

CALIFORNIA PERFORMANCE REVIEW
Comments by the League of Women Voters of California
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To the California Performance Review Commission
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The report released by the California Performance Review (CPR) offers an opportunity for serious discussion about the state of California government and the possibility of significant reforms. The League of Women Voters of California believes, however, that the process will require both broad participation and sufficient time for thoughtful consideration of the many issues raised.

Whatever the issue, the League believes that efficient and economical government requires competent personnel; clear assignment of responsibilities; adequate financing; coordination among levels of government; effective enforcement; and well-defined channels for citizen input and review. These principles provide a way to evaluate the recommendations of the California Performance Review and its usefulness in achieving its stated goal of restructuring, reorganizing and reforming state government to make it more responsive to the needs of its citizens and business community. We are concerned that the CPR does not sufficiently address some of the principles, such as adequate financing and coordination among levels of government, and that the channels for citizen input and review need improvement.

Public Examination and Input. We are particularly concerned that the work of the CPR was done behind closed doors and, in many areas, without the involvement of individuals and groups who should have been consulted.

We appreciate the work of the CPR Commission in seeking the public's reaction to the report. However, the sheer volume of material and the expense of getting and circulating it means that interested organizations, to say nothing of individuals, have faced problems in attempting to respond to the hearings scheduled so far. We note that the commission's hearings began so soon after release of the report and have been held over such a short period that there has been little time for study and comment on the proposals. Certainly far more time and better access to information will be needed if the public is to understand what is being proposed.

State law does have a process through which a governor may propose reorganization. As the Legislative Analyst's Office (LAO) points out, that process calls for statutory drafting by the Legislative Counsel and requires the Little Hoover Commission to review the plan, hold hearings, and report findings to the governor and the legislature. After review by the legislature, the plan would go into effect if no action were taken, but could be rejected by a simple majority of either house.

Given the broad scope of this proposal and the short time allowed under that process, it seems likely that the whole plan could not reasonably be considered under that process, and that the legislature would almost be forced to reject it.

We suggest that it should be a top priority of the Commission to suggest a process and timetable that would allow for both the legislature and the public to review the report in a meaningful way. A first step should be to separate policy issues, which require the broadest participation of interested parties, from operational questions of how best to improve government efficiency.

Some ideas in the plan are not controversial, are well enough developed, and can be done by executive action. Others should probably be introduced as separate bills and reviewed through the normal legislative process. A few can be accomplished only through constitutional amendments that are presented to the voters.

Fiscal Issues. A comprehensive look at state government should include an examination of the tax and revenue system by which government is financed, but the CPR report speaks to little in that area. The League of Women Voters opposes reinstatement of the recently-sunsetted Manufacturer's Investment Credit (MIC) in the form of a sales tax credit instead of an income tax credit. The MIC was notably unsuccessful in producing its promised benefits, and there is little reason to believe the new version would be any more beneficial. According to the LAO, the Department of Finance estimated that revenue gains due to the MIC were only about one third as large as the gross revenue losses.

We believe there should be provision for constant evaluation of such tax expenditures that is not addressed in this report. These special tax code provisions are called expenditures because they have the same effect as on-budget subsidies or rebates. Fairness dictates that tax expenditures should contribute to tax equity, be in the interest of the general public and not just a specific group, and provide social benefits that significantly outweigh the increased tax burden to others. Tax expenditures are a significant share of state spending and also reduce revenue streams which flow to local governments, yet they remain largely hidden to both legislators and the general public. The value, support for, and effectiveness of on-budget programs are evaluated during the budget process. The value and effectiveness of tax expenditure programs are rarely discussed when priorities for governmental spending are assessed, but especially with California's ongoing budget difficulties, they should be required to meet those standards set for on-budget programs. Tax expenditures should include a sunset date and evaluation, measurable goals and objectives, and provisions for recapture if any qualifying requirements are not met by the taxpayer.

The fiscal impact of many CPR proposals has not been estimated. We are also concerned that the report appears to seriously overestimate anticipated savings and revenues and underestimate both the costs and difficulty of implementation, especially if comprehensive changes are to be undertaken at once. Particularly for a report aimed largely at producing budget savings, overestimating revenues and underestimating expenses is counterproductive. We understand that the CPR's aim is to make government more efficient and effective, with a heavy emphasis on reducing costs and maximizing revenues without raising taxes. The Legislative Analyst's Office says, however, that even if all the recommendations were implemented, they would not come close to solving the state's structural deficit, and that the state would "continue to face hard choices regarding program funding levels and taxes in order to balance its future budgets."

The CPR claims its proposals would produce savings of \$1 billion in 2004-05 and \$32 billion over the next five years, but the LAO says a “more realistic” assumption would be less than half that. One problem is that again and again the assumption is made that funding will come from sources not under the control of state government, such as federal funds and grants from private and public donors. For example, the CPR expects an added \$8.2 billion in federal grants for state programs despite the fact that Washington is drowning in red ink itself and has shown no sign that it would rework federal funding formulas in California’s favor.

The LAO points out that the proposal for registering vehicles every two years would require a constitutional change, since VLF revenues are guaranteed to be distributed to local government, and would also probably run afoul of Prop 1A. The projected \$1.3 billion “windfall” to the state is unlikely to materialize.

Another example is that the CPR projects \$2.7 billion in savings attributed to a proposal to delay enrollment of children in kindergarten by a few months, mainly by reducing the Proposition 98 minimum funding guarantee. This not only represents a policy decision that may be unpopular, but the savings could be whittled down by implementation costs, such as funding for more child care slots.

Coordination among Levels of Government. Although the report calls for adopting principles intended to improve the relationship between the state and local governments, some proposals not only run contrary to that goal, but appear to conflict with both present law and Proposition 1A on the November ballot, which is supported by the Governor. These include shifting property taxes from some special districts to benefit the state and shifting responsibility for some state highways to local governments without an accompanying source of revenue. This would appear to conflict even with present law on reimbursement for state mandates, let alone the stricter requirements of Prop 1A.

The community college system provides another example of the need for greater sensitivity to state-local relations and obligations than the CPR report evidences. The League recently studied this system and recognizes the need to increase local decision-making by local college communities while encouraging an effective and equitable balance of responsibility and authority, in areas such as funding, between local and state entities in responding to local needs. We support the role of the state structure as one of support for the local colleges as they work to serve the needs of their students and their communities.

Reorganization of State Government. The CPR makes major proposals for reorganizing state government into “mega-agencies” and for eliminating many boards and commissions. The “mega-agencies” reorganization raises questions as to whether such large agencies are likely to work more efficiently or to actually be more unwieldy and difficult to manage. The lack of detail in many of the proposals makes it impossible to evaluate them at this time. Considerably more review of current performance and analysis of proposals for change will be needed before those recommendations that are good can be identified.

The Department of Child Support Services and parallel departments in each county provide an example of recent changes that were prompted by a desire to improve the performance and responsiveness of an important function of government. The CPR proposal to contract out child support services needs careful scrutiny in light of the improved collections under the new system and the factors that motivated the establishment of that system.

Potential savings or efficiencies from the elimination of numerous boards and commissions must be weighed against the loss of the public forum they provide for issues in a number of areas of great interest to the public. Certainly some boards and commissions are redundant and should be eliminated. However, especially in many areas of natural resources policy, the benefit of public participation and independent analysis by board members and commissioners who are experts in their fields would be sorely missed.

Conclusion. Overall, we believe that the closed process through which the CPR was conducted resulted in unrealistic estimates of savings and added revenues, and many recommendations for which additional information is needed if careful evaluation is to be possible. It is imperative that a more open, deliberative process be put in place if anything constructive is to come out of this effort.