

Tim Gage Remarks
Little Hoover Commission
Bond Oversight Hearing
September 25, 2008

You have asked me to address how the state could improve its oversight of how bond money is allocated at the legislative level and how bond money is spent by the administering agencies and departments.

Because I have not been directly involved in state government since I left the Department of Finance in January of 2003, I am somewhat removed from the state's recent efforts to improve accountability in the expenditure of bond funds. Nevertheless, I am happy to provide you with my perspective.

As I am sure other speakers will describe, because of the wide variety of programs and departments responsible for the expenditure of bond funds, there likely is no single formula for success. Hopefully, however, there are likely lessons that can be taken from the best practices of various state departments.

In thinking about this question, it is important (as your question of me implies) to distinguish between how bond funds are allocated (i.e., which projects) versus how they are spent (i.e., did we get our money's worth?) and to focus on these questions separately.

Allocation of Bond Funds

In my view, there are three basic allocation approaches:

- Bonds where the projects are spelled out in the bond measure to a significant extent, such as portions of some park bonds

In this instance, the voters have made the allocation decision.

- Bonds where funds are provided through an existing allocation mechanism, such as K-12 school facilities bonds, where the existing State Allocation Board process determines which projects are provided funding.

Where the existing process is working appropriately, there is no good reason to take the allocation process away from the State Allocation Board or, to cite another example, the California Transportation Commission. This is not to say that there are no improvements that perhaps could be made to those processes, but I am not sufficiently familiar with them to offer you recommendations today.

- Bonds where the allocation criteria in the bond measure are general in nature or the bond measure allocates funds to a new program.

Where the voters only define broadly the type of projects for which the bond funds are to be used, the Legislature must appropriate the funds to specific projects. The Legislative Analyst has previously recommended that the Legislature adopt specific criteria for the selection of specific projects, such as which projects will provide the greatest long-term benefits, cost effectiveness and whether the state's funding leverages funding from other sources.

Another critical role the Legislature plays is that of allocating infrastructure costs among governmental entities. In other words, what is the appropriate level of responsibility the state should have compared to local government with respect to supporting capital projects. Currently, for example, the cost of new school facilities is generally shared equally between the state and local school districts, with some exceptions for hardship, etc.

Expenditure of Bond Funds

With respect to the issue of ensuring that bond funds are spent appropriately and that taxpayers are getting their money's worth, I believe that the practices outlined in the Governor's January 2007 executive order are steps in the right direction. However, I believe additional steps can be taken.

First, I consider myself fairly knowledgeable about state government and yet was not easily able to locate the state's bond accountability website. I believe that voters and taxpayers broadly have little information about the services the state provides and the value that these services bring to their lives. We must all do a better job, not simply in improving the cost effectiveness of state services, but of educating voters about what the state does. In this respect, I believe it is worth considering the establishment of something along the lines of the bond oversight commission the State Controller and State Treasurer proposed last year.

An entity such as this would provide an opportunity to ensure better accountability, but equally important provide an avenue for public information and education. In this instance, accountability would include communicating more effectively with the public about what bond funds are spent for.

A second step that could be taken is for both a bond oversight commission and the Legislature to use the information provided by departments regarding the status of bond expenditures by holding oversight hearings. These hearings would provide an opportunity to showcase successful implementation efforts and to impose accountability on less successful programs or departments.

Bond Debt Service

Lastly, you asked me to address the impact of bond debt service on the overall state budget and whether it limits policymakers' funding allocation choices. The short answer is yes, but that is too simple a statement.

There is no question that a dollar spent on debt service is a dollar that cannot be spent on other state programs. According to the Legislative Analyst, debt service will be the fastest growing major program in the budget over the next five years – projected to grow at a 10.8 percent average annual rate.

But given California's pressing needs for new schools, roads, and other public facilities, we can ill afford not making the investment in infrastructure that the voters have approved. Where this takes us is a conversation about the sort of California we want to have and whether we are willing to pay for it.