

**Little Hoover Commission  
Hearing on Bond Oversight  
September 25, 2008**

**Testimony by Bill Lockyer  
California State Treasurer**

**INTRODUCTION**

California has a substantial need for infrastructure that will be funded largely by the issuance of bonds. California's voters in November 2006 approved \$42.7 in bonds to finance the construction of schools, roads, parks and other infrastructure. Their investment was unprecedented in California history.

We in government owe it to the public to provide strong, independent oversight of infrastructure bond spending. We have an obligation to give citizens access to information that will assure them their money is spent wisely, efficiently and in a way that provides the greatest benefit to communities across California.

In doing so, we can give the people confidence that we, as the stewards of their money, are making prudent investments and protecting the public purse.

**ACCOUNTABILITY**

What do we mean by accountability? Is it that we choose the best projects to accomplish our public policy goals? We believe that those are policy and priority decisions that properly belong to the Legislature and the Executive.

Or is it that, once a project is chosen, we deliver it in a cost-effective and timely manner? That is the kind of accountability we were talking about last year when my office and the State Controller's Office proposed the creation of an independent citizens' oversight commission to track the progress of projects funded by the voter-approved 2006 infrastructure bonds. Our goal was to make it possible for ordinary Californians to judge for themselves how well or poorly the state puts to work the money they approved, and have confidence in the information they receive to make that assessment. Neither the Legislature nor the Governor has yet seen fit to approve the creation of such a commission.

## **Governor's Executive Order**

In Executive Order S-02-07, the Governor set forth a three-pronged approach to provide bond spending accountability: front end, in-progress and follow-up.

On the front end, the Order requires agencies to create a strategic plan with performance standards for projects prior to the expenditure of funds. All projects, grants, loans or other expenditures of bond proceeds must be consistent with the criteria and processes contained in this strategic plan. Front-end accountability also requires departments to prepare and make available to the public a list of all projects, grants, loans or other activities funded from bond proceeds.

The Department of Finance (DOF) established a web site containing the accountability information for the Strategic Growth Plan bond package approved in November 2006. A review of this web site provides the focus of my testimony regarding the progress that has been made implementing the Governor's accountability plan as well as any recommendations for the improvement of the state's oversight of bond expenditures.

Regarding in-progress accountability, the Order requires each department to document ongoing actions to ensure that bond-funded projects stay within the scope and cost identified when the funds were allocated. Departments must make semi-annual reports to the DOF to ensure projects are being executed in a timely fashion and achieving their intended purpose.

DOF's website tracks projects by ballot proposition number. A main summary page describes each proposition, and general allocation categories and amounts, and lists applicable programs. In terms of reporting in-progress accountability, there are some overarching similarities in reported information, but for the most part, the site provides information in different ways for each ballot proposition.

Generally speaking, the site provides an in-progress accountability statement for each program area. It appears the sites for all program areas address in-progress accountability by providing information related to the cost and timing of the project – that is, whether the project is proceeding as budgeted and whether it is meeting its timeline for completion. The DOF site does not provide information to directly answer the question of whether the bond proceeds are “achieving their intended purpose.”

Finally, on follow-up accountability, the Order makes departments subject to audits to determine whether expenditures: were made from bond proceeds according to the established front-end criteria and processes; were consistent with all legal requirements; and achieved the intended outcomes

## **ASSESSMENT OF DOF WEBSITE**

The website, [bondaccountability.ca.gov](http://bondaccountability.ca.gov), is intended to enable Californians to track the status of these projects, how much money has been allocated for them, how much has been committed and the progress of the project. I'd like to focus on four questions regarding this website:

**1. Policy: How can we be sure these projects present the best way to accomplish our goals?**

The website should provide links to the policy making process that led to the choice of particular projects. It currently does not provide such information or links.

**2. To what extent is the website independent of the Legislature and the Governor?**

The website is managed by the Department of Finance. It does not offer an independent means to verify the objectivity of the measures it offers or validity of the subjective judgments rendered in the website.

- a. *Why is independence important?* Independence assures Californians that the information is reliable, unfiltered and objective. That's important when we're trying to strengthen accountability to taxpayers and the public.
- b. We should strive for the same objectivity that is provided by the Legislative Analyst's Office in the ballot pamphlet.
- c. I am comfortable with having DOF collect and report the information, which generally is obtained by state agencies and departments. But independent oversight of this process is still important to ensure the credibility of its product.
- d. I believe this credibility should come from subjecting the data to an objective test or third-party review and commentary.

**3. Does the website maximize transparency on the allocation and use of bond proceeds?**

By transparency, we mean that the website should clearly explain:

- How well the money is spent.
- When the projects will be completed.
- Bond moneys left for future projects.
- Location of financed projects.

The DOF website's performance is inconsistent on this score. It answers these questions in varying degrees depending on the bond measure, the state or local entity receiving the money, and type of project.

The site has significant gaps in transparency that should be addressed:

- First, while the website presents expenditures and project status, it does not offer the user any way of evaluating cost effectiveness across bond measures and project types.

In part, this may be a function of the project type: How do you compare the use of funds for building a road with buying parkland?

Still, without a way to measure cost-effectiveness, the average Californian will be unable to evaluate whether the bond proceeds are being spent to their "highest and best use," much less cost-effectively.

In this same vein, the website is not designed to answer the question: Has the state agency ranked all the possible projects to establish funding priorities?

The website provides little information with which to determine what priorities the state is using, and whether the state is picking the highest priority projects and funding them first.

- Second, there is no uniform metric that allows someone to identify the start, middle and completion of projects.

Not all bond measures listed at the site provide a summary of money spent or how much money is available for various types of projects.

It would be hard even for a legislator to evaluate: How much of the authorized bonds is available for allocation in the coming budget year?

- Third, with respect to identifying project locations at the website, transportation projects are mapped rather specifically, but other projects don't lend themselves as easily to this kind of mapping. (How do you map a water transfer project, for instance?)

Nevertheless, it's very important to detail for citizens where their money is being spent. Ideally, Californians ought to be able to enter a ZIP code and get a comprehensive list of all projects in that area. Currently, they can't.

(If Mapquest or Google can do that for all the hotels in an area, why can't California do it for its bond-financed projects?)

#### **4. Is the website easy enough for ordinary California taxpayers to use?**

Can an ordinary citizen navigate the website? This is probably where the website is least user-friendly.

- First, because there is no link to the accountability site on the DOF home page, or on the listing of state agencies, the site is difficult to locate.
- Second, the commands for maneuvering in the website are cumbersome and often hinder getting to essential data. This is particularly true in the portion of the website relating to schools.
- Third, too much of the website reflects the priorities and accounting information useful to those who make their careers in “budgeting.” The language used is generally far too specialized and jargonized for average users. Citizens unfamiliar with the byways of the state budget process will have a hard time understanding terminology or data. They certainly will be unable to synthesize the data and be familiar with the decisions and outcomes.

#### **CONCLUSION**

Getting the necessary detailed information on a timely basis from all departments and putting it in a consistent format may be a Herculean task. Obtaining departmental cooperation is never easy, and those putting the website together would have to do a huge amount of work to make the data as accessible and understandable as it needs to be.

Further, it may be a lot of work and a huge expense that doesn't actually produce accountability. What are the consequences for being late or over budget? Just putting data up on a massive website may not mean much.

That's why we wanted to have a citizens' oversight commission: There should be consequences, or at least public examination of, and accountability for, poorly executed projects. Californians should be confident they are getting solid, trustworthy information they can use to judge whether they're getting what they were promised when they agreed to borrow billions to invest in their future.

Polls show the public doesn't exactly place a lot of faith in their government to do the right thing. Yet, they have reached deep into their pockets to make a historic investment in California's future. They deserve an independent, fully transparent oversight system that puts them more in charge of judging whether they receive the right return on their investment.