend current law to expand enforcement sanctions against agricultural pest control operators to parallel those to which structural pest control operators are subject;
- o the responsibility for monitoring residues in raw agricultural produce destined for processing should be transferred from the Department of Health Services (DHS) to the California Department of Food and Agriculture (CDFA);
- o the CDFA should implement a pesticide-based monitoring program to supplement its crop-based deterrence program;

- o the Legislature should specify that no pesticide which is applied directly to water be registered in California until DHS has set an "action level" for it;
- o the CDFA should begin work on selecting criteria to identify the "pesticides of greatest concern" and integrate the priority pesticides with program management priorities already established;
- o the CDFA should automate its pesticide toxicological data files and establish data sharing networks between other State departments, the EPA, and other states;
- o the Legislature and the Governor should authorize the establishment of an Office of Pesticide Ombudsman within the CDFA's Pest Management Division; and
- o current law should be amended to specify that the contribution from the Agriculture Fund shall equal the General Fund contribution to support pesticide regulation.

Action to Date and Benefits

Our Commission sponsored three bills in 1985 to implement our report recommendations. Two of these bills (AB 1397 and AB 1614) were passed by the Legislature and signed into law.

AB 1397 (Chapter 1285, Statutes of 1985) authored by Assemblyman Bill Jones implements our recommendation to transfer responsibility for monitoring residues in raw agricultural produce grown in California which is destined for processing plants from the Department of Health Services to the California Department of Food and Agriculture.

AB 1614 (Chapter 943, Statutes of 1985) authored by Assemblyman Sam Farr authorizes county agricultural commissioners to levy a civil penalty of not more than \$500 for each violation against a person who violates provisions relating to pest control operations.

The third, (AB 1837) which was vetoed, was authored by Assemblyman Davis and would have prohibited any pesticide which is applied directly to water--such as rice field herbicides from being registered in California until the Department of Health Services has set an "action level" (an advisory trigger for enforcement action).

Further Action Needed

We anticipate that our report recommendations not yet implemented will provide the basis for significant legislative and administrative reforms to be initiated in 1986. At the time of this writing, our Commission has recently received a formal response from the Administration to our 1985 report on Pesticide Regulation. The response indicated agreement with the vast majority of our recommendations. Additionally, Commission staff will work closely with legislative members during the 1986 session to increase pesticide registration fees from the statutory limitation of \$40 to a maximum of \$300.

A REVIEW OF THE ORGANIZATION AND MANAGEMENT OF STATE TELECOMMUNICATIONS

In April 1985, our Commission released a report culminating a nine-month study designed to determine how well prepared the State is to efficiently implement a strategy which would take advantage of available cost-saving improvements made possible by significant changes in the telecommunications environment. The study was undertaken for three reasons. First, State telecommunications resources and expenditures are substantial. In fiscal year 1985-86, the State will spend at least \$130 million on telecommunications; in actuality, the figure probably approaches \$250 million when more appropriate accounting definitions are used. Second, deregulation of the telephone industry and divestiture of AT&T changed virtually all the rules regarding the management of this major asset. Finally, technological advancements in recent years have greatly increased the range of alternatives for information management available to organizations like the State of California.

Findings and Recommendations

Our Commission concluded that since deregulation of the telecommunications industry and divestiture of AT&T, the State has not developed the organization and management system necessary to actively manage its quarter of a billion dollar asset. As a result, the State is missing productivity gains and the opportunity to offset rising telecommunications expenditures and costs by at least 20 percent or \$50 million annually.

We reported that corporations such as Bank of America, Hewlett-Packard, and Boeing Aircraft as well as states of New York, Pennsylvania, Washington, and many others have responded to the post-divestiture environment by developing strategic plans based upon thorough assessment of their telecommunication needs. California, on the other hand, has done very little to date to develop the organization, commit the resources, and develop the plans necessary to respond to the new demands placed upon it since divestiture occurred.

The Commission report presented 15 findings and 39 recommendations in the areas of planning, operations, evaluation, and the organization of telecommunications responsibilities. Our principal recommendations include the following:

- o The State should reorganize existing and central telecommunications and data processing activities and supervision into a new Department of Telecommunications and Information Technology which should be the center of policy development and representation before regulatory bodies;
- o However, if a new Department of Telecommunications and Information Technology is not organized, then at a minimum, the functions of the Office of Telecommunications and the Office of Information Technology should be consolidated within an existing department and accountable to the same departmental director;

- o A thorough strategic and tactical plan for each user agency and department should be developed to identify the role of information management in the user's programs and assess needs for telecommunications and information technology to utilize information management in a productive, efficient manner;
- o The Office of Telecommunications should undertake a thorough assessment of the State's staff capabilities in telecommunications management, and define appropriate classifications, user management structures, salary ranges and the viability of exempt positions for acquiring resident telecommunications expertise; and

Action to Date and Benefits

Based upon her own legislative hearings and in anticipation of the results of our report, Assemblywoman Gwen Moore introduced AB 808 which would establish a Department of Telecommunications and Information Management. Additionally, the new department could serve as a catalyst to coordinate implementation of the many other recommendations our Commission made to improve the management of California's telecommunications systems. Assembly Bill 808 was held over as a two-year bill at the request of the author in order to permit fuller discussion during the interim period on how the final form of the bill could best achieve the mutual objectives of the author, our Commission, and the Administration. To this end, Commission representatives have participated in ongoing discussions with these parties since November 1985.

Concurrently, Commission staff are analyzing the detailed responses of the Department of General Services' Telecommunications division to our specific report recommendations in order to determine appropriate administrative legislative changes which may be undertaken in 1986. However, based on a cursory review of the response, it appears that the Department of General Services has confused the facts in developing its argument against the creation of a Department of Telecommunications and Information Management.

As stated in our report, small percentage savings in telecommunications expenditures will generate tens of millions of dollars in quantifiable savings. Corporations which have implemented many of the reforms we recommend in this report have experienced 20 percent savings in their telecommunications expenditures. Our view that \$50 million could be saved is conservative. Experts have estimated the savings for the State could approach \$100 million annually.

Further Action Needed

It is imperative that the Administration implement the reforms presented in our report including the creation of the Department of Telecommunications and Information Management. Therefore, the Commission will continue to sponsor legislative change such as AB 808 to provide the \$50 million to \$100 million in available savings.

A REVIEW OF SELECTED TAXING AND ENFORCING AGENCIES' PROGRAMS TO CONTROL THE UNDERGROUND ECONOMY

In response to a request by Governor Deukmejian, our Commission initiated a major study of California's underground economy to identify ways the State can be more effective in deterring these activities through improved detection and enforcement.

There are many ways that the underground economy operates in California and throughout the country. It certainly includes criminal activities such as drugs, gambling, and prostitution where billions of dollars change hands illegally without taxation. The Commission's study, however, focused on the largest segment of the underground economy which involves self-employed persons and employers and employees who pay or receive cash for work performed or for goods sold without withholding proper income, payroll, or sales taxes, and without filing the appropriate reports to the various taxing agencies.

These activities each year account for up to \$40 billion in otherwise legal business transactions in California without a single dime of taxes being paid to the State government. Experts estimate that California loses more than \$2 billion each year in income taxes alone because our taxation and enforcement system is unable to catch these tax cheaters.

During this study, we reviewed the activities of five State agencies: (1) the Department of Industrial Relations, which is responsible for protecting the workforce; (2) the Employment Development Department, which has various responsibilities for employee planning, placement and training, as well as for collecting employment and withholding State income taxes and paying unemployment insurance benefits; (3) the Franchise Tax Board, which administers the personal income tax and the bank and corporation tax laws; (4) the Board of Equalization, which administers a number of programs including the sales and use tax; and (5) the Contractors' State License Board, which tests, licenses and regulates contractors.

Because of the unique problems associated with detecting and enforcing laws designed to prevent the underground economy, our Commission appointed a Blue Ribbon Study Advisory Committee to provide valuable insights and guidance on this study. Virtually all knowledgeable parties were represented including the Chairmen of the Senate Committee on Industrial Relations and Assembly Committee on Labor and Employment, the directors of the various State taxing and regulatory agencies, the U.S. Internal Revenue Service, management and employer organizations, employee and union organizations, attorneys specializing in labor and taxation, and a partner of an international accounting firm.

Findings and Recommendations

In general, our Commission's August 1985 report on this subject concluded that the State can and must do much more to deter the growth

of the underground economy and eliminate its activity in many areas. Among the Commission's 22 specific findings are the following:

- o Currently available State information is not adequately used to stop the underground economy and agencies are not identifying and using new sources of information;
- o Although audits have about a ten-to-one benefit to cost ratio, auditor staffing in some agencies has decreased while collection backlogs have more than doubled in the last four years and now exceed \$1 billion;
- o The Department of Industrial Relations' staff have not been adequately trained in methods to reconstruct how extensive certain past cash-pay violations were;
- o State agencies are not sufficiently pursuing criminal penalties which would increase deterrence and are not using cross-agency penalties which would help maximize deterrence and recoveries; and
- o Lack of a single revenue and taxing agency contributes to many of the above stated problems, and results in conflicting or dissimilar objectives which limit the overall effectiveness of State enforcement activities aimed at the underground economy. Additionally, multiple tax and enforcement agencies result in some level of duplication.

To improve the organization, management, and efficiency of the various State taxing and enforcing agencies' programs to control the underground economy, our study reported 20 recommendations which include the following:

- o The Governor and the Legislature should consider reorganizing some or all State taxation responsibilities; the level of reorganization should be based upon a detailed study by a team of multi-disciplinary experts;
- o Until reorganization occurs, the Governor and the Legislature should establish a Multi-Agency Task Force to conduct well-publicized audits and investigations of blatant tax and cash-pay violations;
- o A standing committee of all appropriate agencies should be established to continuously study opportunities for sharing information, identifying new sources of information, improving formats, and eliminating obstacles which prevent the sharing of information;
- o The Governor and the Legislature should re-evaluate the staffing levels needed by audit investigative and enforcement units, and, where cost-beneficial, increase levels;
- o The level of prosecutions should be increased and convictions actively publicized;

- o The Governor and the Legislature should authorize a graduated penalty system to provide more severe penalties for repeat violators; and
- o The State should amend current statutes to require that any contracts using any form of State monies be awarded based upon criteria that includes an assessment of the contractor's past compliance with tax and labor laws, particularly cash-pay related statutes.

Action to Date and Benefits

Based largely on the results of our study of the underground economy, the Governor has responded to requests from the Board of Equalization and Franchise Tax Board for additional auditors and investigators to combat the underground economy by authorizing the following increases in the 1986-87 budget:

- o 60.8 additional positions for the Board of Equalization which is expected to produce a \$8,339,692 net increase in annual revenues to the State.
- o 114 positions including 56 auditors and 30 tax compliance representatives for the Franchise Tax Board with estimated net revenue of \$45 million.

Additionally, Assemblyman Bill Leonard requested that our Commission conduct a study of the benefits which might be derived from a major reorganization of the State's revenue and taxing agencies. One of these benefits would certainly be more effective State control of the cash-pay transactions of the underground economy as we reported. Consequently, last year the Legislature augmented and the Governor approved an additional \$150,000 to our Commission budget so that we could contract with a qualified consulting firm to conduct this study on behalf of the Commission during fiscal year 1985-86.

On October 1, 1985, our Commission issued a Request for Proposal to conduct this study and subsequently selected the international accounting and consulting firm of Peat, Marwick, and Mitchell as the successful bidder. Field work on this project commenced in December and our Commission has appointed an assisting blue ribbon advisory committee made up of the principal agencies involved in the study as well as certain individuals from the private sector.

Concurrently, legislative policy committees have evidenced considerable interest in our report recommendations. Specifically, the Assembly Committee on Revenue and Taxation conducted a November 19, 1985 hearing to consider our findings and recommendations on the subject of how the organization of State taxing agencies affects tax enforcement and control of the underground economy. Similarly, the Assembly Committee on Labor and Employment met on December 5, 1985 to consider the need for new legislation in this area. During the first two months of 1986, the Commission has sponsored the following three legislative measures:

- o AB 3060 (Hannigan) would establish a Multi-Agency Strike Force to conduct audits, investigations, and prosecutions of blatant State tax violations and unreported cash pay violations. (This bill also includes other provisions which the Commission is not sponsoring).
- o AB 2757 (Floyd) would authorize the Director of Employment Development to permit the use of any information in his possession to enable the Division of Labor Standards Enforcement to seek criminal, civil, or administrative remedies.
- o AB 3916 (Floyd) increases fines for employer violations.

Further Action Needed

Besides directing the critical study now underway on the potential reorganization of State revenue and taxing agencies, Commission staff will work closely with legislative members and the Administration to ensure the fullest possible implementation of our specific recommendations.

IMPACT FEES FOR SCHOOL CONSTRUCTION FINANCE

In December 1985, our Commission released a letter-report on certain issues of school construction finance with particular focus on impact fees imposed on developers by local government. Specifically, "impact fees", also called "mitigation fees" or "exactions" are any fee, contribution of improvements, or dedication of land which cities, counties, or special districts may require of developers as a condition to subdivide land. Our letter-report focused on the use of these fees as a source of local revenue to finance school facilities although they may also be used to finance other infrastructure needs.

Findings and Recommendations

In general, we concluded that the current approach of financing school facilities is systematically inequitable, inadequately coordinated with State programs, fertile ground for arbitrary determinations, and lacking in essential elements of accountability. Specifically, our study found the following:

- o A multi-billion dollar shortfall in school construction funding, outdated facility standards, and constraints in acquiring temporary facilities appear to have contributed to increased use of impact fees.
- o State and local planning for needed schools are not adequately coordinated to ensure overall economy.
- o Impact fees are an expedient but inherently inequitable and problematic means of raising local revenues for schools.
- o Current statutes are not adequately explicit regarding impact fees. As a result, there are not standard methods or guidelines for determining impact fees.
- o Reporting and auditing requirements of impact fees are insufficient to ensure accountability.

To improve accountability in the funding of school facilities, the Commission developed seven recommendations including the following:

- o The Legislature should consider enacting legislation which would authorize benefit assessment districts to finance the local costs of school construction.
- o The Legislature should enact a specific standard for defining "overcrowding" and a model procedure for determining impact fees on a regional- or county-wide basis.

Further Action Needed

We anticipate that our letter-report recommendations not yet implemented, will provide the basis for legislative and/or administrative reforms to be initiated in 1986. At the time of this

writing, our Commission had not yet received the State Allocation Board or the Governor's Office's formal response on how it plans to implement those specific recommendations which do not require new legislation. In addition, we are awaiting comment from the State Controller regarding our recommendations that the State Controller should include specific compliance audit guidelines. However, our letter-report is currently being reviewed by both the Department of Finance and the Governor's Office.

GOVERNMENT COMPETITION WITH PRIVATE ENTERPRISE

In January 1986, our Commission released a letter-report on government competition with private enterprise to determine whether there was a significant number of unauthorized competitive activities by State agencies. Additionally, the Commission also followed up on various allegations concerning the competitive practices of local government agencies identified through correspondence with legislators or through our Commission's hearing process.

Findings and Recommendations

The Commission's survey and analysis of State and local governmental activities which were perceived as being competitive with private enterprise found that each reported case was in fact authorized by statute. Based upon the Commission's survey of State activities, we concluded that it is unlikely that any State agency is currently engaged in unauthorized business activities.

COMMISSION ON CALIFORNIA STATE GOVERNMENT ORGANIZATION AND ECONOMY

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