Chapter 1
General Government

State government exists to provide services to all of its citizens, providing assistance to the poor and needy, protecting resources and the environment, supporting education and training, ensuring personal safety, fostering economic improvement and building infrastructure. To fund these activities, taxes and fees are assessed on California's residents and businesses with the expectation that the services will be provided in the most cost-effective manner possible.

In order to ensure state programs that provide these services are successfully performing at expected levels, it is imperative that key elements be considered and made part of the foundation of service delivery. They include:

- Ensuring sufficient revenues;
- Creating a customer friendly environment for residents and businesses;
- Establishing a favorable climate for businesses to grow;
- Establishing positive partnerships with local and federal agencies; and
- Managing programs in the most efficient manner possible.

Addressing these issues in coordination with programmatic and organization improvements discussed elsewhere in this chapter will allow California to become the first true 21st century government in America, a government that is as innovative and dynamic as the state itself.

Increasing state revenues

California's capacity to provide services to its residents is directly related to the level of revenues collected. There are three categories of taxes that are projected to produce 92 percent of all projected General Fund revenues during Fiscal Year 2004–2005:

Personal Income Tax:	$38.0 billion
Sales and Use Tax:	$25.0 billion
Corporation Tax:	$ 7.6 billion

These figures reflect the amount that the three California taxing agencies—the Franchise Tax Board (FTB), the Board of Equalization (BOE) and the Employment Development Department (EDD)—are expected to collect. Many initiatives and improvements can be made to increase revenues produced without raising taxes. For example, FTB, which oversees the collection of Personal Income and Corporation Taxes, recently completed an amnesty program directed at taxpayers using illegal tax shelters. More than $1.3 billion has been paid under the amnesty that would otherwise have gone uncollected or would only have been collected in whole or part through expensive audits.

An amnesty program for other outstanding personal income taxes, sales taxes and motor vehicle fees and taxes would generate significant General Fund revenue after waiver of penalties and costs and some additional revenue to local governments. In addition, selectively increasing the number of audits performed by the three taxing agencies, filling audit and collection vacancies, modifying the debt collection process of all state agencies and consolidating and upgrading the mail and collection units of the three taxing agencies would produce additional revenue annually to the General Fund.

In FY 2002–2003, the State Lottery provided $1.02 billion to K–12 schools and other educational programs in California, through a lotto program and scratchers. Lottery revenues have grown from $2 billion in FY 1995–1996 to a high of $2.7 billion in 2002–2003. However, revenues for FY 2003–2004 and FY 2004–2005 are expected to remain flat. Other states with lotto programs have seen their revenues increase by joining a multi-state game that can offer larger base prizes and larger jackpots that generate more interest and increase lottery sales. Joining one of these multi-state lotteries is expected to produce millions in additional revenues for schools and other educational programs. In addition, other states have increased revenues in their scratcher games by modifying the rules restricting the type of games and by increasing the portion of revenues that goes to prizes. If California adopts similar rules, funding for education would increase.

Creating customer friendly government

Customer service should be the front line and bottom line for government bureaucracies—the interactive face of any entity. However, at times the priorities of the bureaucracy seem to come before the needs of those it is meant to serve. Despite paying for government, Californians are not always treated as its customers and its goals do not always reflect their needs. To truly reinvent California government, Californians must come first.

For example, cable television operators in California are required to publish customer service standards. Ironically, California government fails to hold itself to the same requirement. Publishing consistent customer service standards and disclosing how well these standards are met is the keystone of changing the face of government. California should establish a cohesive statewide customer service system by requiring all state agencies to develop, publish and report on customer service standards.

California's government also presents a dizzying array of forms, telephone numbers and websites, but makes little effort to array information in a user-friendly way. There is no single clearinghouse or search engine to serve as a starting point. The state should establish a California Information Center to offer information and services to Californians through a single toll-free telephone number and a companion web portal. In addition, the state should establish a one-stop California Business Center to give businesses a single point of access for information about licensing, permitting, regulatory matters and other information they need to succeed. Finally, all state agencies should convert paper forms to ones that can be completed and submitted online.

A specific example of putting Californians first would be to extend the current Department of Motor Vehicles' (DMV) online registration system for vehicles to renewals of drivers licenses and expand the use of credit cards and add debit cards and electronic checks to the mix of payment options. DMV represents a "face" to customers because it is the one state agency that nearly every resident must visit. Expanding the use of computer technology will reduce the workload and wait times placed on the department's public offices—reducing costs and improving customer service.

Finally, tools like e-government, automation, customer service standards or simplified access won't result in a new face for government unless California changes how it thinks about its primary function—that of providing services to Californians. Respecting and caring for Californians and their needs is the basis for great service. To accomplish this, customer service must be viewed as a valued profession. Therefore, California should establish a Customer Service Representative classification to be utilized in all state agencies.

On February 25, 2004 the California Performance Review received an e-mail from an EDD employee who has frequent contact with an EDD Call Center in Oakland. She wrote:

> *I have never worked for nor have I ever met Dolores (Thompson), the manager of the Unemployment Insurance Primary Call Center. But whatever Dolores does, QUANTIFY those behaviors and include them in everyone's performance goals! . . .*
> *I look forward to picking up a call from ANYONE in Dolores' unit, because the calls are always enthusiastic, positive and upbeat. They feel motivated; they feel they are doing something positive. In short, they love their jobs and wouldn't trade for any other. Keep in mind that this team spirit exists in a division that is one-third understaffed, experiences high staff turnover and is under tremendous pressure . . . Yet, there is Dolores' unit! We need more of that!*

Dolores gets "it" and so does the person who wrote that e-mail. California should provide the tools and create the environment for all employees and customers to ensure that this level of pride in work and service is carried throughout state government.

Improving business climate

While California's non-farm job employment has recorded gains in each of the last three months, it continues to lag behind the job market for the nation as a whole. One reason is California's reputation for creating an unfriendly business climate, which has resulted in companies not expanding operations in California, not locating to California and/or deciding to move to another state.

The most tangible improvement to California's business climate would come from reducing the burden of doing business in California. California has the third highest cost of doing business in the nation and its composite business and tax costs are 32 percent higher than the national average. One of the most threatened business categories is manufacturing. Higher costs in California make state manufacturers uncompetitive in national and global markets. This disadvantage has led to the loss of 300,000 manufacturing jobs over a four-year period. Also, a single manufacturing job supports two other jobs in the same community, which means the total job loss is even greater. Many states are currently providing waivers of sales tax on the purchase of manufacturing equipment. By providing a similar waiver on the state's share of such taxes, additional revenue from personal income and corporation taxes are projected to exceed the loss of sales tax revenues when fully implemented.

The Governor and the Legislature have recently taken steps to reduce the cost of rates for the Workers' Compensation Program. Notwithstanding that success, when it comes to collecting against a third party for damages, California's subrogation rate in the Workers' Compensation Program is .5 a percent while the national average is 3 percent. By implementing reforms in its subrogation process and to the extent rates are reduced, California's annual Workers' Compensation costs will decrease.

Businesses are also concerned about inconsistencies in tax policies across the state and when taxes or other special assessments they pay into special funds are "raided" for general fund purposes. An example of one solution to the former is to reassign the assessment of aircraft to BOE to eliminate the inconsistent policies between the counties that do the assessment now. To address the latter, a policy should be established to ensure that special funds are used for the purpose they were intended.

Newer business growth can be encouraged by reducing paperwork for such things as small business certifications. In addition, all businesses will benefit from the establishment of a One-Stop Licensing Center, which will be developed in concert with the creation of the new Department of Consumer and Commerce Protection.

The newly proposed Department of Labor and Workforce Development should partner with the new Department of Education and Workforce Preparation to ensure businesses are provided with a well trained workforce. All non-education workforce programs will be centralized in the Department of Labor and Workforce Development to increase efficiency and free up funding for training and placement.

Finally, California should rethink how it defines and approaches its core functions and contract for those best performed by the private sector. The development of a competitive sourcing guide based on materials already available will allow managers to make better decisions on the delivery of government services to all Californians.

Strengthening government partnerships

Californians can achieve top quality, pro-customer and pro-business results if each governmental unit—the state, counties, cities, special districts, as well as sovereign Native American tribes—talks to each other, works with each other and in the end, operates as efficiently as possible without waste or overlapping functions. Cooperation and partnership is a vital part of the fiscal recovery of California. Common-sense governance is only possible with a teamwork mentality, commitment to fiscal stability at all levels of government and an all-encompassing effort to eliminate red tape.

State and local governments can meet the needs of the people of California through open, clear lines of communication to California's many levels of government. State and local governments must have predictable revenue sources to carry out required functions and services. All government must be accountable for their performance, incorporate sound business practices, submit to regular performance reviews and be willing to receive funding based on performance.

Each level of government must have clearly defined roles to eliminate overlap and duplication and services should be provided at the level where it is most cost-efficient. Also, the process of performance should not be set in concrete but reviewed continually to seek operational improvement—with an eye toward flexibility to manage programs and deliver services that fit the changing needs of Californians.

All levels of government need to contribute to fiscal stability. Some examples identified include:

- Native American tribes need to work closer with local government in their planning and address the impact casinos have on local communities.
- The state is currently paying nearly $10 million a year to maintain the Science Center in Los Angeles even though it is primarily a locally-oriented facility and a separate foundation provides funds for enhancements and exhibitions. There is no reason why the foundation could not pay for the museum's maintenance as well.
- Revisions to the collection and distribution of court fines, fees and penalties can increase revenues to both the local courts and the state.

In his State of the State Address on January 6, 2004, Governor Schwarzenegger provided a solid vision of sensible stewardship for California calling for a strengthening of government partnerships. By working together, California's governments can create a new team spirit yielding benefits for all Californians—saving money, increasing government efficiencies and ensuring stable government operations.

Making government more efficient

Government programs and activities that have outlived their original intent or usefulness should neither be performed by the state nor be permitted to receive additional funding. For example, there are two separate programs providing property tax relief to seniors and the disabled. One is a grant program provided to homeowners and renters. The other is a loan program only for homeowners and is repaid from the proceeds of the house when it is sold or from the estate after the owner dies. Both programs were established prior to the passage of Proposition 13, which granted property tax relief to all residents and businesses. Nonetheless, both programs were allowed to continue and persist to this day. By phasing out the grant program, property tax payments can still be paid for elderly and disabled homeowners under the loan program, which pays for itself. The savings would be significant each year.

Additional savings can result from managing smarter. For instance, requiring biennial registration of vehicles would reduce workload in DMV offices and provide one-time funding to the General Fund of over $1 billion. In addition, the state pays nearly $123 million as a result of tort claims, but by establishing a cap on tort liabilities the state can reduce this amount while still providing $1 million for each plaintiff and $5 million for each occurrence that led to the lawsuit. Also, settlement of some tort cases rather than allowing them all to go to court can reduce the high costs of litigation. Finally, additional funds can be saved with legislation that requires the use of lower cost and better managed insurance options for construction projects.

Additional cost savings can be realized by revising policies or procedures for travel claims, development and adoption of regulations, fleet management, video production, the storage and retrieval of documents and the use of federal funds.

GG 01

Raise State Revenue Through Tax Amnesty

Summary
Underreported and unreported state corporate and personal income taxes represent uncollected revenues. Tax amnesty programs allow businesses and individuals to pay their past debts while helping the state raise tax revenues without generating new taxes.

Background
Corporate, sales and personal income tax collection in California involves three state-level organizations. The Employment Development Department collects payroll and employment taxes while the Franchise Tax Board (FTB) collects personal income taxes and corporate taxes. FTB also works with the Department of Motor Vehicles (DMV) to collect delinquent motor vehicle license and registration fees. The Board of Equalization (BOE) collects a wide range of business sales and use taxes.

Common reasons for delinquent taxes include inadvertent error, deliberate under reporting on tax forms, abusive tax shelters and ignorance of the tax laws. Some out-of-state businesses engaged in state commerce may be simply unaware of their California tax responsibilities. Aggressive tax advice on the part of some tax consultants has also contributed to the problem.[1] Once taxes go unpaid, penalties and interest compound and add financial liability. A tax amnesty program is a short-term waiver of penalties and/or interest to encourage payment of delinquent taxes.

Since the mid-eighties, the District of Columbia and 35 states have administered tax amnesty programs. Eleven states and New York City enacted tax amnesty legislation just in 2003.[2] The experiences of Arizona, Florida, Texas and New York exemplify these amnesty programs:

- Arizona's program granted amnesty to individuals and businesses. The program generated a net gain of $51 million, including a $47 million net gain to the state general fund.[3] Applications were accepted from September through October 2003.[4]
- Florida completed a four-month tax amnesty program in October 2003. Florida's program included 20 different personal and business taxes and fees. Florida spent about $600 thousand and collected more than $268 million. Of that amount, $75 million constituted "new" monies from previously unknown filers and $25 million in recurring collections.[5]
- Texas offered a tax amnesty program in 1991, providing taxpayers a six-week window to voluntarily remit delinquent personal and business taxes. The program generated $92 million in additional revenue and an additional $16.8 million in local sales taxes.[6] Texas

conducted a new tax amnesty program, "Project Pay Up," from March 11 to March 31, 2004. This process allowed a three-week window for payment (minus penalty and interest) and collected more than $300 million dollars.[7]

- New York conducted a tax amnesty program between November 2002 and January 2003, targeting income, withholding, corporate and other designated taxes. New York waived penalties plus a portion of interest—and collected $582.7 million in gross revenue, including $82.9 million in new revenues.[8]

California has conducted several targeted tax amnesty programs over the years, but nothing broad-based since Fiscal Year 1984–1985.[9] According to the *Los Angeles T imes*, a recent tax amnesty program targeting only Californians using illegal tax shelters "has shaped up to become one of the most clever budget moves since the state's finances went into free fall."[10] The state has raised more than $1.3 billion from this program to date.

Assemblymember Judy Chu introduced Assembly Bill 2203 (Taxation: Amnesty) in the current legislative session to waive penalties (only to increase them later) for taxpayers who pay back taxes plus interest for tax years prior to the year starting January 1, 2003. The bill proposes a two-month amnesty period that ends no later than June 2005. FTB estimates AB 2203 would generate $885 million in gross tax revenues and increased penalties and interest over four years.[11]

The chart below shows FTB's fiscal analysis of AB 2203.[12] The bill was initially drafted to waive both penalties and interest on individual and corporate taxes but was amended in April to delete the waiver of interest due to related, anticipated reductions in expected net revenues.[13]

Estimated Revenue Impact of AB 2203 for Tax Reporting Ending On or Before January 1, 2003[14]
(dollars in thousands)

Fiscal Year	**2004–05**	**2005–06**	**2006–07**	**2007–08**	**Total**
Total Gross Revenue	$600,000	$85,000	$105,000	$95,000	$885,000
Collections Absent Amnesty Attributable to Amnesty Participants	–380,000	–75,000	–40,000	–15,000	–510,000
Less One-Time Admin Cost	–10,000				–10,000
Total Net Revenue	$210,000	$10,000	$65,000	$80,000	$365,000

The $600 million collected in FY 2004–2005 includes actual tax receipts and increased penalties to be applied to non-amnesty tax filers. All figures in subsequent years represent revenues from increased penalties.

A May 2004 amendment to AB 2203 adds BOE participation and an Assembly analysis of the amended bill estimates an additional $115 million in sales and use tax.[15] BOE staff project that of this amount, $33 million would constitute new, net state and local revenue.[16] Using the ratio between amnesty administration and revenue in FTB analysis leads to an estimated BOE administrative cost of nearly $2.0 million.

Similar to back taxes, uncollected vehicle license and registration fees (VLRF) also represent uncollected revenue to the state. The Department of Motor Vehicles estimates that collecting 10 percent of the delinquent payments under a VLRF amnesty program during the same timeframe as that currently in AB 2203 would result in $4.1 million in collections. Of this amount, $1 million would go to the Motor Vehicle Account while $0.7 million would go to the State Highway Account. The remaining $2.4 million would go to cities and counties. Under current law, an additional $3.2 million in General Fund would also be due to local areas as "backfill."[17] Backfill requirements ensure counties and cities are not harmed due to reductions in vehicle license fees. The costs of amnesty administration, estimated at approximately $3 million, would be payable from the Motor Vehicle Account as they were under a similar amnesty performed in 1986.[18]

Recommendation

The Governor should work with the Legislature to enact legislation authorizing an omnibus tax amnesty program with the following provisions:

- **Include a partial waiver of interest and penalties, similar to the New York experience, to further accelerate returns;**
- **Add the 2003 tax year in the amnesty by applying amnesty to past due taxes in the year prior to January 2004; and**
- **Add amnesty for Motor Vehicle License and Registration Fees (VLRF).**

Since the state will incur costs to the Motor Vehicle Fund for the administrative expense of the VLRF amnesty, there could be justification for waiving the "backfill" for fees collected. To the extent possible, the three participating entities (the Franchise Tax Board, the Board of Equalization and the Department of Motor Vehicles) should share administrative costs, particularly those related to publicizing or marketing the timeframe as well as amnesty requirements.

Fiscal Impact

FTB estimates that a corporate and personal income tax amnesty program would generate the following:

FTB Net Revenue Estimate

(dollars in thousands)

Fiscal Year	Revenue	Administrative Costs	Net Revenue
2004–05	$220,000	$10,000	$210,000
2005–06	$10,000	$0	$10,000
2006–07	$65,000	$0	$65,000
2007–08	$80,000	$0	$80,000

This is a conservative estimate of increased revenues because FTB assumes that 83 percent of all tax collections are "accelerated income" for what would have been collected during normal audit activity. New York reports, however, that only 77 percent was due to accelerated income, which is close to the 78 percent acceleration rate of California's last amnesty program in FY 1984–1985.[19]

Gross revenue from corporate and personal income tax, sales tax and VLRF will total $1 billion over four years. Net revenue, deducting what would be collected through normal audit activity as well as administrative cost and the VLRF "backfill," would come to $399 million over four years. A net of $244 million alone would occur in FY 2004–2005.

Net Revenue

(dollars in thousands)

Fiscal Year	Net General Fund (FTB, Corporate and Personal Income Tax & BOE Sales Tax)	Net to State Special Funds (Motor Vehicle Account)	Net to Local Funds (BOE Sales Tax and VLRF)	Net Revenue
2004–05	$228,800	–$1,300	$16,600	$244,100
2005–06	$10,000	$0	$0	$10,000
2006–07	$65,000	$0	$0	$65,000
2007–08	$80,000	$0	$0	$80,000
2008–09	CBE	CBE	CBE	CBE

Note: The dollars and PYs for each year in the above chart reflect the total change for that year from 2003–04 expenditures, revenues and PYs.

Endnotes

1 *"Illegal Tax Shelters," North County Times (March 12, 2004).*

2 *California State Franchise Tax Board, "Summary Analysis of Amended Bill" (Sacramento, California, May 26, 2004).*

3 *State of Arizona, Department of Revenue, "Tax Amnesty Program," http://www.taxamnesty.az.gov/ (last visited March 5, 2004).*

4 *State of Arizona, Department of Revenue, "Tax Amnesty Program."*

5 *Interview with Joann Sapolsky, revenue program administrator, State of Florida, Department of Revenue, Sacramento, California (March 5, 2004).*

6 *State of Texas, Comptroller of Public Accounts, "Limited Government, Unlimited Opportunity," http://www.window.state.tx.us/etexas2003/gg28.html (last visited March 4, 2004).*

7 *Interview with Billy Hamilton, deputy comptroller of public accounts, State of Texas, Sacramento, California (April 28, 2004).*

8 *New York State Department of Taxation and Finance, "Tax Amnesty, Review of New York State's 2002–2003 Amnesty program" (Albany, New York, March 2004).*

9 *Federation of Tax Administrators, "State Tax Amnesty Programs, November 22, 1982 – Present," http://www.taxadmin.org\fta\rate\amnesty1.html (last visited March 8, 2004).*

10 *Harper, Evan, "Tax Amnesty Brings State a Windfall," Los Angeles Times, April 23, 2004.*

11 *Gerald Goldberg, executive officer, California State Franchise Tax Board, "Tax Administration and Enforcement Assembly Budget Oversight Meeting," Sacramento, California, April 22, 2004 (presentation).*

12 *California State Franchise Tax Board, "Summary Analysis of Amended Bill" (Sacramento, California, May 26, 2004), p. 4.*

13 *Meeting with California State Franchise Tax Board staff, Sacramento, California (May 3, 2004).*

14 *California State Franchise Tax Board, "Summary Analysis of Amended Bill" (Sacramento, California, May 26, 2004), p. 4.*

15 *Assembly Revenue and Taxation Committee, "Bill Analysis, AB 2203" (Sacramento, California, May 26, 2004), p. 5.*

16 *E-mail from Bill Benson, California State Board of Equalization, to California Performance Review, Sacramento, California (June 3, 2004).*

17 *E-mail from Jean Shiomoto, California Department of Motor Vehicles (DMV) controller, to California Performance Review, Sacramento, California (May 20, 2004).*

18 *Meeting with Ken Miyao; Jean Shiomoto; Rudy Modelo, DMV branch chief; Jeff Manzer, DMV assistant controller; Ruth Davenport, DMV Revenue; Richard Wright, DMV manager, Registration Automation Development and Bill Davidson, DMV research analyst; Sacramento, California (May 20, 2004).*

19 *New York State Department of Taxation and Finance, "Tax Amnesty, Review of New York State's 2002–2003 Amnesty program."*

GG 02

Additional Tax Collection and Audit Staff will Generate Additional Tax Revenue

Summary
Additional tax collection and audit staffing will generate an increase in state revenue through audit assessments and collection of tax dollars owed.

Background
In the past year, California's revenue collection entities have been reduced by more than 1,000 staff years:

- The Board of Equalization (BOE) had 3,668 staff years in Fiscal Year 2002–2003. The FY 2004–2005 budget proposes 3,462 staff years, which represents a loss of 206 staff years;[1]
- The Franchise Tax Board (FTB) had 5,746 staff years in FY 2002–2003. FY 2004–2005 budget proposes 5,075 staff years, which represents a loss of 671 staff years;[2] and
- The Employment Development Department's (EDD) Tax Branch will lose more than 100 staff years in the proposed FY 2004–2005 budget.[3]

Staffing reductions have had the unintended consequence of impeding the collection of taxes owed the state. The EDD Tax Branch, BOE and FTB's Tax Branch are having difficulty increasing revenue collections under existing budget allocations.

As a stop-gap measure, EDD has redirected staff to critical areas such as cashiering of collections. Other EDD employees have been redirected from support functions, auditing and collection areas to maintain the flow of revenue. The FTB and the BOE have also redeployed staff in order to maintain revenue collections.[4]

EDD, FTB and BOE have identified the following strategies to enhance tax revenue collections.

Vacancies
EDD has 22 vacancies in its Tax Branch. If these vacancies were filled, at an already budgeted cost of $1.7 million, they would produce an additional $4 million each year for the Unemployment Trust Fund, Disability Insurance Trust Fund and in the collection of personal income taxes.[5] However, hiring freezes can be imposed in the future that can lead to the same result of maintaining vacancies in revenue-producing entities at the very time when such revenues are most needed.

Collections and audit programs

The state's three tax collection agencies could use additional staff positions to produce revenues and do so in a cost-effective manner. For example:

- EDD estimates that 50 full-time collectors costing $3.4 million can generate approximately $112 million in revenue collections over a six-year period;[6]
- FTB estimates that funding discretionary audits at a 4:1 ratio of revenue-to-costs, instead of the current 5:1 ratio, will produce $14 million each year. An additional 34 employees and $2.3 million in resources are required; and[7]
- FTB's Collections Program estimates that funding discretionary collection cases at a 3:1 ratio of revenue-to-costs, instead of the current 5:1 ratio, will produce an additional $9 million in FY 2005–2006 and $18 million in FY 2006–2007. An additional 125 staff positions and $6 million in resources are required.[8]

The Board of Equalization estimates that the addition of six staff positions in the Consumer Use Tax Section at a cost of $400,000 can generate approximately $18.3 million per year. These positions would be responsible for reviewing purchases subject to use tax, such as Coast Guard boat registrations or Department of Motor Vehicles vehicle records, to verify that use tax has been paid. As of April 1, 2004, there was a backlog of 3,091 transactions that had not been reviewed. The backlog of transactions is growing at a rate of 225 per month. These transactions, once processed, generate approximately $825 per hour in revenue.[9]

Recommendations

A. **The Governor should direct the Department of Finance, or its successor entity, to revise future employee freeze programs to exempt positions that produce revenues.**

B. **The Governor should direct the Department of Finance to work with the Employment Development Department, Franchise Tax Board and the Board of Equalization, or their successor entities, to develop budget change proposals to enhance revenue collections.**

Fiscal Impact

After an initial year of ramping up, these recommendations would result in total ongoing revenues of $73.8 million beginning in 2006–2007. Of this amount, $61.2 million is General Fund revenue, $5.3 million is special fund revenue and $7.3 million is local revenue. Ongoing costs would be $10.1 million ($9.4 million General Fund) for 215 personnel years.

General Fund
(dollars in thousands)

Fiscal Year	Revenue	Costs	Net Revenue	Change in PYs
2004–05	$0	$0	$0	0
2005–06	$0	$0	$0	0
2006–07	$61,200	$9,400	$51,800	200
2007–08	$61,200	$9,400	$51,800	200
2008–09	$61,200	$9,400	$51,800	200

Note: The dollars and PYs for each year in the above chart reflect the total change for that year from 2003–04 expenditures, revenues and PYs.

Other Funds
(dollars in thousands)

Fiscal Year	Revenues	Costs	Net Revenue (Costs)	Change in PYs
2004–05	$0	$0	$0	0
2005–06	$0	$0	$0	0
2006–07	$12,600	$700	$11,900	15
2007–08	$12,600	$700	$11,900	15
2008–09	$12,600	$700	$11,900	15

Note: The dollars and PYs for each year in the above chart reflect the total change for that year from 2003–04 expenditures, revenues and PYs.

Endnotes

1 *SFY 2004/05 Governor's Budget, p. LJE105.*

2 *SFY 2004/05 Governor's Budget, p. SCS69.*

3 *SFY 2004/05 Salary and Wage Supplement, p. LWD10.*

4 *Interview with Bob Affleck, deputy director of Tax Branch, California Employment Development Department, Sacramento, California (April 16, 2004); interview with Gerald Goldberg, executive director, California Franchise Tax Board, Sacramento, California (April 8, 2004); interviews with Betty Yee, chief deputy to the Board, Raye Zenter, deputy director; and Ray Hirsig, executive director, State Board of Equalization, Sacramento, California (April 6, 2004).*

5 *E-mail from Carol Frost, EDD Tax Branch with attachment EDD Tax Revenue 05074.doc.*

6 *E-mail from Carol Frost, EDD Tax Branch with attachment EDD Tax Revenue 05074.doc.*

7 *E-mail form Joan Keegan, director Corporate Planning Bureau, FTB, with attachment FTB Tax Gap Strategies All.doc.*

8 *E-mail form Joan Keegan, director Corporate Planning Bureau, FTB, with attachment FTB Tax Gap Strategies All.doc.*

9 *E-mail from Kris Erickson-Cano, BOE, Strategic Planning and Policy Development Section, with attachment BOE-CPR-Tax Gap-doc.*

GG 03

Consolidate and Upgrade Cashiering for State Taxing Agencies

Summary

Mail and cashiering methods used by the Board of Equalization (BOE) and the Franchise Tax Board (FTB) increase processing costs and delay the deposit of funds, which results in a loss of interest revenue to the state.[1] While FTB has substantially improved mail and cashiering methods over the last several years, the mail and cashiering processes of both agencies should be redesigned to use the more advanced technology such as that already in place at the Employment Development Department (EDD). Additional savings could be achieved if all mail, cashiering, remittance processing and data capture and image management systems of the three tax collection agencies could be consolidated.

Background

The state has three major entities that collect taxes. BOE administers the sales and use tax, oversees the administration of property tax and collects excise and special taxes.[2] FTB administers California's Personal Income Tax Law, Bank and Corporation Tax Law and Homeowner and Renter Assistance Law and assists in collection of other departments' delinquent debts.[3] EDD collects employer payroll taxes for the personal income tax, unemployment insurance, disability insurance and the Employment Training Fund.[4] Although all three of these agencies perform similar functions, they use different levels of technology and automation to carry out their tasks, with EDD having the most sophisticated system.[5]

BOE uses an automated mail processing machine to open and sort most of its mail; however, it still performs some mail and cashiering activities manually, which causes delays during heavy mail periods. Thirty-nine percent of all checks received by BOE are not deposited on the same day they are received.[6] For every day BOE delays making a deposit, the state loses approximately $8,220 in interest (based on a 2004 interest rate of 1.474 percent per quarter).[7] A June 2001 automation project report shows an annual loss of $114,000 in interest (based on a 2001 interest rate of 3.445 percent per quarter).[8]

EDD completed the implementation of the Tax Engineering and Modernization Project in 2001. It was secured through an alternative procurement contract with Unisys Corporation to process its mail and perform cashiering activities. Prior to implementing this project, EDD's tax processing methods were similar to those currently used by EDD and FTB.[9]

EDD's new system uses advanced technologies such as high-speed mail opening equipment; document imaging, storage and retrieval; electronic document management; Optical Character Recognition; Intelligent Character Recognition; and automated workflow. These technologies enable EDD to substantially improve the speed and efficiency of its mail opening, data capture, cashiering and fund allocation processes and provide the department with document imaging, storage and retrieval capabilities. The online storage and retrieval of images eliminates the need to maintain paper files of employer documents and provides immediate access to imaged documents by EDD staff throughout the state, enabling them to better serve the employer community.

According to the Tax Engineering and Modernization Project Post Implementation Evaluation Report, EDD was able to reduce or redirect more than 450 positions and save more than $18 million in administrative costs.[10] Upgrading BOE's and FTB's systems should produce similar savings and efficiencies.[11]

Recommendation

The Governor should work with the Board of Equalization (BOE), Franchise Tax Board (FTB) and Employment Development Department (EDD) to develop and implement the results of, a feasibility study to upgrade mail, cashiering, remittance processing, data capture and image management systems for these three agencies.

The proposal should consider whether all three agencies' return processing (mail and cashiering) systems can be consolidated in the FTB facility for their management; whether it is more logical to upgrade FTB and BOE individually; and whether the upgrade can be done in one phase or multiple phases. The proposal would use an alternative procurement process to ensure that the state does not incur contract costs until it realizes savings.

Fiscal Impact

In June 2001, the Board of Equalization determined that upgrading to a system similar to that used by the Employment Development Department would result in a workload savings of 233 personnel years (PYs). Once fully implemented, ongoing administrative savings, including increased interest earnings from more timely deposits, would be approximately $19.5 million ($11.7 million General Fund) each year.[12] The estimated costs of $23 million could be funded out of project savings through an alternative procurement contract to ensure that costs do not exceed savings. Implementation could be completed as soon as Fiscal Year 2006–2007.

General Fund
(dollars in thousands)

Fiscal Year	Savings	Costs	Net Savings (Costs)	Change in PYs
2004–05	$0	$0	$0	0
2005–06	$0	$0	$0	0
2006–07	$11,672	$11,672	$0	(233)
2007–08	$11,672	$2,128	$9,544	(233)
2008–09	$11,672	$0	$11,672	(233)

Note: The dollars and PYs for each year in the above chart reflect the total change for that year from 2003–04 expenditures, revenues and PYs.

Local Funds
(dollars in thousands)

Fiscal Year	Savings	Costs	Net Savings (Costs)	Change in PYs
2004–05	$0	$0	$0	0
2005–06	$0	$0	$0	0
2006–07	$7,781	$7,781	$0	0
2007–08	$7,781	$1,419	$6,362	0
2008–09	$7,781	$0	$7,781	0

Note: The dollars and PYs for each year in the above chart reflect the total change for that year from 2003–04 expenditures, revenues and PYs.

Endnotes

1 *Overview of Board of Equalization, April 15, 2004 and Franchise Tax Board (April 19, 2004).*

2 *California State Board of Equalization, "State Board of Equalization 2001–02 Annual Report" (Sacramento, California, May 2003 letter from Executive Director, Jim Speed to The Honorable Gray Davis, Governor of California).*

3 *California Franchise Tax Board, "California Franchise Tax Board—2000 Annual Report" (introduction, p. 1).*

4 *Employment Development Department, Feasibility Study Report for Document Management Refresh and Consolidation (DMRC) (February 24, 2004).*

5 *Interview with Dade Powers, Chief, Administrative Support Division, Board of Equalization (April 15, 2004); interview with Jennifer Sallee, Reengineer the Pipeline (RTP) Project Manager, Franchise Tax Board (April 19, 2004); interview with Jerry Clark, Chief, Goethe Tax Operations, Employment Development Department (April 20, 2004).*

[6] *"A Performance Audit of Selected Functions of the California State Board of Equalization" by KPMG November 19, 1997, pp. 111–117.*

[7] *Interview with Dade Powers, Chief, Administrative Support Division, Board of Equalization (April 20, 2004).*

[8] *California State Board of Equalization "Automated Return Processing Study for the Board of Equalization," June 2001, p. 6.*

[9] *Interview with Jerry Clark, Chief, Goethe Tax Operations, Employment Development Department (April 20, 2004).*

[10] *Employment Development Department, "Tax Engineering and Modernization Project Post Implementation Evaluation Report," August 2003, p. 7.*

[11] *California State Board of Equalization "Automated Return Processing Study for the Board of Equalization," June 2001, p. 10.*

[12] *California State Board of Equalization "Automated Return Processing Study for the Board of Equalization," June 2001, p. 10.*

GG 04

Use Contracts Information System to Increase Debt Collection Through Offsets

Summary
Until recently, there has been no effective method for determining when money owed by a state agency to a vendor can be used to offset debt that the vendor owes to the state. This is because there has been no centralized listing of state vendor agreements. The recently implemented State Contract and Procurement Registration System can provide this information but there is no requirement to use it to determine if an offset against payments can be made.

Background
The *State Administrative Manual* requires an agency owed money to send three written contact letters to request payment. If payment is not received, the agency may apply for a discharge of accountability (authority to stop pursuing the debt) with the State Controller's Office. The State Controller's Office reviews the state agency's application, which must contain an analysis of the costs and benefits of the following alternative collection actions:

- Offset Procedure: An offset is the interception and collection of amounts owed by other departments to the debtor.
- Court Ordered Settlements: There may be situations where it is cost-effective to seek court judgments against debtors.
- Collection Agencies: Departments may consider contracting with another department that has a collection unit or with an private collection agency.
- Sale of the Accounts Receivable: Departments are authorized to sell accounts receivables to private persons or entities who then try to collect the debt.[1]

Until recently, there was no effective method of implementing the first collection alternative (offset procedure) because there was no centralized accounting system for the state's vendor agreements. Effective July 1, 2003, however, all state agencies were required to enter information via the Internet for all purchases or contracts worth more than $5,000 into the State Contract and Procurement Registration System.[2] With a user identification number, this contract registration system can be used to identify contracts that have a vendor who owes the state money. Although the information is now available, the system has never been utilized for this purpose. Consequently, most agencies are not aware it is available.

Recommendation

The Department of General Services, or its successor, should revise the State Administrative Manual to require state entities performing debt collection to use the State Contract and Procurement Registration System to determine if an offset against payments can be made.

Fiscal Impact

State agencies will be using the existing State Contract and Procurement Registration System to assist in the identification of other agencies also contracting with specific vendors. The process for inputting information into the Registration System will remain the same. Therefore, no additional staff time will be needed for maintaining the system.

Any minimal costs incurred by state agencies in utilizing this system should be offset by the recovery of increased collections through this streamlined process. The potential recoveries cannot be determined at this time.

Endnotes

1 Department of General Services, *"State Administrative Manual" (Sacramento, California, 2003), Section 8776.6.*

2 *Interview with Tim Fairchild and Rich Reger, Collections Division, Board of Equalization, Sacramento, California (April 15, 2004); and interview with Pat Quinn, Collections Division, State Controllers Office, Sacramento, California (April 16, 2004).*

GG 05

Adopt a Multi-State Lottery Game

Summary

Participation in a multi-state lottery program would significantly increase funds available to California education.

Background

On November 6, 1984, 58 percent of California's voters approved Proposition 37, the California State Lottery Act.[1] The Lottery Act requires that at least 34 percent of lottery revenues be used to fund public education, including K–12, community colleges, the California State University system, the University of California system and other specialized schools. This supplemental funding provides schools with additional resources to meet their locally determined needs.[2] By the end of 2003 lottery sales had reached $40.8 billion, raising more than $15 billion for public education, including more than $1 billion in 2003 alone.[3] Although the California Department of Education recommends using lottery funds for nonrecurring costs, 78 percent of the funds are spent on staff salaries and benefits.[4]

The Lottery is self-supporting. The Lottery Act prohibits the transfer of state funds to the Lottery.[5] The Lottery Act also requires that 50 percent of the total annual revenues go to the public in the form of prizes; at least 34 percent of the revenues and all unclaimed prize money and interest earned on funds held by the State Lottery Fund must be allocated to public education; and no more than 16 percent can be used for administrative costs.[6]

The California Lottery attempts to continuously improve and change its games to combat "player fatigue," a loss of interest reflected in declining sales. Lottery ticket sales started out at about $1.8 billion in the first year, growing to a peak of $2.6 billion in 1989. From there, ticket sales declined for a few years and then increased slightly each year until 1999 when sales reached $2.5 billion.[7] In 2000, the Lottery Commission changed the Super Lotto game to generate more interest.[8] In Fiscal Year 2002–2003, total sales reached $2.8 billion.[9]

Many states facing similar struggles to maintain sales have collaborated to host multi-state games, which provide a larger player base to generate larger jackpots and thus increase player interest in the game. California law would allow participation in a multi-state game.[10]

Multi-State lotteries

Multi-state lotteries are pari-mutuel in design; that is, the number of players participating determines the size of the prizes that can be offered. Multi-state lotteries were created by smaller states that lack the player base needed to generate large jackpots on their own. Each state pays a portion of the jackpot based on sales in that state and retains its portion of revenues earned. Multi-state lotteries usually offer larger starting jackpots than most individual state lotteries. Online game jackpots continue to grow after every drawing that fails to produce a winning number and multi-state "rollover" jackpots can accumulate into the hundreds of millions of dollars. Several multi-state lotteries operate in the U.S., but the best known are Powerball and Mega Millions (formerly the Big Game). (See Exhibit #1). Twenty-four states, Washington D.C. and the U.S. Virgin Islands offer Powerball, with draws every Wednesday and Saturday evenings and base jackpots starting at $10 million.[11] Powerball has produced jackpots as high as $314.9 million.[12] Eleven states Offer Mega Millions, with draws on Tuesday and Friday evenings. Base jackpots begin at $10 million and have risen as high as $363 million.[13] In comparison, the California Lottery base jackpot is $7 million and has risen as high as $193 million.[14] The California Lottery draws are on Wednesday and Saturday evenings.[15]

Exhibit #1[16]
Powerball and Mega Millions

Game	*Participating States*	*Minimum Jackpot*	*Largest Jackpot*
Powerball	Arizona, Colorado, Connecticut, Washington, D.C., Delaware, Indiana, Idaho, Iowa, Kansas, Kentucky, Louisiana, Minnesota, Missouri, Montana, Nebraska, New Hampshire, New Mexico, North Dakota, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, West Virginia, Wisconsin	$10 million	$295.7 million
Mega Millions	Georgia, Illinois, Maryland, Massachusetts, Michigan, New Jersey, New York, Ohio, Texas, Virginia and Washington	$10 million	$363 million

Sources: State Lottery Websites and the Texas Lottery Commission.

States that have joined multi-state lotteries have enjoyed increases in overall revenues ranging from 8 to 78 percent. A multi-state lottery will have a negative effect on other lottery games offered by the state as players switch their money to the new game. This is known as cannibalization and averages 24.43 percent for lotto games. There are also smaller decreases in other games. (See Exhibit #3.) The large jackpots, however, attract new players and encourage players to spend more, which more than offsets any loss to current games. (See Exhibit #2.)

Exhibit 2[17]

Revenue Changes Due to the Introduction of a Multi-State Lottery Game

	Pick 3	Cash 5	Lotto	Overall Change Due to Multi-State Lottery
Arizona	N/A	–23.0 %	–41.0%	+8.0%
Georgia	+6.6%	–0.9%	–18.0%	+7.0%
Louisiana	+1.0%	N/A	–14.0%	+78.0%
Michigan	+5.0%	–18.0%	–24.0%	+12.0%
New Jersey	–1.0%	–17.0%	–32.0%	+14.0%

Sources: Texas State Comptroller survey and Multi-State Lottery Association.

Exhibit 3[18]

Percentage Change in Online Games for the Most Populous States (all Mega Millions)

State	Pick 3	Cash 5	Lotto	Overall
Illinois	–4.23%	N/A	–20.45%	–2.35%
Georgia	+6.60%	–0.90%	–17.80%	+7.20%
Michigan	+4.93%	–18.00%	–23.61%	+12.34%
New Jersey	–1.10%	–16.82%	–32.18%	+13.98%
Virginia	–2.96%	–2.41%	–28.11%	–2.61%
Average	**+0.65%**	**–12.71%**	**–24.43%**	**+5.71%**

Source: Texas State Comptroller survey

Neighboring states

Despite gaming opportunities in neighboring states such as Oregon and Nevada, Anthony Molica, former Chief Executive Officer of the California Lottery Commission, predicts that many residents from these states would cross the border to play Mega Millions and other games if California joins these multi-state lotteries. According to Mr. Molica, the largest California Lottery retailers are near the Oregon border, at Lake Tahoe and at Baker, the first California town after leaving Las Vegas. Baker alone, for example, generates $6 million per year in revenue, mostly from Nevada residents.[19]

Possible barriers to California's participation in a multi-state lottery

There are two possible barriers to joining a multi-state lottery that must be evaluated by the Lottery Commission. The most important is the issue of pari-mutuel games vs. banked games. The California Lottery Act, as interpreted by the California Supreme Court, requires that the

California Lottery be conducted as a pari-mutuel game.[20] This means that the prize amounts depend on the amount of tickets sold. Powerball and Mega Millions are pari-mutuel games only for the top jackpot.[21] The lesser games are banked games; that is, games where the prize amounts are fixed without relation to the amount of tickets sold. The lottery is working with the multi-state lotteries to create a unique game for California in which all prizes are pari-mutuel.[22] If this is not possible, legislation will be necessary to permit banked games.

A second barrier to joining a multi-state game is that the California Lottery Act requires specific percentages of lottery revenue be used for prizes, administration and education. To the extent the Powerball or Mega Millions games are different, the Lottery Commission will need to pursue legislation to conform to the multi-state lottery.

Recommendations

A. **The California Lottery Commission should determine which multi-state lottery is best for California and take the necessary steps to join it.**

   When choosing which multi-state lottery to join, the California Lottery Commission should consider the days and times on which the draws occur to minimize conflicts with the California Lottery, the size of its jackpots, administration and start up costs and the participation of adjoining states.

B. **The Governor should work with the Legislature to amend the California Lottery Act to permit banked games. This permission can be limited to the multi-state lottery or it can be a general permission for all banked games.**

Fiscal Impact

If California participates in a multi-state lottery, additional funding, as illustrated in the following table, will be made available to public education. These figures are based on the following assumptions. There will be:

1. A 50 percent cannibalization rate or negative impact on the current $1,110,682,365 in revenues generated by the California SuperLotto game.
2. A participation rate in the multi-state lottery that will generate a gross revenue of $683,900,000.
3. An annual net increase in revenue of $128,558,818.
4. A continued level of 34 percent of revenue guaranteed to public education.
5. No negative impact on funding for public education due to start up costs as they will continue to be funded from the Lottery's administrative funds.

Special Revenue Fund—Lottery Funds
(dollars in thousands)

Fiscal Year	Net Additional Revenue	Cost	Funding for Education	Change in PYs
2004–05	$0	$0	$0	0
2005–06	$128,559	$84,849	$43,710	0
2006–07	$128,559	$84,849	$43,710	0
2007–08	$128,559	$84,849	$43,710	0
2008–09	$128,559	$84,849	$43,710	0

**Cost represents prizes, administration and all anticipated other costs.*

Note: The dollars and PYs for each year in the above chart reflect the total change for that year from 2003–04 expenditures, revenues and PYs.

Endnotes

1 *Gov. C. Section 8880 and following.*

2 *Proposition 20, "The Cardenas Textbook Act," requires that any increases in Lottery revenues to education over the amount received in 1997–1998 must be allocated to school districts and community colleges for the purchase of instructional materials. The majority of funds received from the Lottery are spent on staff salaries and benefits.*

3 *California Lottery Commission, "2003 California Report to the Public, "http://www.calottery.com/downloadfiles/pdf/LotteryAR2003English.pdf (last viewed May 6, 2004).*

4 *California Department of Education, "Report on Lottery Expenditures for K–12 Education 2001–2002," July 2003.*

5 *Gov. C. Section 8880.3.*

6 *Gov. C. Section 8880.4.*

7 *California Lottery Commission, "About the Lottery," http://www.calottery.com/about.asp#gamesandrevenue (last visited March 5, 2004).*

8 *California Lottery Commission, Press Release, April 28, 2002, http://www.calottery.com/newsflash/archives/000428.asp (last viewed March 5, 2004).*

9 *California Lottery Commission, "2003 California Report to the Public."*

10 *Section 8880.28 requires that any changes in the types of games or methods of delivery of these games that incorporate technologies or medium that did not exist or were not widely available in 1984 must be made by amendment of the Lottery Act, must be consistent with the purposes of the Lottery Act and must comply with applicable state and federal law.*

11 *Where to play Powerball, http://www.powerball.com/powerball/pb_map.asp (last viewed March 5, 2004).*

12 *MUSL Memo dated March 5, 2004, General Press Information.*

13 *Official home of Mega Millions, http://www.megamillions.com/aboutus/game_history.asp; http://www.megamillions.com/aboutus/lottery_faq.asp (last viewed March 5, 2004).*

[14] *California Lottery Home Page, Winners Gallery, Amazing Stats, http://www.calottery.com/winnersgallery/amazingstats/index.html (last viewed March 5, 2004).*

[15] *If the California Lottery were to join Powerball, the draws would be on the same day. This could result in confusion and a dilution of both games.*

[16] *"e-Texas, Limited Government, Unlimited Opportunity," GG 26, January 2003, http://www.cpa.state.tx.us/etexas2003/gg26.html (last viewed March 5, 2004).*

[17] *"e-Texas, Limited Government, Unlimited Opportunity," GG 26.*

[18] *Information provided by Gary Preuss, Texas Comptroller's Office, in email dated May 6, 2004.*

[19] *Anthony S. Molica, Chief Executive Officer of the California Lottery, interview, March 8, 2004.*

[20] *Government Code sections 8880 et seq., "Western Telecon vs. California State Lottery," 13 Cal. 4th 475.*

[21] *Dennis Sequiera, interim chief executive officer of the California Lottery, interview (April 28, 2004).*

[22] *Dennis Sequiera, interview (April 28, 2004).*

GG 06

Increase Lottery Sales and Funding to Public Education

Summary
The state's fiscal crisis and the public's reluctance to increase taxes requires that the state consider all available sources of additional funding for our public schools. The Lottery is one of these sources. Even though the Lottery generates about $1 billion a year for public education, it ranks at the bottom of the list in per capita sales when compared to the other large state lotteries in the nation.[1] This is because state laws prevent the lottery from offering the best lottery products.

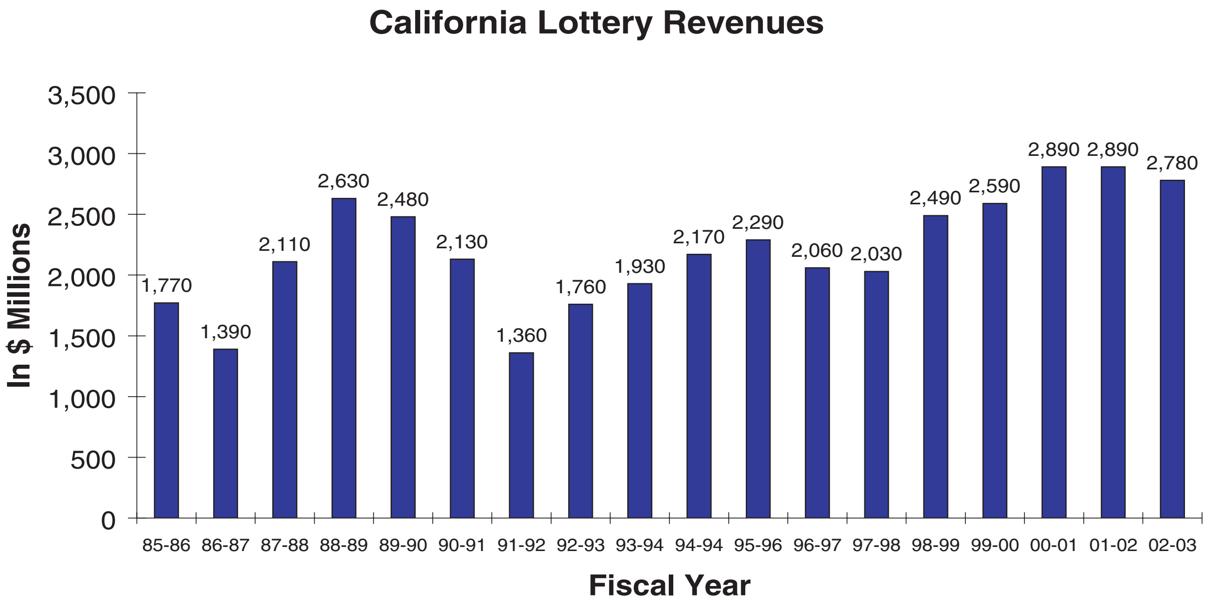
Background
California's lottery was created in 1984 when 58 percent of the electorate approved Proposition 37—The California State Lottery Act (The Lottery Act). The Lottery is the only for-profit business run by the state. All of the Lottery's funding is derived from the sale of lottery tickets, not the state General Fund. The Lottery has two basic products; computer generated draw games like SuperLOTTO Plus™ and instant scratch-off games known as Scratchers®.

The lottery's purpose is to provide supplemental funding for public education. The Lottery Act states that the Lottery must be run in a manner that makes the most money for education. In other words, the mandate of the voters is for the lottery to operate at maximum profitability. That mandate has yet to be fully realized.

A February 2004 analysis conducted by the world's largest provider of lottery systems concluded that: "The general consensus among national lottery experts is that California operates an under-producing lottery which currently grosses approximately $3 billion in annual revenues, when it should be earning twice that much or $6 billion annually."[2]

Lottery sales have been flat since Fiscal Year 2000–2001. Lottery officials believe that the only way to bring the lottery up to its full revenue generating potential and to ensure that revenues do not go down, is by changing state laws that prevent the lottery from increasing prize payouts, operating banked games and selling games with popular themes.

Exhibit 1



Increasing prize payouts

A proven strategy for lotteries across the country to generate additional funding for their beneficiaries has been to increase prize payouts. Higher payouts generate more winning experiences for players. This makes the games more entertaining and increases sales dramatically. Every lottery in the U.S. that has increased prize payouts has increased sales.[3] The most successful lotteries in the country have one major thing in common, a prize payout of at least 60 percent. There are 39 state lotteries, 36 of which allocate 60 percent or more of ticket sales to prizes. Two of the poorest performing lotteries, California and Louisiana, have a limited prize payout of only 50 percent of ticket sales.[4]

The Massachusetts State Lottery is the most successful lottery in the nation. It also has the highest prize payouts in the nation ranging from 60 percent to 79 percent of ticket sales. With a population of only 6.4 million, compared to California's population of over 35 million, Massachusetts out-produced California in 2002 total revenues by approximately $1.3 billion.[5]

In New York, the payout for their instant games was increased to 65 percent in 1999. After the fourth year of the program, contributions to education increased by more than $500 million a year with higher payouts a major contributing factor. In 2002, Florida increased instant game payouts from 56 percent to 67 percent. Revenues from these products increased 62 percent in the first year, thereby increasing annual contributions to education by $49 million the first year. In Texas, sales sharply declined from $3.7 billion to $2.5 billion after prize payouts were capped in 1998 at 52 percent. Four years after the cap was restored to its prior level, revenues have steadily increased to $3.1 billion.[6]

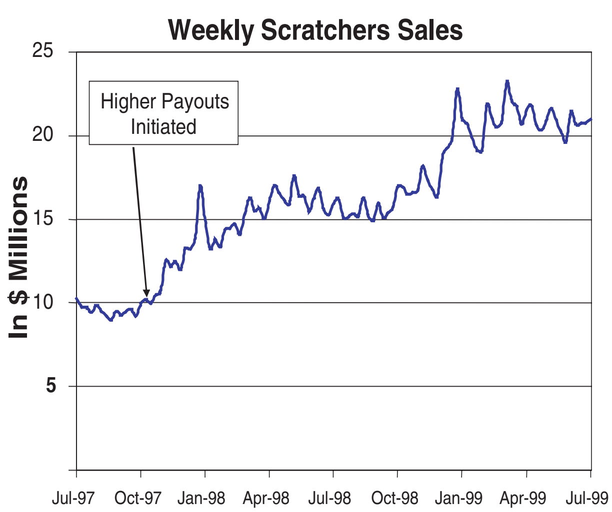
Top lottery officials from Massachusetts, New York, Florida, Texas and Georgia have recently stated that higher payouts were instrumental in increasing revenues and generating additional funds for their beneficiaries.[7]

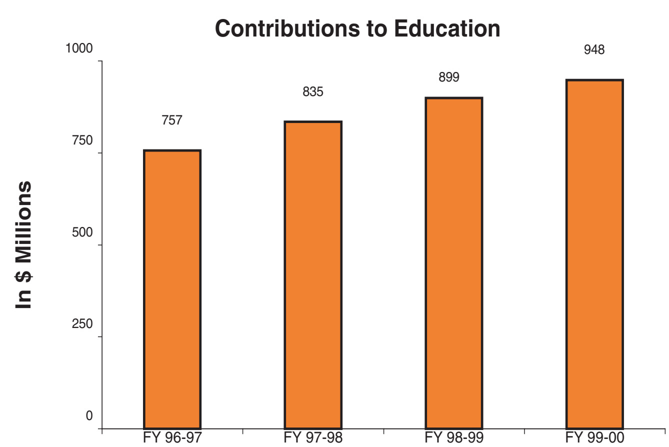
The Lottery Act does not give the lottery the flexibility to increase prize payouts. The Lottery Act requires that education receive at least 34 percent of gross lottery revenues, that 50 percent be allocated to prizes and no more than 16 percent to administration. Given these restrictions, the only way the lottery could increase prizes above 50 percent is to spend less on administration and put the savings into the prize fund.

In 1997 the lottery did just that. It streamlined its business processes and cut its workforce by nearly 30 percent. The result was a reduction in administrative expense from 16 percent to 13.5 percent. The Lottery took those savings and put them into the Scratchers® prize fund. This relatively small increase in payouts more than doubled revenues in 20 months from just under $10 million per week in the fall of 1997 to more than $20 million per week in the summer of 1999.[8] Total contributions to public education increased by $191 million after three years, primarily due to this program.[9]

Exhibit 2

Effect of Higher Payouts in California 1997–2000





Over the last three years, the lottery has managed to keep its administrative budget at about 13.5 percent and Scratchers® sales have leveled off at about $30 million per week. Although the lottery could increase sales more, it cannot afford to do so because it does not have the necessary prize funds. Lottery officials believe that further cuts in administrative expense to increase prize payouts are not possible without seriously jeopardizing the lottery's operations and security.[10]

Prohibition against banked games

In 1996, the California Supreme Court issued an opinion in *Western Telecon* v. *California State Lottery* 13 Cal.4th 475 that forced the lottery to eliminate banked games and become the only lottery in the nation that cannot offer games with fixed prizes.[11]

In a banked game, players always know how much they will win for matching a given combination of winning numbers. The prize amount is predetermined or "fixed." For example, players who match five out of six numbers will always win $100,000 regardless of whether or not there is enough money in the prize pool to cover that amount. Accordingly, in banked games, "the house" stands to make or lose money depending on the number of winners for any given drawing. As a result of the California Supreme Court's decision, all lottery games must be pari-mutuel. In a pari-mutuel game all of the money in the prize pool is divided equally among all of the winners in that pool. Players, therefore, never know how much they will win until after the drawing is over. Players may win $80,000 one day for matching five out of six numbers and only $30,000 for the same winning number combination on another day.

There is a maxim in the lottery industry that a fixed prize payout invariably results in more gaming activity because players like to know how much they can win.[12] The lottery's experience suggests that this maxim is true. When the Lottery offered Keno as a banked game it earned $8 million per week. Immediately after the Supreme Court's ruling, the lottery suspended Keno and replaced it with Hot Spot, a keno game with pari-mutuel prizes instead of fixed prizes. Sales fell from $8 million per week to about $3.3 million per week. This illustrates how much more popular and profitable the same game can be when offered as a banked game.[13]

Prohibition against popular game themes

The Lottery Act contains some of the most stringent restrictions on game themes in the nation, specifically banning the use of roulette, dice, baccarat, blackjack, Lucky 7's, draw poker, slot machines and dog racing. These so-called "casino themes" are very popular in more successful U.S. lotteries. The California lottery, however, cannot employ the themes that are most successful in the gaming marketplace or the games that work most productively in tandem.[14]

In 2002, Senate Bill (SB) 1932 (Chapter 888, Statutes of 2002) was passed that lifted the restriction against the use of bingo-themed lottery games. The Lottery introduced a Bingo

Scratchers® game in 2003 and it has become the top-selling Scratchers® game grossing over $3 million per week. For the entire Scratchers® product category, sales through the first five months of this fiscal year are about $20 million higher than for the same period last year due primarily to the new bingo game.[15]

Attempts to change the law

There have been two unsuccessful attempts to change the law to allow the lottery to pay out more in prizes. There have not been any attempts, however, to change the law to allow the lottery to offer banked games. Prior legislation initially intended to eliminate all game theme restrictions was amended to just eliminate the restriction against the use of the bingo-theme, as noted above.

SB 930 was introduced in the 2001 legislative session and SB 329 was introduced in the 2003 legislative session. Both of these bills would have increased the percentage of gross lottery revenues allocated to prizes by reducing the percentage allocated to education and administration. SB 329 also had a sunset clause and it guaranteed that education would continue to receive at least $1 billion dollars per year from the lottery. The California Teacher's Association (CTA) opposed both of these bills and neither one made it out of the Legislature.

Assembly Bill 2938 is under consideration in the current legislative session. This bill would allow increasing allocations to payouts to 62 percent, reducing allocations to education to 25 percent and reducing allocations to administration to 13 percent. Like SB 329, it has a sunset clause and a $1 billion dollar guarantee to education. CTA has already expressed its opposition to this bill.[16]

The bottom line

California lottery players, retailers and, most importantly, its public schools, all stand to gain from changing state laws that restrict the lottery's ability to increase sales. These changes are not only consistent with the mandated purpose of The Lottery Act as approved by the voters, they represent the only risk-free way to ensure that lottery dollars to education will not actually decrease. These changes are also less controversial than other revenue generating opportunities, such as allowing the lottery to operate Video Lottery Terminals (electronic slot machines).

Recommendation

The Governor should work with the Legislature to change state law to allow the California Lottery to pay out more in prizes, offer banked games and games with popular themes.

Fiscal Impact

Reducing allocations to education and Lottery administration, resulting in increased allocations to prize payouts by at least 62 percent of gross revenue, will generate more than $250 million per year in additional funds for public education by the third fiscal year after implementation.[17] This increase will come from higher price point Scratchers® games that sell for $5, $10 and $20 each. The Lottery has been unable to offer these very successful products because payout restrictions limit it to offering $1, $2 and $3 games.

California was the only state in the country that did not offer a $5 game last year. This year, 26 states are offering $10 instant games and six states are offering $20 instant games. The average payout for these games is about 70 percent.[18]

Reinstituting banked games will generate about $78 million per year in additional funds for public education by the third full fiscal year after implementation. This increase will come from replacing the pari-mutuel Hot Spot game with the original fixed-prize Keno game and from introducing a new draw game with fixed prizes in FY 2007–2008. Hot Spot grosses about $170 million per year; Keno grossed about $400 million per year. The lottery believes that it can recapture about 75 percent of this lost revenue and boost gross sales from $170 million to around $300 million per year. The Lottery also believes that it can introduce a new fixed prize draw game that should gross at least $100 million per year.[19]

Eliminating game theme restrictions will generate about $15.6 million per year in additional funds for public education by the second fiscal year after implementation. Given that bingo is the most popular instant game theme in the nation, revenue estimates assume that a new theme game will only generate 40 percent of the annual gross revenue (or about $62 million) that the Bingo Scratchers® generate today. This figure also assumes that the Lottery has the ability to increase prize payouts and that education will receive 25 percent of the $62 million. Lottery officials believe that without higher payouts, they will be unable to take full advantage of the more popular casino themed games like blackjack and poker.[20]

The following table shows the anticipated additional funds that public education will receive if the Legislature changes state law to increase prize payouts, allow banked games and eliminate game theme restrictions prior to FY 2005–2006. These funds are in addition to the $1 billion per year that the lottery currently raises for education each year. First and second year additional funds from increased prize payouts and the elimination of game theme restrictions are lower to allow time for new product development and distribution and player and retailer acceptance. Additional funds from banked games increase significantly in the third year with the introduction of a new fixed-prize draw game in FY 2007–2008. Because the lottery is not a General Fund agency, all costs associated with implementing these changes will be absorbed by the lottery.

Additional Revenues—Education
(dollars in thousands)

Fiscal Year	Revenues	Costs	Net Savings (Costs)	Change in PYs
2004–05	$0	$0	$0	0
2005–06	$90,900	$0	$90,900	0
2006–07	$239,800	$0	$239,800	0
2007–08	$346,800	$0	$346,800	0
2008–09	$346,800	$0	$346,800	0

Note: The dollars and PYs for each year in the above chart reflect the total change for that year from 2003–04 expenditures, revenues and PYs.

Endnotes

1 *California State Lottery, "Increasing Lottery Contributions to Education" (Sacramento, California), p. 1.*

2 *GTECH Corp., "A Tale of Two Lotteries: California and Massachusetts" (Sacramento, California, February 2004), p. 1.*

3 *California State Lottery, "Fact Sheet: Assembly Bill 2938 (Plescia)" (Sacramento, California, April 2004), p. 1 (fact sheet).*

4 *GTECH Corp., "A Tale of Two Lotteries: California and Massachusetts," p. 2.*

5 *GTECH Corp., "A Tale of Two Lotteries: California and Massachusetts," p. 1.*

6 *California State Lottery, "Fact Sheet: Assembly Bill 2938 (Plescia)," p. 1.*

7 *Memorandum from Jim Acton, chief of staff, Massachusetts State Lottery, to Dennis Sequeira, acting director, California State Lottery (April 27, 2004); and e-mail from Gardner Gurney, director of Finance and Administration, New York State Lottery to Dennis Sequeira, acting director, California State Lottery (April 27, 2004); and e-mail from Robert Nave, chief of staff, Florida State Lottery, to Dennis Sequeira, acting director, California State Lottery (April 28, 2004); and memorandum from Robert Tirolini, online product manager, Texas Lottery Commission, to Dennis Sequeira, acting director, California State Lottery (April 30, 2004); and memorandum from Margaret R. DeFrancisco, president and CEO, Georgia Lottery Corporation, to Dennis Sequeira, acting director, California State Lottery (April 30, 2004).*

8 *California State Lottery, "Lottery Bulletin 1999-1 Higher Payout Scratchers" (Sacramento, California, Fiscal Year 1999–2001), p. 1.*

9 *California State Lottery, "Fact Sheet: Assembly Bill 2938 (Plescia)," p. 2.*

10 *California State Lottery, "Lottery Bulletin 1999-1 Higher Payout Scratcher," p. 2.*

11 *Letter from Anthony S. Molica, chief executive officer, California State Lottery, to Marybel Batjer, cabinet secretary, California Office of the Governor (December 1, 2003), p. 5.*

12 *GTECH Corp., "A Tale of Two Lotteries: California and Massachusetts," p. 3.*

13 *GTECH Corp., "A Tale of Two Lotteries: California and Massachusetts," p. 4.*

14 *GTECH Corp., "Changes to the California Lottery Act: How to Drive Increased, Non-tax Revenues for California Education" (Sacramento, California, March 2004).*

15 *Letter from Anthony S. Molica, chief executive officer, California State Lottery, to Marybel Batjer, cabinet secretary, California Office of the Governor (December 1, 2003), p. 6.*

16 *E-mail from Randy Cheek, legislative liaison, California State Lottery (April 16, 2004); and interview with Dennis Sequeira, chief deputy director, California State Lottery (April 22, 2004).*

[17] *California State Lottery, Estimated Revenue Under AB 2938 (Plescia) (Sacramento, California, April 2004).*

[18] *"U.S. Lotteries' FY 03 vs. FY04 Prize Payout by Price Point," "LaFleur's Magazine" (July/August 2003).*

[19] *Interview with Dennis Sequeira, acting director, California State Lottery and Jim Hasegawa, Marketing director, California State Lottery, Sacramento, California (April 30, 2004).*

[20] *Interview with Dennis Sequeira, acting director, California State Lottery and Jim Hasegawa, Marketing director, California State Lottery.*

GG 07

Maximize Federal Grant Funds

Summary
California does not receive its fair share of federal grant funds. To increase federal grant funds, all of the state's grant activities related to determining eligibility for or receiving federal grants should be consolidated in a single entity.

Background
The federal government distributed more than $362 billion in various formula-driven and special grant funds to state and local entities in Fiscal Year 2001–2002. California's share of total federal grants awarded was 11.8 percent, or $42.7 billion. Ninety-five percent of California's share of grants is received for such programs as Medicaid, highways, welfare, education assistance and nutrition programs. These grants generally use congressionally developed formulas, often based on some combination of population, income, poverty, or similar data.[1]

California is simultaneously poor, wealthy, young, urban and immigrant.[2] California's unique population makeup results in formula calculations that do not represent the state's population characteristics. Some formula grants distribute funding based on population data and the choice of the year for which population is analyzed can significantly influence grant amounts. For example, a recent audit conducted by the California Bureau of State Audits found that federal grants received by California in FY 2001–2002 were $5.3 billion less than an allocation based on population share alone.[3] If current population data had been used to compute federal formula grants, California would have received more than $48 billion in federal funds rather than $42.7 billion actually received.

Funding formulas that do not allocate funds based on accurate population data result in lower grant funding for large states like California. For example, the federal Workforce Investment Act provides federal funds to administer the state's job training and workforce preparation system. The funding formula for this program requires that 1999 census data be used to compute California's share of grant funds. If more current available census data were used, California would have received an additional $30 million in FY 2003–2004.[4]

In federal FY 2001–2002, California sent $58 billion more to Washington in federal taxes than the state received back in federal spending.[5] This equates to California receiving 77 cents in federal payments and services for every dollar sent to Washington.[6]

California does not have an established process to analyze and revise the impact that formula grants have on its economy and services provided until after the state's fiscal year ends.[7] This directly impacts various populations served and the level of services provided to them. The federal Homeland Security grant illustrates the point. On March 1, 2003, the federal Department of Homeland Security was created as a new federal agency.[8] It allocates federal grants to help state and local governments and other eligible entities support the activities of the nation's first responders, such as police and fire fighters.

The Department of Homeland Security was directed to award monies to states based on a calculation spelled out in the USA Patriot Act.[9] The formula provides that nearly half of its more than $2 billion be divided equally among the states and other recipients, regardless of size. The remaining funds are distributed based on population. As a result, California received $5 per person to distribute to first responders in the state, while Wyoming received more than $35 per person in FY 2003–2004.[10] California would have seen this coming and perhaps avoided it, had there been an established process to analyze the impact to California and a mechanism for petitioning Congress for equitable allocations.[11]

The Governor's Office of Planning and Research operates a clearinghouse which is supposed to be the single point of contact for review of federal grants or loans. The clearinghouse does not audit the federal grants received by the state for completeness, timeliness or accuracy. It performs a reporting function that amounts to little more than gathering cover pages for selected federal grant opportunities and then reports the information in a bi-monthly electronic newsletter.[12]

In California, each agency independently lobbies for federal grant funding for its own programs. There is no single point of contact for federal grants.[13] A consolidated process dedicated to grant planning and evaluation would allow California to compete successfully with other states for these funds. This process would focus on securing California's fair share of federal grant funds. In addition, California does not have an established process to verify whether all available federal funds are identified, tracked and received.

Indirect cost rate

The federal government pays the direct costs and the indirect costs for federal grants to state agencies and departments. Generally, a direct cost is one that is incurred for one activity. Indirect costs benefit several activities, such as auditing and accounting functions necessary to oversee grants. These costs are reimbursed based on federal regulations and cost accounting principles. Each state department that receives federal funds must prepare an Indirect Cost Rate Plan (ICRP) that is sent annually to DOF. The ICRP is used to seek reimbursement from the federal government for indirect costs. Federal grant award rules provide that if an ICRP is not prepared or available it will impact future awards. The preparation of the ICRP is a complex process that requires fundamental knowledge of allowable federal indirect costs. Incomplete or inaccurate data will compromise the state's ability to fully recover indirect costs.

DOF is responsible for ensuring that the ICRP is accurate and submitted timely, but the one position assigned to oversee the ICRP process is vacant. State law does not authorize DOF to impose penalties on departments that do not submit their ICRP timely or accurately. In addition, in FY 2002–2003 the state only recovered 8 percent of the amount recoverable from the federal government. That translates to a loss of more than $700,000 per year to the state.[14]

Other states—Texas

In federal FY 2002–2003, Texas received 92 cents in federal payments and services for every dollar sent to Washington.[15] Federal funds are the second largest segment of the Texas state budget, accounting for $39.2 billion, or more than one-third of FY 2004–2005 appropriations. This appropriation was an increase of $2.17 billion from the previous fiscal year.[16]

Texas' Office of State-Federal Relations is charged with increasing federal revenue to Texas by monitoring federal activity in Washington and attempting to modify federal decisions in the state's favor. To achieve these goals, the office works with the state's congressional delegation, the governor, the legislature and state agencies.[17]

Texas hired Maximus® to perform its indirect cost rate calculations for federal grants. Denise Francis, Director of State Grants, says the contract has resulted in millions of additional dollars in federal revenue to Texas.[18]

Other states—New York

In federal FY 2002–2003, New York received 85 cents in federal payments and services for every dollar sent to Washington.[19] New York, like Texas, has been increasing its monitoring of the federal dollars it receives. New York's Management and Governmental Relations Unit coordinates the state's fiscal policies and actions affecting federal and local governments, with particular emphasis on shaping the state's response to fiscally distressed communities and federal program initiatives.

Each New York state department is responsible for computing its own indirect cost rate, similar to California's process.

Recommendations

A. **The Governor should consolidate all monitoring activities related to determining eligibility for and receipt of, federal grant money in a special unit within the Governor's Office of Planning and Research.**
   This unit should monitor federal grant programs and alert the Governor when grant funding opportunities arise or when grant funding inequities may occur. It should also become the single point of contact to communicate with all state departments and agencies on grant-related issues.

B. **The federal grant unit should develop aggressive grant funding policies to ensure that it receives a fair share of the federal grant resources available.**

This may include revising current spending to comply with federal regulations, thus allowing California to qualify for more federal dollars.

C. **The Governor should direct all state agencies to utilize the Department of General Services' Revenue Maximization Master Services Agreement to hire professional vendors to obtain a greater number of federal grants whenever applicable.**

Fiscal Impact

Increased revenue from the indirect cost rate

DOF collects information from all state agencies and departments to calculate the indirect cost rate. This information is not audited or verified for accuracy. However, DOF projects each year the amount that should be collected from the indirect cost rate. For the past eight years California has collected about 8 percent of the amounts identified as indirect costs. This leaves more than $700,000 per year of uncollected indirect costs. For example, DOF recovered about $60,000 in FY 2002–2003 of the $760,000 projected to be available to reimburse indirect costs.[20] If the indirect costs are not recovered from the federal government or other sources, then General Fund dollars are used to pay for the costs.

Significant potential revenue from federal advocacy

California's share of federal grant monies has declined every year for the past eight years. Each decline results in billions of dollars of federal revenue from California going to other states. California receives 77 cents in federal payments and services for every dollar sent to Washington.[21] Texas receives 92 cents of every tax dollar sent to the federal government.[22] Each percent translates to more than $2 billion dollars in federal payments.[23] If California prioritized federal grant funding similar to Texas, California would garner additional federal grant dollars.

If federal grants were distributed to the states based on population share alone, an additional $5.3 billion would be received by the state.[24] Texas increased the amount of federal funds it received by 6 percent in FY 2004–2005.[25] If California achieved the same level of increase that Texas has achieved, it would result in an additional $2.6 billion in federal funds once full implementation has occurred.

Federal Revenue
(dollars in thousands)

Fiscal Year	Revenues	Costs	Net Savings (Costs)	Change in PYs
2004–05	$0	$0	$0	0
2005–06	$1,300,000	$0	$1,300,000	0
2006–07	$1,950,000	$0	$1,950,000	0
2007–08	$2,350,000	$0	$2,350,000	0
2008–09	$2,600,000	$0	$2,600,000	0

Note: The dollars and PYs for each year in the above chart reflect the total change for that year from 2003–04 expenditures, revenues and PYs.

Endnotes

1 *California State Auditor, Bureau of State Audits, "Federal Funds: The State of California Takes Advantage of Available Federal Grants, but Budget Constraints and Other Issues Keep It From Maximizing This Resource," Report Number 2002-123.2 (Sacramento, California, August 2003), p. 1.*

2 *Public Policy Institute of California, "Factors Determining California's Share of Federal Formula Grants, Second Edition," by Tim Ransdell (San Francisco, California, February 2004), p. 40.*

3 *California State Auditor, Bureau of State Audits, "Federal Funds: The State of California Takes Advantage of Available Federal Grants, but Budget Constraints and Other Issues Keep It From Maximizing This Resource," p. 1.*

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5 *The California Institute for Federal Policy Research, "California Institute Special Report: California's Balance of Payments with the Federal Treasury, Fiscal Years 1981–2002," (Washington, D.C.), p. 1.*

6 *The California Institute for Federal Policy Research, "California Institute Special Report: California's Balance of Payments with the Federal Treasury, Fiscal Years 1981–2002," p. 2.*

7 *U.S. Senator Dianne Feinstein, "Citing Lack of Funding for California, Senator Feinstein Seeks Changes in Homeland Security Funding," Washington, D.C., July 25, 2003. (Press release.) Funding for the Homeland Security grant was done in March of 2003.*

8 *Public Law 107-296, "Homeland Security Act of 2002," November 25, 2002.*

9 *Public Law 107-56, "Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA Patriot) Act of 2001," October 26, 2001.*

10 *Public Policy Institute of California, "Federal Formula Grants and California, Homeland Security," by Tim Ransdell (San Francisco, California, January 2004), p. 2.*

11 *Interview with Tim Ransdell, author, California Public Policy Institute (April 8, 2004). Mr. Ransdell stated that the Homeland Security grant caught California off guard because the impact was not analyzed until after the appropriation.*

[12] *Interview with Terry Roberts, director, State Clearinghouse, Governor's Office of Planning and Research, Sacramento, California (March 5, 2004); and Department of General Services, "State Administrative Manual," Section 0911, Sacramento, California (March 27, 2003).*

[13] *The Governor appointed Stacy Carlson as his top Washington lobbyist on January of 2004. However, California does not have one central location for all federal and grant funding activities related to determining eligibility for and receipt of federal funds.*

[14] *Interview with Wanda Kelly, senior administrative analyst, Fiscal Systems and Consulting Unit, Department of Finance, Sacramento, California (March 17, 2004). Ms. Kelly provided documentation to support amount collected. Information provided is un-audited. Based on interview with Wanda Kelly the information may contain inaccurate amounts.*

[15] *Tax Foundation, "Federal Taxing and Spending Benefit Some States, Leave Others Footing the Bill" (Washington, D.C., August 2003), p. 3.*

[16] *Texas Office of State-Federal Relations, "Texas Federal Priorities 108th Congress, 2nd Session" (Washington, D.C., March 2004) p. 1.*

[17] *Interview with Tony Gilman, director, Office of State-Federal Relations, Austin, Texas (May 27, 2004).*

[18] *Interview with Denise Francis, director of State Grants, State of Texas, Austin, Texas (March 22, 2004). She did not provide an exact dollar amount collected by Texas for their indirect costs.*

[19] *Tax Foundation, "Federal Taxing and Spending Benefit Some States, Leave Others Footing the Bill," p. 3.*

[20] *Department of Finance, "Internal Spreadsheet," Sacramento, California, March 17, 2004 (computer printout).*

[21] *The California Institute for Federal Policy Research, "California Institute Special Report: California's Balance of Payments with the Federal Treasury, Fiscal Years 1981–2002," p. 2.*

[22] *Tax Foundation, "Federal Taxing and Spending Benefit Some States, Leave Others Footing the Bill," p. 3.*

[23] *77 cents (CA share of federal dollars) – $1 = 23 cents under recovered federal dollars. The 23 cents divided by $58 billion (not given back from the federal government) = $2.5 billion per cent increase. Assumption: each penny increase equates to more than $2 billion dollars.*

[24] *California State Auditor, Bureau of State Audits, "Federal Funds: The State of California Takes Advantage of Available Federal Grants, but Budget Constraints and Other Issues Keep It From Maximizing This Resource," p. 1. Audited numbers obtained from the audit work papers. The $5.3 billion is based on audit work papers C4.1-2.4/1.*

[25] *Texas Office of State-Federal Relations, "Texas Federal Priorities 108th Congress, 2nd Session," p. 1. Assumption: Texas increased their federal dollars by 6% in Fiscal Year 2004–2005. The 6% is an increase of total federal dollars allocated to Texas. They went from $37.03 billion in FY 2002–2003 to $39.2 billion in FY 2004–2005. This is an increase of $2.17 billion.*

GG 08

Putting Californians First—Creating a Customer Service Framework

Summary

California state government lacks a statewide system to improve customer service. State departments do not consistently assess customer satisfaction, benchmark best practices in customer service or develop and implement customer service standards. As a result, the state is unable to effectively improve its business processes to ensure that it is meeting customer needs.

Background

California Governor Arnold Schwarzenegger's Executive Order S-5-04, which created the California Performance Review, states ". . . the people of California have. . . made clear their desire for a government that is a better provider of services, more responsive and more accountable. . ."[1] Various efforts have been launched, at both the federal and state levels, to make government less costly and more responsive.[2] Many of these public sector initiatives have focused on improving customer service.

Federal customer service models

In September 1993, President Bill Clinton issued Executive Order 12682 that required federal agencies to establish and implement customer service standards, customer surveys and customer service plans. All executive departments and agencies that provide significant service directly to the public were required to take the following actions:

- Identify the customers who are, or should be, served by the agency.
- Survey customers to determine the kind and quality of services they want and their level of satisfaction with existing services.
- Post service standards and measure results against them.
- Benchmark customer service performance against the best in business.
- Survey front-line employees on barriers to and ideas for, matching the best in business.
- Provide customers with choices in both the sources of service and the means of delivery.
- Make information, services and complaint systems easily accessible.
- Provide means to address customer complaints.

The order encouraged federal agencies to provide customer service training to employees who directly serve customers. The order also directed agencies with high levels of public contact to publish a customer service plan within one year.[3]

The federal government also created the National Partnership for Reinventing Government (NPR). During its eight years of operation (1993–2001), the NPR's purpose was to create a federal government that works better, costs less and gets the results that citizens care about. The NPR looked to the private sector for innovations such as adopting a strong customer focus, a mindset rarely associated with government bureaucracies. The NPR accomplishments included reducing the federal workforce by 426,000 and recommending efficiency measures that achieved approximately $136 billion in savings.[4]

State-level customer service improvements

The California Franchise Tax Board (FTB) developed a strategic plan that identifies customer-centered service as its number-one goal. This goal has been deployed to the individual employee level and has been incorporated as a performance measure for the Board's Collection Call Center employees. For example, an FTB collection call center team has identified what the customer expects from them—courteous, professional and flexible service, as well as effective problem solving. The team has developed a customer service evaluation form used to evaluate its interaction with customers.

Since February 2004, the California Department of Motor Vehicles (DMV) has reduced wait times from as high as three and one-half hours to a statewide average of 30 minutes within its 90 major field offices.[5] The department accomplished this by identifying and adopting the best customer service practices that were in place at outstanding field offices. The best practices identified include the following:

- Create and share a baseline of workload performance with all team members and work together to establish goals for achieving higher levels of performance.
- Use data available to educate employees about the office's overall performance.
- Use the strengths and knowledge of front-line employees to make changes in workflow, processing, scheduling, etc. Front-line employees provide face-to-face customer service and have a clear understanding of customer needs.
- Understand office workload trends and peak workload periods and adjust staffing levels accordingly.
- Use a "heads-up" management approach to quickly identify when intervention is required, so that technicians can move on to other customers.
- Practice "once and done" processing methodology to reduce and/or eliminate the need for the customer to return. This methodology requires that each customer service transaction be performed one time only and performed correctly the first time, thus eliminating or reducing the need for the transaction to be handled by multiple employees and the customer to make return trips or phone calls to the department.
- Provide full cross-training to staff to increase their ability to work in several areas of the office.[6]

In 2003, Governor Gary Locke of Washington issued an executive order to improve customer service by establishing customer service standards. All state departments were directed to assess customer satisfaction and to report the progress quarterly to the Governor's office.

The executive order also required departments to establish complaint systems to track and resolve customer service problems.[7]

The Governor established the Office of Quality and Performance within the Governor's office to administer the executive order. The office is staffed by two people and the budget is provided by a funding pool created from contributions from all of the departments.[8] The office meets monthly with all of the departments' Internal Quality Consultants as a group to provide guidance and training. The training needs of individual departments are assessed in separate quarterly meetings with the Internal Quality Consultant of each department. Action plans are developed and implemented to address any training needs.

In 2003, Oregon's Governor Ted Kulongoski issued an executive order to streamline regulations and improve customer service. State regulatory agencies were ordered to evaluate customer service delivery and customer satisfaction and required to submit customer service improvement plans to the Governor.[9] The Office of Regulatory Streamlining was created to implement this executive order. It is located within the Consumer and Business Services Department. Other states have established similar customer service, quality improvement, government efficiency and performance units. For example, in Minnesota, the Office of Strategic Planning and Results Management is housed within the Department of Administration.[10] In Iowa, the Iowa Excellence Program is housed within the Department of Management.[11] Virginia's Results Program is housed within the Department of Planning and Budget.[12]

Customer service must drive strategic and budgeting direction

The NPR also sponsored a consortium to study the role of the customer in the private sector, as a benchmark for federal agencies. The consortium found that in private organizations, customer satisfaction drives performance, budgeting and strategic direction. Many organizations have structured their entire businesses around customer groups and serving their needs. [13]

California state government should adopt similar customer-focused approaches in their strategic and budget planning. Customer service must be a strategic goal of each department and customer satisfaction must be continually assessed to determine how well a department is performing. Each department's strategic plan should address identified deficiencies in customer service.

A study by KPMG Public Services concluded that successful state governments must demonstrate that they are delivering value to customers and that customers determine the value of services they receive. This can be possible if state government employees are trained in developing customer service standards and achieving customer satisfaction.[14]

Benchmarking is key to improving customer service

Benchmarking is the process of continuously comparing and measuring an organization's business processes and practices against those of successful businesses to gain information that will help the organization take action to improve. Effective benchmarking can be a catalyst for change within government by establishing performance measures and accountability; recognizing excellent customer service and inspiring competition; and establishing a basis for continuous improvement.

California does not have a statewide approach to benchmarking and process improvement. Therefore, with few exceptions, the state is unable to take advantage of some of the best practices of other organizations to improve on its own operations.

Recommendations

A. **The Governor should establish, by Executive Order, a statewide customer service system. The Executive Order, titled "Putting Californians First" should include the following components:**

   - Customer Service Action Plan: The plan should establish customer service standards, including measuring performance and customer satisfaction.
   - Compact with Customers: A written commitment should specify how a department will serve its customers.
   - Customer Service Coordinator: Each department should have a Customer Service Coordinator who will be responsible for the department's customer service program as defined by the Executive Order.
   - Customer Service Award: Outstanding departments and employees should be recognized.

The Executive Order would require all agencies and employees to take the following specific actions to improve customer service and develop a Customer Service Action Plan:

Agencies

- Identify customers
- Survey the customers' satisfaction levels
- Establish customer service standards
- Benchmark and measure customer service performance
- Compile customer survey results
- Survey front line employees
- Develop improvement plans
- Implement a complaint system
- Develop a written compact with the customers
- Report survey results
- Report progress on improvements

- Designate a departmental Customer Service Coordinator that would report to the department's executive office

Employees
- Provide input on employee surveys
- Implement improvement plans
- Respond to complaints
- Resolve customer service problems
- Adhere to customer service standards
- Apply for awards
- Use customer service tool kit (see description below)

B. The Executive Order should create a Governor's Customer Service Office (GCSO) to oversee the implementation of the above steps.

The GCSO should consist of an executive leader and a yet-to-be-determined number of staff to oversee and assist in the deployment of the Executive Order and departments' Customer Service Training Plans.

C. The GCSO should provide customer service training to the departments' Customer Service Coordinators.

The training would be conducted in two segments. The first segment would consist of an initial classroom training to the Customer Service Coordinators from each agency. They would be provided "tool kits" that would include guidelines, best practices and strategies for implementing each component of the executive order and the departments' Customer Service Action Plan. The second segment would consist of quarterly workshops for the Customer Service Coordinators. The workshops would provide additional training on each component of the executive order. The GCSO would invite subject matter experts in the various areas of customer service to conduct the workshops. The Customer Service Coordinators would, in turn, provide customer service training to departmental employees, as needed.

D. The GCSO should develop a website that would contain descriptions of its purpose, mission and vision; the Executive Order; customer service reports; and notices of customer service awards. The website would provide the aforementioned tool kits, as well as links to related customer service sites.

E. The GCSO should receive and review customer survey results and improvement plans from the departments.

F. The GCSO should establish and award customer service awards to departments.

Fiscal Impact

The workload associated with GCSO and the Customer Service Coordinators within the agencies, should be met with existing resources and allocations.

Endnotes

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3 *The White House, "Executive Order No. 12862, Setting Customer Service Standards," Washington D.C., September 11, 1993.*

4 *Social Policy Action Network, "What States and Communities Can Learn From Eight Years of Federal Reinvention," by Kathleen Sylvester and Michael Umpiere (Baltimore, Maryland, 2001), p. 2.*

5 *Interview with Ken Miyao, Deputy Director, Registration, Department of Motor Vehicles, Sacramento, California (May 28, 2004). Wait times may increase during peak periods such as a three-day holiday weekend.*

6 *Memorandum from Dorothy L. Hunter, deputy director, field operations, Department of Motor Vehicles, to regional administrators, Department of Motor Vehicles (February 24, 2004).*

7 *State of Washington, "Executive Order 03-01, Service Delivery," Olympia, Washington.*

8 *Interview with Mary Campbell, special assistant for quality and performance, Washington Office of the Governor, Olympia, Washington (June 2, 2004).*

9 *State of Oregon, "Regulatory Streamlining," Executive Order 03-01, Salem, Oregon, February 20, 2003.*

10 *Interview with Jay Stroebel, State Results Leader, Office of Strategic Planning and Results Management, Minnesota Department of Administration, St. Paul, Minnesota (June 2, 2004).*

11 *Iowa Department of Management, "Iowa Excellence," http://dom.state.ia.us/planning_performance/iowa_excellence/index.html (last visited June 7, 2004).*

12 *Interview with William L. Murray, deputy director of Policy, Virginia Office of the Governor (April 23, 2004).*

13 *National Performance Review, "Serving the American Public: Best Practice in Customer-Driven Strategic Planning," Federal Benchmarking Consortium Report (February 1997), http://govinfo.library.unt.edu/npr/library/papers/benchmrk/customer.pdf (last visited June 3, 2004.)*

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DRAFT DRAFT

STATE OF CALIFORNIA

EXECUTIVE ORDER

by the

Governor of the State of California

WHEREAS, putting Californians first means ensuring that the California Government provides the best possible customer service to the people. Government officials must embark upon a new direction within the State Government to change the way it does business. This effort will require innovative reform of the executive branch's management practices and operations to provide public sector customer service that matches or exceeds the best service available in the private sector.

NOW, THEREFORE, I, ARNOLD SCHWARZENEGGER, Governor of the State of California, by virtue of the power and authority vested in me by the Constitution and statutes of the State of California, do hereby issue this Executive Order to become effective immediately:

1. Customer Service Standards. To carry out the principles of the California Performance Review, the State government must satisfy the customer. The customers' needs will determine the planning, performance measurement and budgeting strategies of every department. The departments will establish customer service standards that are equal to the best in business. For the purposes of this order, "customer" shall mean an individual or entity who is directly served by a department or agency. "Best in business" shall mean the highest quality of service delivered to customers by private organizations providing a comparable or analogous service.

All executive departments and agencies (hereinafter referred to collectively as "agency" or "agencies") that provide significant services directly to the public shall provide those services in a manner that seeks to meet the established customer service standard. An agency shall take the following actions:

(a) identify the customers who are served by the agency;
(b) survey customers to determine the kind and quality of services they want and their level of satisfaction with existing services;
(c) post service standards and measure results against them;
(d) benchmark customer service performance against the best in business;
(e) survey front-line employees on barriers to and ideas for, matching the best in business;
(f) provide customers with choices in both the sources of service and the means of delivery;
(g) make information, services and complaint systems easily accessible; and
(h) provide means to address customer complaints.

2. Customer Service Reports. Each agency shall report the results of its customer surveys to the Governor.

Each agency shall report its improvement plans to the Governor. After evaluating the results of the customer service surveys, each agency shall develop a customer service improvement plan to address any deficiencies. The customer service improvement plan includes customer service standards and describes future plans for customer surveys. It also shall identify the private and public sector standards that the agency used to benchmark its performance against the best in business.

Each agency shall report the progress made on the customer service improvement plans on a quarterly basis to the Governor.

3. Compact with Californians. Each agency shall appoint a customer service coordinator.
(a) The coordinator shall:
   (1) coordinate the state agency's customer service performance measurement under this order;
   (2) gather information and evaluations from the public about an agency's customer service;
   (3) respond to customer concerns; and
   (4) establish the agency's Compact With Californians.
(b) Each state agency shall write a "Compact With Californians." The compact must be approved by the Governor's Office. Each Compact With Californians shall state the following:
   (1) the purpose and mission of the agency;
   (2) the agency's customer service standards;
   (3) how the agency will report performance;
   (4) the agency's complaint process; and
   (5) customer expectations identified in the agency's surveys.
(c) Each agency that maintains a website shall publish its Compact with Californians and report on its performance on that website.

4. Customer Service Awards. Each agency shall recognize employees who provide outstanding customer service.

The Governor will recognize teams and agencies that provide outstanding customer service. An award will be presented on an annual basis. A panel of examiners will select the award recipients based upon an application and specific criteria.

5. Independent Agencies. Independent agencies are requested to adhere to this order.

6. Judicial Review. This order is for the internal management of the executive branch and does not create any right or benefit, substantive or procedural, enforceable by a party against California, it agencies or instrumentalities, it officers or employees, or any other person.

IT IS FURTHER ORDERED that as soon as hereafter possible, this order be filed in the Office of the Secretary of State and that widespread publicity and notice be given to this order.

IN WITNESS WHEREOF I have here unto set my hand and caused the Great Seal of the State of California to be affixed this the _________ 2004.

/s/ Arnold Schwarzenegger

Governor of California

GG 09

Establish a California Information Center

Summary

Californians who wish to contact state agencies face a dizzying array of telephone numbers and websites. There is no single point of contact, either by telephone or web portal, for Californians to access state information or services. California should establish a central California Information Center to offer information and services to Californians through a single state toll-free telephone information number and a companion web portal.

Background

It is not easy for Californians to contact state government offices quickly and efficiently. According to MCI, one of the contractors for the state's telephone services, there are more than 1,400 toll-free telephone numbers operated by state agencies that use the contract. This number does not include universities, local governments that use the state's telephone contract, or state agencies exempt from using the state's contract.[1] Thousands of local telephone numbers for state government also are in the "blue pages" of California telephone books and an undetermined, but presumably large, number of calls are handled outside the toll-free arena.

The state has done little to assist the public in contacting state agencies, or to help the public identify which state agencies provide the services they need. The information that does exist was not planned and has never been coordinated. For example, the last edition of the California state telephone directory, which is almost four years old, has a section with listings by agency or department and another section with an alphabetical listing of employees who choose to be listed. A new directory will not be published until June 2004 and will cost state agencies $10 per copy. With the state's current budget problems, not all state agencies will order them and many that do will likely order a minimal number.

An online directory is available through the California web portal (www.ca.gov). There is no easy way to navigate to it and there is generally no link to it from most state websites. Like the state telephone directory, it lacks any listing organized by services or areas of interest. The agency index simply directs the user to the agency website, which often has no telephone contact information. The employee index offers users the ability to find telephone numbers for specific employees, but, there is no indication which employee should be contacted for questions about specific programs or services.

California has four state operators who work from 8 a.m. to 5 p.m. Monday through Friday, excluding holidays. The number for the state operator is listed in many major telephone directories. Operators take between 700 and 1,000 calls per day on a wide variety of topics, from both state agencies and the general public. Their job is to give telephone numbers to callers and to connect them.[2] Considering the large number of telephone numbers used by the State of California and the limited number of staff to direct callers to the right place, accessing state government can be difficult and frustrating.

New York's 311 system

California is not unique. During his campaign for Mayor of New York, Michael Bloomberg expressed frustration that New Yorkers had to sift through 14 pages of telephone numbers to find city services and information. As a result, one of the top priorities for his new administration was to make contacting city government easier by using a single telephone number—311. Forty call centers and several help lines for city agencies were combined into the 311 number, which has a service center staffed by more than 200 city employees, with an overflow center staffed by up to 200 more contract employees.[3] Call centers offering highly specialized information, such as tax information during tax season, were not included in the 311 number because those calls can take up to 30 minutes or longer.

To develop the service center, the city's Department of Information Technology and Telecommunication (DoITT) contracted with a private contractor, which in turn hired several subcontractors. The subcontractors provided customer contact software, content management software, computer-telephony integration (CTI) and PBX solutions.[4] Nearly 7,000 entries were put into a database from which operators could find answers to broad questions they were likely to be asked. The contractor had a short time to have the system up and running. The first calls came in just seven months after the contract was signed.

In its first year, New York City's 311 service center fielded 6.5 million calls. DoITT is expecting that number to jump to between 10 and 12 million calls per year. As of April 2004, the center was averaging about 35,000 calls per day.[5]

City officials spent an estimated $25 million to get the new integrated call center up and running. They have not yet quantified the savings that have resulted from providing a single point of access for New Yorkers. It has quickly become apparent, however, that the city's 311 system has become a valuable management tool, allowing city officials to use data developed by the system to pinpoint and react to problems quickly. For example, New York City has serious problems with potholes because of severe winter weather. When complaints about potholes come into the system, they can be mapped and managers can see which potholes are generating the most complaints. They can then prioritize them and use routing software to efficiently dispatch repair trucks.[6]

The 311 system has another use—as a backup to the city's 911 system. In last year's blackout, the city's 911 system went down for about two hours. The 311 system did not, so 311 operators were able to step in. The 311 operators answered many questions and routed emergency calls to the appropriate police precincts, staying on the line until callers were connected.

The City of New York is planning to bring a companion web portal online in spring 2004. It will operate in tandem with the 311 telephone system, allowing citizens to obtain the same information and services currently accessible by telephone.

311 and other N11 numbers not available for state governments

In setting up its 311 service, New York City took advantage of a 1997 Federal Communications Commission (FCC) order that allocated the "311" telephone number on a nationwide basis for non-emergency police services and gave local jurisdictions the option of using the number for other government services. In the same order, commissioners assigned the "711" telephone number for relay services for the hearing-impaired. The Commission also decided not to disturb the current uses of other so-called "N11" numbers, specifically, 411, 611, 811 and 911.[7]

In July 2001 the FCC assigned the remaining "N11" numbers. The "211" telephone number is to be used for community information and referral services and the "511" number for traveler information services.[8]

All of the available "N11" numbers have now been assigned. The "011" and""111" numbers cannot be used because they are used for switching and routing purposes, so California would have to use a different number, such as an "800" toll-free number.

Call center technology

Technology exists to allow call centers to operate in either a "real" or "virtual" sense. Call-takers may all be housed under one roof or they may be in several locations, including their homes and still operate efficiently.

Database software also allows separate call centers and locations to share data and manage call load among multiple centers. Call centers often experience peaks and valleys in volume at different times of the year, month or even day. The ability to spread call volume among call centers and call-takers makes for greater efficiency.

The current generation of Customer Relationship Management software allows construction of a deep knowledge base about callers that can be easily shared among call centers, call-takers and other stakeholders, such as managers and department directors.

Most call centers use Interactive Voice Response (IVR) systems to automate routing. In the best call centers, these IVR systems are invaluable for getting callers to the right person as quickly as possible. They can even automate certain routine tasks, such as giving callers an account balance. In many instances, however, IVRs make it difficult or impossible for callers to reach a live person, or will substitute recorded information for human interaction when it may be inappropriate to do so.

Other technologies exist to allow some automation of call-taking. Voice recognition software, for example, allows an interactive "discussion" with the software to determine the caller's needs. The software allows the caller to be directed to the right entity, to leave voice mail or instructs the caller to call back.

Existing state call centers

The California Performance Review (CPR) identified more than 20 call centers operated by or for California state agencies. Without a thorough audit, however, it is impossible to know exactly how many there are, or how much money is spent on call centers each year. CPR looked at three departments with four call centers that handle a large volume of calls per year to make some basic assumptions. These operations alone cost the state more than $100 million per year and employ 1,600 people.

Employment Development Department

California's Employment Development Department (EDD) has two major call-taking operations.

For unemployment insurance operations, there are six call centers with six published toll-free numbers. There are up to 45 million call attempts per year, about half of which get a busy signal. The call centers use a legacy database that is more than 30 years old and is maintained by Health and Human Services Data Center. The call centers employ 900 staff, with 500 to 600 logged on at any given time. The Fiscal Year 2001–02 budget for the these centers was $60 million.[9]

For its disability insurance (DI) operations, EDD has two call centers that handle eight million calls per year. The centers' IVR handled about five million of those. Three million were offered to operators; about two million were actually answered by operators (711,000 calls were "deflected," or sent to other entities and another 261,000 abandoned). Funding has been approved to add a third call center this year to handle calls about the Paid Family Leave Insurance Program. The DI call centers use the same legacy database as the unemployment insurance call centers. The two existing DI call centers employ 200 staff. When the third call center becomes operational this year, it will have 170 staff. The current budget for the DI call centers is $10 million, but will increase when the third call center is opened.[10]

Department of Motor Vehicles

The California Department of Motor Vehicles (DMV) operates nine Telephone Service Centers (TSCs) statewide, taking 20 million calls a year. This does not include the estimated 4.5 million calls that go unanswered. About 35 percent of the calls are handled by an IVR. The TSCs use two in-house legacy databases—one for vehicle registration and one for drivers' licenses—which contain confidential information, an appointment system database, several IVRs and analog telephone equipment that is more than ten years old. There are 473 budgeted positions for the TSCs. DMV estimates the annual cost of operating all nine TSCs to be $27.6 million.[11]

Consumer Affairs

The Department of Consumer Affairs (DCA) operates Consumer Information Center centers at its headquarters in Sacramento. That call center takes about 840,000 calls per year, not including 24-hour automated systems. About 523,000 are handled by IVR with the rest handled by call center agents.[12]

There are 35 employees who work for the call center. DCA estimates the annual cost of operating the center to be $3.7 million.[13]

Following is a chart that shows the number of staff, the number of calls and the annual costs for the three departments' call centers:

	EDD UI	EDD DI	DMV	DCA	TOTALS
Number of Staff	900	200	475	35	1,610
Annual Cost	$60 million	$10 million	$28 million	$3.7 million	$101.7 million
Yearly Calls	45 million	8 million	20 million	840,228	73.8 million

Creative financing options in tough times

There are several options for financing large purchases over time to avoid up-front costs. Some include the GS $mart® program run by the Department of General Services. This program provides low-interest loans for information technology (IT) projects.[14] In addition, vendors who recognize that the state faces severe fiscal challenges are increasingly willing to discuss financing for major purchases. Leasing also makes sense, especially for IT, because of its rapid depreciation.

Recommendations

A. **The Governor should direct the Department of General Services, or its successor, to establish a central California Information Center (CIC) to improve information and service to Californians. The CIC should consist of a single telephone number and be the sole toll-free telephone number Californians need to access most state government offices. It should also offer a single companion web address.**

   The cost to establish the CIC should be financed. The specific financing option will depend on the market rates at the time the proposal is implemented.

The Department of General Services, or its successor should enter into an agreement with a consultant with experience in negotiating leases and/or purchases of major IT systems to negotiate the lowest price and most favorable financing terms possible.

The CIC should allow call-takers to answer many of the questions Californians ask. When they are unable to do so, they should transfer the caller to a specific entity or person within an agency or department and stay on the line until the transfer is completed. A caller should be transferred no more than once in most instances.

Most existing call centers operated by or for the state should be integrated into the CIC, in phases, no later than June 30, 2007. This integration may involve physically combining call centers, linking them electronically, or some combination of the two. The CIC architecture should be developed to allow for the integration of all state call centers. Highly specialized call centers, such as the ones operated by the Franchise Tax Board or the Public Employees Retirement System, should remain separate entities.

The CIC should be available to Californians 24 hours a day, seven days a week. It should feature live operators between a.m. and p.m. It should have only short IVR system and direct Californians to a live person as quickly as possible. Automated call-taking, however, can be used during those hours when call volume does not warrant live operators.

The design and construction of the CIC, its content management software, its call center software, its customer contact software and its computer-telephony integration should be outsourced to a single contractor. It should be modeled on the City of New York's 311 system and should be easily expandable.

The knowledge base developed for the CIC, with information about state services, state agencies and departments and answers to frequently asked questions, should be made available to other state employees who have the proper software and computer equipment and who take a high volume of calls. This should be implemented by January 1, 2007.

B. The Department of General Services, or its successor should include a companion web portal which will allow users to go to a single website for the same information they can receive from call-takers on the toll-free number. It should feature interactive web chat technology so Californians can get real-time help from a representative online. This should be implemented by January 1, 2007.

Both the call center and online components of the CIC should allow callers to receive tracking numbers, in case it becomes necessary for them to speak with other agencies or departments.

C. **The Department of General Services, or its successor should complete a cost benefit analysis to determine whether contract employees should be used to supplement state employees during overnight, weekend and holiday hours. The cost benefit analysis should be completed by July 1, 2005.**

The CIC should be created as a management tool as well as a call center and web portal. Its architecture and database should allow call-takers and the web portal to capture data that managers and other decision-makers within state agencies can use to improve service delivery and realize efficiencies.

D. **The CIC should be made available to the Office of Emergency Services as an in-bound line for people to call during earthquakes, floods, forest fires and other emergencies. This would give local 911 operators a number to which callers concerned about loved ones could be referred. This would help keep 911 lines available for emergency calls.**

Fiscal Impact

There are 157 million calls to the state's toll-free numbers every year for a total of 555 million minutes, or 9.2 million hours. These calls cost the state more than $20 million per year.[15] Many of the calls represent the third or fourth time a caller has had to call to get directed to the right place. In addition, many calls made to the state's toll-free lines must be transferred, often multiple times. Each time a call is transferred, it costs the state money. Over time, with the CIC in place, the need for multiple calls per person to the toll-free lines would decrease and the state could realize savings from lower usage fees.

Implementing the CIC would involve some development costs for software, telephone solutions and other elements. As previously stated, New York City spent $25 million on its new system, which included 400-call takers, new software and a new consolidated facility. However, more emphasis was placed on the 311's operation than in creating it in the most cost-effective way. California's cost for creating a 500-person call center alone is about $30 million.

Assuming an interest rate of 5 percent over a period of five years, the cost to build the CIC would be about $6.8 million per year for five years.

Some costs would be incurred in out years, as existing state call centers are integrated and as software is deployed to employees who answer significant numbers of calls. It is estimated that these costs will be offset by savings achieved from the reduction in the number of toll-free lines and in the time billed for those lines. A conservative estimate is that the state can reduce the number of toll-free lines and line usage by at least 10 percent. This would result in savings of $2 million by the second full year of the CIC's operation.[16]

In addition to savings, substantial productivity efficiencies can be realized. One industry model indicates roughly 10 percent of the state workforce, or about 22,000 employees, are "knowledge workers" and will have some component of the CIC's Customer Relationship Management software installed on their computers. The model presented a reduction in inquiry handling time of 5 percent, though industry reductions range from eighteen to 35 percent. These reductions may bring substantial cost savings.[17] As other call centers are integrated into the CIC, a 10 percent reduction in operating costs could be achieved. This would result in a savings of $10 million just for the four call centers previously mentioned.

Other efficiencies may be realized over time, as agencies and departments use data generated by the CIC to improve services. These savings cannot be estimated with any precision. It is important to note that at the end of the five-year financing period, the CIC will generate ongoing savings.

Endnotes

1 *Telephone interview with Paul Epps, executive manager, Government Markets, MCI (April 5, 2004).*

2 *Telephone interview with Sandra Bierer, chief, Office of Network Services, Telecommunications Division, California Department of General Services (April 2, 2004).*

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6 *Telephone interview with Sarah Knapp, Department of Information Technology and Telecommunications, City of New York (April 1, 2004).*

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8 *FCC 00-256, "Third Report and Order and Order on Reconsideration" (Washington, D.C., July 31, 2000).*

9 *Telephone interviews with Rich Mekata, Chief of Intelligent Call Routing Office, Employment Development Department (April 6 and 7, 2004).*

10 *Telephone interview with Anjetta Venters-Bowles, division chief, Field Operations Division, California Employment Development Department (April 7, 2004).*

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12 *Telephone interview with Cynthia Graff, associate government program analyst, Management Support Unit, California Department of Consumer Affairs (April 7, 2004).*

13 Telephone interview with Pearl Sender, office technician, Management Support Unit, California Department of Consumer Affairs (April 7, 2004).

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15 California Department of General Services, "SOC Toll Free Service March 04" (May 27, 2004).

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GG 10

Fix It (the California Portal) and They Will Come

Summary

California's central website, called the California Portal, could provide a vital service to the public if it was appropriately improved and maintained. It could achieve its original goal of providing a seamless gateway to all government services 24 hours a day, 7 days a week, allowing Internet users direct access to the information or services they need, from the convenience of their own home, without having to make distinctions among government departments.[1]

Background

The California Portal is California state government's central website. It began in January 2001 and was an instant hit, setting a new standard for government websites. The California Portal's development team received numerous awards for the website's innovative features.[2] The goal of the portal project team was "to improve service and make dealing with state government an easier experience for California's citizens."[3] Its designers envisioned providing a single point of access to all state, local and federal government services, where users can access specific government services without having to personally navigate the bureaucratic maze of overlapping city, county, state and federal agencies.[4]

The California Portal was initially brought online with fewer than 10 percent of state departments participating. The project team purchased and built a technical infrastructure at the state's Teale Data Center expecting to house and support all of the state's departmental websites. At the outset, it seemed like the California Portal was on its way to becoming exactly as advertised; a single point of entry to many California state and local government services, a user-friendly path to access information and services.[5]

Soon after it began operation, however, the California Portal Project had difficulties unrelated to its services. Financial and staffing support for the California Portal dwindled amidst controversy over state contracting irregularities.[6] The portal's original highly skilled consultants left the project team and responsibility for supporting the portal was transferred to Teale Data Center staff in January 2003.[7] When asked about the status of the California Portal in April 2004, Teale Data Center management indicated their staff did not have the technical expertise necessary to fully support the portal and there was a similar lack of expertise among vendors responsible for servicing its software.[8]

The lack of well trained staff is having a negative impact on the California Portal. The information accessible through the portal is not being appropriately updated. For example, there are obsolete references (links) to information on the portal's website. When Internet users "click" on obsolete links with their computer mouse, they receive a message that the website or text referenced on the portal no longer exists.[9] According to Teale Data Center support staff, most of the outdated links can be attributed to technical issues faced by the portal support team.[10] In addition, it is simply not feasible for the Teale Data Center to manually monitor the links on the hundreds of pages of text and dozens of websites accessible through the portal.

The Teale Data Center could get an automated tool to assist with this monitoring. It would only identify links with problems though, not those containing outdated information. Support staff at the Teale Data Center are responsible for maintaining the structure of the portal, not the content of the websites and information accessed through it. The portal support staff need greater authority to ensure state departments keep the content on their websites current so the portal can provide meaningful information to the public.

Disaster recovery plan for the portal

A critical feature not implemented with California Portal's initial rollout and still lacking today is a disaster recovery plan for the portal.[11] A disaster recovery plan is, among other things, used to determine what steps will be taken to restore computer services after a disaster.[12] For example, should the Teale Data Center suffer severe damage from a major disaster like a flood, fire, earthquake or bomb, the data center's disaster recovery plan details the steps necessary to recover all of its critical support systems. Unfortunately, the California Portal is not yet part of the data center's disaster recovery plan.[13] As a result, it would take a minimum of three days to restore the portal's computer systems from such a major disaster.[14] The data center maintains back-up copies of the portal's computer systems and data on magnetic media (i.e., magnetic tapes) at a secure, offsite location, but it does not have an offsite computer center ready for data center staff to rebuild the portal, as it does for its other critical support systems.[15]

Teale Data Center management recognizes the need for the portal to be included in the data center's disaster recovery plan. They also agree that three days is too long for the portal to be out of service in the wake of a disaster. The management team at Teale Data Center have made it a priority to add the portal systems into the overall disaster recovery plan for the data center before July 2005.[16]

The portal is not complete

The goal of providing seamless Internet access to all state and local government agencies in California remains unfulfilled. The original California Portal team intended to have all state department websites uniformly designed and moved to the portal's computer systems at the Teale Data Center. Unfortunately, this was not possible after the portal team disbanded and state funding problems arose.[17]

Many state department websites still reside outside the portal's computer systems and are, therefore, unavailable to the portal's search tool. This makes the portal less useful to Internet users. For example, the California Lottery Commission's website resides outside the portal's computer system. As a result, people who visit the California Portal can "click" on a link that will take them to the Lottery's main website. But if the same person uses the "search" button on the portal and enters "Lottery results," the Lottery's main website will not be found. This is because the Lottery's website is linked to the portal, but it does not reside on the portal's computer system at the Teale Data Center.

After the above problems are corrected and proper linkage to external websites is achieved, portal support staff should resume efforts to complete the California Portal. Portal technology has advanced rapidly since 2001. Those seeking ways to improve the California Portal could improve it by applying newer Internet portal technology. A panel of information technology experts judged more than 260 public websites. Each website was judged "based on its innovation, web-based delivery of public services, efficiency, economy and functionality for improved citizen access."[18] Their conclusion was that "Utah, Washington, D.C. and Montgomery County, Md., have the best government websites in America."[19] California could adopt the technology used for these model websites when completing the California Portal.

Since its introduction three years ago, the California Portal has not lived up to its potential. The California Portal could provide meaningful service to the public if information accessed through the portal is routinely updated, the Teale Data Center staff receive appropriate technical training, the portal's disaster recovery capability is improved and the number of state department websites on the portal's computer systems is increased.

Recommendations

A. **The state's Chief Information Officer and state departments should monitor state websites and ensure websites are regularly maintained and updated.**

   The text and the links to other websites and information should be routinely updated and obsolete references eliminated. State departments and the Teale Data Center should obtain automated tools to assist in this effort. Improving the accuracy of information accessed through the portal will make it a more useful and reliable tool for the public.

B. **The Teale Data Center should include the portal in its disaster recovery plan, so that the California Portal can be recovered more quickly in the event of a disaster. This should be completed by December 31, 2004.**

   This will entice more state departments to move their websites to the portal's computer systems, improving the portal's usefulness as a single point of access to government services for Internet users.

Fiscal Impact

The costs cited below incorporate the total cost estimates for all three recommendations.[20] The Teale Data Center is reimbursed through rates charged for portal service. The rate is charged to customer departments with disparate funding sources statewide. For the purpose of this analysis, 50 percent of the costs have been allocated to the General Fund which is proportional to the General Fund's share of total state operations funding. No new positions would be required.

General and Other Funds
(dollars in thousands)

Fiscal Year	Recommendation	General Fund	Other Funds	Change in PYs
2004–05	1. Repair Integrity Problems	$100	$100	0
2004–05	2. Operational Recovery	$0	$0	0
2004–05	3. Complete the Portal Project	$1,000	$1,000	0
	TOTALS[21]	$1,100	$1,100	0

Endnotes

1 *Roundarch and Deloitte Consulting, Customer at a Glance, "My California Bringing e-Government to California," http://www.roundarch.com/CAG/CAG_California.pdf (last visited June 7, 2004).*

2 *Cisco Systems, Inc.,"Cisco Success Stories Customer Profile—State of California," http://www.cisco.com/warp/public/779/ibs/success/state_of_ca_casestudy_trial2.pdf (last viewed June 2004).*

3 *Sun Microsystems, "State of California—Get Online, Not in Line, for California State Services," January 2001.*

4 *Roundarch and Deloitte Consulting, "My California Bringing e-Government to California Customer at a Glance."*

5 *Bogh Notes Sacramento, "Oracle—Chronology of Government Unchecked," Ross Bogh, California Assemblymember, 65th District, http://republican.assembly.ca.gov/enewsletters/a_index.asp?mem=15&news=130 (last visited June 7, 2004).*

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7 *Interview with Kelvin Pye, director of enterprise systems, Stephen P. Teale Data Center, Sacramento, California (May 6, 2004).*

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11 *Interview with Susan Hogg, team member of the original California Portal Project, Sacramento, California (May 5, 2004).*

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13 *Interview with Kelvin Pye.*

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15 *Interview with Kelvin Pye.*

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21 *Interview with Kelvin Pye.*

GG 11

Reduce Costs and Improve Customer Service Through Use of Internet Forms

Summary

Although many forms used in California state government are available to the public on the Internet, some are available only by obtaining paper copies in person or through the mail. Of the forms available on the Internet, many must be printed, completed and sent to state departments through the mail. This is inefficient and creates a burden on the public to complete and send the forms and on state agencies to process the forms. California government should move to forms that the public can fill in and submit via the Internet.

Background

State agency processes are largely paper-based

State departments have thousands of forms, used by state agencies, businesses and the public. Some of these forms are available only on paper. Paper forms must be printed, stored and physically distributed. After completion by the public, paper forms also must be mailed back to the state. Once received by the state, the forms must be opened and processed and frequently must be input into a computer database. Since processing mail and inputting data can be costly and time consuming, all of these steps create delays for both the state agencies and the public. Paper forms create additional waste when obsolete forms must be destroyed.

Moving forms to the Internet

State forms are available at state offices, by mail or (for most state departments) on the Internet. Forms on the Internet are available to the public at any time and decrease the need for the state to print and/or distribute the forms. Forms are placed on the Internet with the following degrees of sophistication, giving the public different levels of convenience and efficiency:

- Forms that must be printed, completed manually and mailed to the state;
- Forms that can be completed online, printed and mailed to the state; and
- Forms that can be completed and submitted online, which removes the requirement to mail the completed form.

While all these options are preferable to paper forms available only at state offices or sent through the mail, forms that can be completed and sent online are the most efficient of the three options because this option eliminates the delay involved with mailing the forms and also eliminates the need for state employees to re-enter the information. Fillable forms discussed in this paper are forms that are available on the Internet and can be completed online. For businesses, accessing fillable forms for government to business transactions saves time and money and increases the ease of complying with state requirements.

Putting forms online

Documents, including forms, can be placed on the Internet in a number of ways that do not require a great deal of technical expertise. Two common methods to place forms on the Internet are converting documents to Hypertext Markup Language (HTML), a computer code used for Internet documents and converting documents to Adobe® Portable Document Format (PDF), which is the industry standard. It easily converts electronic documents to a form that can be placed on the Internet for access by the public. The PDF files are secure and do not allow tampering. Certain PDF documents can be filled in. PDF documents must be opened with Adobe Reader, free software that is available over the Internet. A survey of state department websites by California Performance Review (CPR) staff indicated that most sites have some PDF documents on them. Of the departments that use PDF, most also have forms that can be completed online, printed and mailed to the state agency.

Fillable forms are convenient and efficient

The most efficient method for the public to submit information is an online fillable form that is sent directly to a database. Information from paper forms must be extracted and entered manually or captured through electronic means such as optical character recognition (OCR).[1] While OCR is an improvement over manual keying of information, it still has limitations. For example, OCR has difficulty recognizing handwriting.[2] Using OCR is still uncommon for most state departments. Although there are several solutions to get information from forms to a database, this paper focuses on using PDF as one simple solution. Using inexpensive commercial off-the-shelf software (COTS), it is possible to create a PDF and create forms that can be filled in online by the public.

In March 2001, the Department of General Services (DGS) released the Business Needs Assessment Report, a survey of California businesses conducted by the University of California, Los Angeles. The report found businesses used government websites to get information regarding regulations, licenses, permits, registrations and certifications and tax information. Businesses also wanted greater ability to conduct transactions online, such as applying for permits or certifications.[3]

At the same time, DGS released the 2001 Business Process Review, a study conducted by PricewaterhouseCoopers to identify government-to-business processes that have the potential to be done more effectively online. The review looked at 20 state agencies and listed priority processes to be automated. To gauge progress toward achieving the intended results, CPR staff revisited the websites of the 20 agencies that participated and found examples that illustrate successful implementation of using fillable forms to improve both customer service and state efficiency.[4]

The Employment Development Department (EDD) administers job programs and unemployment and disability insurance programs. Since 2001, EDD has placed a number of certain high-use forms on its website that allow businesses to complete the forms online prior to mailing, e.g., the DE 88 tax payment form can have up to 9.7 million transactions per year. EDD also allows wage reporting online, which represents up to 80 million form submittals annually.[5] Putting the forms online reduces the department's need to reproduce and distribute the forms, while making completion by employers easier.

The Franchise Tax Board (FTB) collects debts owed on taxpayer accounts deemed to be delinquent. If the taxpayer does not pay the bill in full, a voluntary payment plan can be established. Today, taxpayers can request to make monthly installment payments online instead of a written request.[6] According to FTB staff, for Fiscal Year 2003–2004, taxpayers completed 10,300 online installment agreements.[7]

The future of fillable forms in California: recent implementations and possibilities

While the Internet forms used on most state websites are an improvement over old paper-based forms, new technology is making more efficient options available to state departments. Inexpensive COTS products are currently available to allow for the conversion of PDF forms that can be submitted online by the public to a state agency. Having data go directly to a state database is faster, saves money and reduces errors.[8] This requires minimal computer programming to accomplish, but provides opportunities for significant long-term cost reductions and increases the productivity of the state workforce. The examples below show a few recent successes in the use of fillable forms that can be directly submitted to departments.

The Department of Toxic Substances Control (DTSC) regulates the generation, disposal and transport of hazardous waste. Prior to the implementation of online registration and identification in 2001, businesses had to obtain federally required environmental information from DTSC by telephone, which was inefficient and a barrier to compliance. According to DTSC, the availability of online data has increased compliance with federal and state laws dramatically because businesses can conveniently access the information at any time.[9] About 100,000 identification transactions per year are now done electronically. Implementation of the online mechanism has increased compliance and revenues collected from regulated waste generators from $4 million per year pre-2001 to $11 million today.[10]

The Department of Motor Vehicle's (DMV) Electronic Lien and Title (ELT) program allows participating financial institutions to receive electronic title records and to request their lien be released electronically and a paper title issued. The 2001 report estimated the annual volume of these types of transactions at about 4.2 million.[11] Today, 375 financial institutions participate in the ELT program and more than 1.6 million electronic titles were issued over the last 12 months. Because financial institutions initiate the release of interest, DMV has reduced the number of legal owner transfer transactions processed by an estimated 1.2 million transactions over the last 12 months, thereby realizing a savings of $4.9 million. Lastly, DMV's website was updated in April 2004 to allow motor carrier permit applicants to submit forms electronically. As of June 2004, phone calls relating to this program have been reduced by thirty-seven percent, translating to a savings of two PYs.[12]

Since 2001, the Secretary of State has moved nearly 1 million paper documents per year to online filing. These are reports and licenses for lobbyists and corporations that once were submitted on paper and then entered into databases by agency staff. Implementing online processes also allowed the Secretary of State to eliminate duplicate paper filing processes. In addition, the development of the California Business Search database has reduced calls to the Secretary of State regarding inquiries about business names. The various automation measures have added up to significant savings in workload and cleared data entry backlogs.[13]

Security and authentication

Online transactions are possible as a result of the California law known as the Uniform Electronic Transactions Act (UETA). Under UETA, any written communication with a public entity in which a signature is required can be accomplished by affixing a digital signature, an electronic identifier.[14] Transactions are accepted through secure websites using secure socket layer 128-bit encryption, an industry standard, to ensure that information is not subject to tampering during transmission.

Recommendations

A. **All state agencies should place all state forms online with fillable capability as soon as practicable.**

B. **All state agencies should transition to online filing of all remaining state forms that the public and businesses are required to file.**

Fiscal Impact

The fiscal impact cannot be estimated due to a number of factors, including the number and complexity of forms that would be placed on the Internet by departments and the volume of forms that would not need to be printed, distributed, or manually processed by state departments. One-time costs for a very complex form could be as much as $60,000 for software and consulting based on recent information.[15] However, once the initial investment for the software and consulting was made, the additional forms would cost programming time only.

Although increasing the use of Internet fillable forms would result in additional upfront costs for software and consulting in the short term. In the long term, it would result in improved service to the public by shortening turnaround times. The fillable forms would also decrease costs by reducing mail processing, key data entry and the printing, distribution and storage of paper forms.

Endnotes

1 *Computerworld, "Optical Character Recognition" http://www.computerworld.com/softwaretopics/software/apps/story/0%2C10801%2C73023%2C00.html (last visited June 18, 2004), p. 1. According to Computerworld, "Optical character recognition (OCR) is the translation of optically scanned bitmaps of printed or written text characters into character codes, such as ASCII. This is an efficient way to turn hard-copy materials into data files that can be edited and otherwise manipulated on a computer."*

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5 *Department of General Services, Enterprise Business Office, "Business Process Review November 2000–March 2001 Volume 1: Final Report," p. O-42.*

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10 *Interview with Jim Bohon.*

11 *Department of General Services, Enterprise Business Office, "Business Process Review November 2000–March 2001 Volume 1: Final Report," p. K-28.*

12 *E-mail from Annie M. Andrighetto, Department of Motor Vehicles Business Consulting Group to Howard Schmidt (June 18, 2004).*

13 *Interview with Bernard Soriano, chief information officer, Department of Motor Vehicles, formerly with the Secretary of State, Sacramento, California (June 18, 2004).*

14 *Secretary of State, "Digital Signatures, California Digital Signature Regulations," http://www.ss.ca.gov/digsig/code165.htm (last visited June 18, 2004).*

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GG 12

Pay for California Drivers' License Renewals Online

Summary

The California Department of Motor Vehicles (DMV) field office customers wait in line an average of 30 minutes.[1] Drivers' licenses can be renewed over the Internet, which would provide better customer service and with suitable promotion, provide savings.

Background

The DMV has 168 standard driver license/vehicle registration field offices throughout California. Field offices provide a wide range of services for Californians, including initial driver testing, vehicle registration and driver license renewals. In 2004, DMV expects to renew 5 million driver licenses.[2] Sixty percent (three million) of these drivers are eligible for renewing their licenses by mail, if they meet certain age and driving standards. While two million drivers choose this option, nearly one million drivers eligible to renew by mail continue to visit their field office to renew their licenses.[3] This adds to the field office workload and to customer wait time. DMV already offers online registration of vehicles. The same processes can be used to deliver online driver license renewal services.

Eleven other states have initiated programs in which drivers may renew their licenses online, including: New York, Illinois and Texas.[4] Four other states are in the process of adding online renewals.[5] The results have been favorable:

- Utah renews 28 percent of its driver licenses online.[6]
- Virginia estimated that 10 percent of all its transactions were accomplished online. An online transaction saved 20 percent of the staff time needed for processing an application sent in the mail.[7]
- New York used their existing online vehicle registration renewal system as a prototype, designing the website in-house with existing staff.[8]
- Tennessee's online renewal program grew 164 percent in its first three years after its launch in October 2000. In these three years, 215,000 drivers renewed their licenses or changed their addresses online. The state's survey found 99 percent of the users encountered no problems and 94 percent found it convenient.[9]
- Louisiana added online renewal and address changes for a total cost of $3 million, including programming training costs.[10]

The Legislative Analyst's Analysis of the 2004–05 Budget Bill painted a stark picture of existing customer wait times at field offices and project they will become worse.[11] California's DMV has expressed a desire to initiate online driver's license renewals and has prepared fiscal estimates for its implementation. While an online renewal feature will provide for increased customer service by being available 24 hours a day, the DMV's analysis indicates that other factors cause most of its customers who renew their licenses in field offices. An online option would not divert them to online renewal. These factors include wanting a new driver's license photo, waiting to renew until the last day, the non-receipt of a renew-by-mail letter, or the desire to pay the driver's license renewal with cash.

DMV projects a start-up cost of $425,900 for initial software development, $28,500 in ongoing technology support costs, personnel savings of 1.9 PYs and ongoing savings of $37,000.[12]

While DMV considers online renewals to be a customer service delivery option rather than a cost-saving measure, other states' experiences indicate that an online renewal program will be popular and will save California money.

For example, if California's online driver's license renewal service receives acceptance similar to Utah residents, eventually, 840,000 California drivers will renew online.[13] Based on DMV cost figures, if 280,000 of the one million drivers who renew at field offices can be persuaded to make the renewal payment on the Web, in four years, the savings would reach $2 million. As continued promotion changes customer behavior, the program could eventually save more than $6 million annually.[14]

While a DMV study concludes that online renewals would have little impact on field office operations, this cautious view is not supported by findings from the Pew Foundation, which tracks the impact of the Internet on America.[15] In a 2002 report, the Pew Foundation asked how the public was most likely to contact government for information or services. Thirty-nine percent of all those questioned said they would go online. If the respondent was an "Internet user," 58 percent said they would go online, in contrast to 10 percent of "non-Internet users." The non-Internet users' preferred mode for contacting government offices was the telephone.[16] The same study consistently ranks California among the highest in all states for Internet use, which means that California residents will likely use online access to government at or above the expected range for citizens of other states.

The key variable between a marginally useful program and one that has significant savings is promotion. The American Association of Motor Vehicle Administrators strongly urges a marketing plan through advertising and education for electronic government initiatives. "Behavior patterns are hard to change. Citizens are used to government operating on a weekday 8 a.m. to 5 p.m. schedule."[17] One low-cost option the study recommends is a flyer with the renewal notice. A careful rewrite of the license renewal notice enclosures may entail a one-time cost of $100,000. Subsequent promotion costs are unknown, but an estimate for 3 million envelope inserts per year at a cost of 10 cents per page will be $300,000 annually. Because DMV also has a website for vehicle license renewal, some promotion costs could be borne by that program as well. Existing law grants the Director of DMV the authority to create a program to allow customers to renew their licences by mail.[18]

Recommendation

The California Department of Motor Vehicles, or its successor, should implement online driver license payment for drivers who are eligible to renew by mail.

Fiscal Impact

Eligible drivers with licenses expiring in April 2005, would receive promotional materials encouraging the use of the Internet online driver's license renewal program. DMV could realize savings if the public began renewing online as opposed to visiting a field office. Drivers' license renewals take an average of six minutes to complete.[19] If 28 percent of the one million drivers who choose to visit a field office, even though they are eligible to renew by mail, are persuaded to renew on the Internet, DMV will realize savings.

Motor Vehicle Account, State Transportation Fund
(dollars in thousands)

Fiscal Year	Savings	Costs	Net Savings (Costs)	Change in PYs
2004–05	$176	$601	($425)	(3.9)
2005–06	$711	$329	$382	(15.8)
2006–07	$711	$329	$382	(15.8)
2007–08	$711	$329	$382	(15.8)
2008–09	$711	$329	$382	(15.8)

Note: The dollars and PYs for each year in the above chart reflect the total change for that year from 2003–04 expenditures, revenues and PYs.

Endnotes

1 *Interview with Ken Miyao, deputy director, Registration, California Department of Motor Vehicles, Sacramento, California (May 28, 2004).*

2 *California Department of Motor Vehicles (DMV), "A Business Plan for the 21st Century" (Sacramento, California, March 31, 2004), p. 11.*

3 *Financial estimates use 2003 figures, the average is 5 million drivers' license renewals per year. Interview with John McClellan, deputy director, DMV Licensing Operations Division, Sacramento, California, March 8, 2004.*

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http://www.sos.state.il.us/departments/drivers/programs/safe_n.html (last visited April 28, 2004); Louisiana Department of Motor Vehicles, Louisiana Driver's License Services, http://omv.dps.state.la.us/dlrenewal/dl1.asp (last visited May 26, 2004); Mississippi Department of Public Safety, Online services, https://www.ms.gov/hp/drivers/license/index.jsp (last visited May 26, 2004); State of Nevada, Department of Motor Vehicles, http://www.dmvstat.com/ (last visited May 26, 2004); Tennessee Department of Public Safety, http://www.tennessee.gov/safety/dlfaqs.html#1www.scdmvonline.com/DMVpublic/trans/ (last visited May 11, 2004); South Carolina DMV Online, Driver's License Renewal, https://www.scdmvonline.com/DMVpublic/trans/DLRenew.aspx (last visited April 28, 2004); Utah Online License Renewal, https://secure.utah.gov/dlr/ (last visited April 28, 2004); Texas Department of Public Safety, Driver and ID Card Online Services, www.state.tx.us/NASApp/rap/apps/dpsdl/jsp/eng/welcome.jsp (last visited April 28, 2004); Virginia Department of Motor Vehicles, DMV Online Transactions, https://www.dmv.state.va.us/dmvnet/online.asp (last visited April 28, 2004); and District of Columbia, Motor Vehicles, Online Services, http://www.dmv.washingtondc.gov/serv/online.shtm (last visited April 28, 2004).

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6 *Interview with Angela Shelby, Utah Interactive Inc., Sacramento, California (March 11, 2004).*

7 *Interview with Eula Moore-Anderson, Licensing Division, Virginia Department of Motor Vehicles, Sacramento, California (March 8, 2004).*

8 *Interview with Cheryl Wasley, New York Department of Motor Vehicles, Sacramento, California (March 5, 2004).*

9 *Tennessee Department of Safety, "Tennessee's Online Driver License Renewals grow 164 percent in three years" (Nashville, Tennessee, March 3, 2004), www.state.tn.us/safety/news%20releases/renewals.html (last visited May 11, 2004).*

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12 *California Department of Motor Vehicles, "Reducing Field Office Transactions Decision Document #75-DL Renewal On-line and Send Renewal Notices On-line" (Sacramento, California, March 3, 2004).*

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GG 13

Implement Improved Processes for Collecting Department of Motor Vehicles Fees

Summary

Approximately 95 percent of current Department of Motor Vehicles (DMV) transactions are processed manually via traditional, labor-intensive processes. The department's only attempt to shift customers to an automated system (Internet-based credit card program for payment of vehicle registration renewal fees) has been compromised by requiring customers to pay a mandatory convenience fee. DMV should consider waiving credit card convenience fees and implementing other customer service strategies such as electronic check processing, kiosks and allowing customers to use debit cards.

Background

Currently, DMV accepts cash payments, including money orders and cashiers checks, at field offices and its Central Mail Processing Center in Sacramento for driver's license and vehicle registration fees. In Fiscal Year (FY) 2002–2003, this amounted to 12 percent of its payments, or \$591 million.[1] The benefits of cash receipts are that the funds are immediately available for deposit and follow-up for insufficient funds is not required. The processing of such payments, however, is labor intensive and can create delays in deposits, which reduces interest to the state.

DMV also accepts conventional checks at field offices and in its Central Mail Processing Center to pay both driver's license and vehicle registration fees. In FY 2002–2003, DMV processed 26 million conventional paper check transactions with a dollar value of \$4.258 billion, which represented 85 percent of its payments. Check processing is also labor intensive and in FY 2002–2003, DMV spent \$2.8 million to recover \$15 million in bounced checks.[2]

DMV currently accepts credit cards on its website to allow some customers to pay for vehicle registration renewal. As more insurance companies provide electronic information to the department, more customers will be eligible to renew by Internet. It may also allow drivers license renewal through its website in the future and may accept website credit card payment for that service as well. In FY 2002–2003, credit card payments accounted for \$143 million, or 3 percent of payments received. In part, the credit card option is not used as much as the other alternatives because of the limits on access—it can only be used by those customers whose insurance companies provide electronic information to DMV. While the credit card enables DMV to gain considerable savings in labor and cashiering efficiencies, the \$4 transaction fee deters additional use of this option. Customers will not switch from mailing in their renewals and paying by check because credit card processing requires this additional fee.[3]

While DMV's Central Mail Processing Center is optimized for mail and conventional checks, the machines used to sort, open and scan incoming mail are wearing out, forcing the unit to use repetitive manual processing.[4] The Central Mail Processing Center takes seven to eight days to move funds to the State Treasurer's Office, far slower than its two-day benchmark. For every day that funds are not deposited, the state can lose up to $166,000 in interest. As interest rates climb, this loss will become more significant. DMV manual processes require the department to be staffed at a higher level. DMV Central Mail processing and remittance units are authorized for a total of 133 personnel years (PYs) and the "dishonored check" claims unit is authorized for 75 PYs.[5]

A study by the American Association of Motor Vehicle Administrators showed that eliminating a transaction fee would triple online website transactions within two months.[6] In addition, the Minnesota Driver and Vehicle Services found that 60 percent of its mail renewal work shifted to website renewal. Its website operations require one-fourth the staff needed to process mail. Minnesota Department of Finance collects the payment and signals the Driver and Vehicle Services to send vehicle renewal tags.[7] Virginia's DMV found that website transactions required 66 percent less work than checks received by mail.[8]

DMV is currently developing a pilot program to allow credit card and debit cards to be used for payment at conveniently located kiosks. The kiosks and the website could also allow non-fiscal transactions, such as driving records, to reduce the number of persons going to field offices. One problem with debit card payment is that it may still result in insufficient funds because transactions are not processed until the end of each day, with receipts going first and then debits. Thus, transactions could confirm a positive balance when used, but have insufficient funds at the end of the day because of other transactions not yet recorded.

While these proposals should reduce costs, provide increased customer services and reduce losses due to checks with insufficient funds, DMV expects that a significant number of customers will still choose to pay fees with checks. The disadvantages of checks, however, could be reduced by the use of electronic checks. Electronic checks work under a series of agreements developed by banks and supported by the National Association of Clearing House Agencies.[9]

DMV is currently researching the benefits of accepting electronic checks and/or participating in the "Check 21" system. Electronic checks would require only one day to transfer funds to the Treasurer's Office. An electronic check would allow DMV to refuse the transaction if the bank indicated there were insufficient funds. The upcoming "Check 21" system will enable banks to move financial transactions without physically transporting paper. Both the front and back of a check are scanned and the image is considered to be as good as the paper check.[10] This process of moving electronically scanned images of a paper check to complete transactions would reduce the processing of checks at the field offices and the Central Mail Processing Unit. It has the same advantages of an electronic check, but is highly accurate because the bank number on the check does not have to be typed.

Recommendation

The Department of Motor Vehicles (DMV), or its successor should craft implementation plans to waive the credit card $4.00 transaction fee for payment of motor vehicle fees; begin promoting the use of debit cards; establish a pilot program for using both at kiosks located at DMV field offices and other separate locations; and investigate the new Check 21 program for its use in all fee payments.

Fiscal Impact

These customer service improvement strategies should result in sufficient savings to offset the cost of the credit card fee waiver. As customers begin to accept and use the new payment methods, DMV will experience cost benefits. One benefit will be the public will not be required to visit a DMV field office to complete transactions. The cost to implement the recommendations cannot be determined at this time.

Endnotes

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DMV Forecasting: Fiscal Year 2002–2003

Currency	-	*$ 591,287,468*
Coin	-	*$ 121,271*
Check	-	*$ 4,258,599,435*
Credit Card	-	*$ 143,122,022—currently pay "convenience fee"*
Total		*$ 4,993,130,196*

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10 *The Federal Reserve Board, "Check Clearing for the 21st Century Act," http://www.federalreserve.gov/paymentsystems/truncation/default.htm (last visited May 17, 2004). "Check 21," is the Check Clearing for the 21st Century Act.*

GG 14

Putting a Neighborly Face on Government

Summary

State government should make it as easy as possible for all Californians to pay fees, taxes and license renewals. The trend to provide more services over the Internet leaves behind a substantial portion of the population that chooses not to use computers, that lacks computer access or does not have a credit card to pay over the Internet. Recognizing this, municipal utilities have successfully partnered with contractors who operate walk-up, person-to-person services in neighborhoods and community retail sites. The state should provide this option to its customers.

Background

Californians may operate on a cash-only basis because they cannot obtain or afford to maintain a bank account or credit cards. Many of these people are pressed for time, work odd or extended hours at more than one job and are poorly positioned to take advantage of government services offered over the Internet. Additionally, 3.8 million Californians live in rural communities.[1] State public offices are not typically located in rural communities, making these payment transactions even more difficult. Offering services to people with these types of challenges through contractors at local retail sites allows companies to offer extended hours of operation in familiar and comfortable locations.

The state already partners with certain companies and retail sites, such as the California State Automobile Association for auto registrations and WalMart for hunting and fishing licenses, so the precedent for partnership with private entities has been established. Offering services in additional locations would provide a valuable service to the poor and geographically isolated populations, adding a new dimension of customer service for all Californians.

In 2000, 12 percent of Californians reported they held more than one job and 24 percent of households with children aged zero to five were headed by a single parent.[2] About 1.5 million Californians were self-employed in 2003.[3] Rural residents, who represent 52 percent of Internet users nationally, are the least likely to bank or purchase goods online.[4] In 2002, 39 percent of California's households did not own a computer and 45 percent did not have Internet access.[5]

Facing long delays or driving long distances to handle simple transactions poses a particular hardship for those who are not compensated for time off from work, or, if self-employed, may have to forego a paying job. These are often the same people who are likely to make "last-minute" payments because their earnings are prioritized toward basic living expenses and who can least afford late fees and penalties.

Saving time and money

It is estimated that at some Department of Motor Vehicles (DMV) offices, 79 percent of transactions are for registration purposes and 12 percent of the transactions are paid with cash.[6] Regardless of the length of time spent at a state office, any time that is uncompensated, or involves significant travel, is ill afforded by these segments of the population. Allowing people to pay state fees and conduct basic transactions through contractors in retail sites would eliminate the need to choose between working or making a payment and provide a much needed and appreciated alternative.

Pay station contractors

Pay stations partner with markets and vendors for space in their retail locations to process walk-in payments. It is a performance-based, quantity-driven business that is paid for through a transaction fee charged to the customer. Customers present a bill along with their payment. An employee of the retail site collects the payment, enters it into a dedicated terminal owned by the contractor and gives the customer a receipt. The dedicated terminal is designed to itemize account payments, keeping the transactions separate from the retailer's and credit them to appropriate accounts through "transaction tapes." The transaction tapes are transferred daily to the state billing department's accounting office. Amounts collected are transferred electronically within 48 hours from the retail site's bank account to the state billing department's bank account. The billing department does not expend staff time in the collection process until its accounting office reconciles amounts billed with payments received.

This payment system is used by Pacific Gas & Electric Company (PG&E) and Southern California Edison. Combined, they are equipped to provide payment collection services to most residents and businesses in the state. PG&E's customer base comprises 14 million people throughout a 70,000-square-mile service area in Northern and Central California, while Southern California Edison's customer base includes 11 million individuals, 5,000 large businesses and 280,000 small businesses in Central and Southern California.[7] Utility customers can make payments at sites located in several diverse retail locations throughout the state. One established vendor has 1,100 sites in rural and urban areas.[8]

Retail locations are chosen through demographic analysis revealing low-income, cash-based, neighborhoods where residents are unlikely to have bank accounts or credit cards.[9] In Northern California, payments can be accepted in large supermarket chains as well as smaller ethnic markets, hardware stores, check cashing stores and other types of businesses.[10]

Raleys/Bel Air Markets is a large supermarket chain that accepts payments on behalf of PG&E. Pacific Gas & Electric has used this system for eight years and is satisfied with the service.[11] Customers can make payments at the last minute, avoid late fees and can pay with cash, a check, or a money order. Customers also can make payments outside of normal business hours while shopping for other needed products or services. Raleys/Bel Air Markets gets more people into its stores and PG&E gains increased payment compliance. These payment systems have addressed many of the economic, technological and geographical challenges that have made it difficult for many to complete these types of payment transactions. The government and the people of California could benefit by pursuing a similar course of action.

Cost avoidance and potential collection opportunities

The proposed payment system could realize savings in the form of cost avoidance for the DMV, which has one of the highest transaction rates of any state agency. If 1 percent of the 4.6 million California drivers who require annual license renewals paid their $24 fees at pay stations, it would decrease visits to DMV by 46,000 customers a year and save $163,300.[12] If 1 percent of the 24.4 million registrations of trucks, private and commercial vehicles and motorcycles recorded in 2003 had been paid at pay stations, the savings to DMV would have been $866,910.[13] Total savings for both DMV functions would amount to $1 million annually.

Establishing pay stations for the state would require no traditional start-up fees because pay stations use the contractor's existing dedicated terminal system, the banks' existing computer systems to electronically transfer funds from one account to the other and the state's existing computers to receive electronic "transaction tapes" via e-mail. The contractor would charge the customer a modest convenience fee, typically one dollar, which is split with the owner of the retail site and there is no charge to the state.

Who else should offer this service?

Beyond the DMV assessment, there are other state departments that could benefit from the proposed payment system. The state departments of Consumer Affairs, Fish and Game and other state agencies have varying degrees of customer bases and frequency of license renewals and registrations and are ideally positioned to use this service.

The Labor Market Information Division of the Employment Development Department reports that there are 332 occupational license categories which also could benefit from payment centers.[14] Given that there are thousands of licenses issued annually, the proposed payment system could potentially offer a significant alternative for many Californians.

Security concerns can be addressed by using unique identifiers for customers on the source document used for payment (i.e., the bill) which can be cross-referenced on the receipt. Texas counties use a similar system for vehicle registration renewals and offer over 80 retail sites throughout Tarrant County alone.[15]

Recommendation

The Governor should direct state agencies to connect with pay station contractors to process simple transactions on behalf of the state whenever appropriate.

Providing and promoting this service would send a message to all segments of California's population that their government values them, recognizes their time is limited and is willing to meet them half way in their own neighborhoods. It will provide a critical service to some and be regarded as a convenience by others. It could promote compliance with state laws. The time necessary to establish state pay stations would depend on the time it takes the state to contract with vendors and establish necessary processes.

Fiscal Impact

The recommendations would result in minor additional costs for the inclusion of collecting cash payments. This is because pay stations use the contractor's existing dedicated terminal system, the banks' existing computer system to electronically transfers funds from one account to the other and the state's existing computers receive electronic "transaction tapes" via e-mail. There would be no additional revenues generated because the cash payments are currently collected by departments. This process will provide more convenient locations for serving the "cash only" taxpayer. However, the exact cost and benefits cannot be determined until contracts with pay stations are implemented.

Endnotes

1 *The California Endowment; Press Release, "Telemedicine Programs Expand to Rural California," March 19, 2003; http://www.calendow.org/news/press_releases/2003/special/telemedicine031803/telemedicine031803pr.stm (last visited June 2, 2004).*

2 *UCSF Center for Health Workforce, "The California Work and Health Survey" "California Labor Market Continues to be Strong; But Despite Demand, Pool of Available Workers Has Not Been Depleted," September 4, 2000; http://medicine.ucsf.edu/programs/cwhs/2000/day1report.html (last visited May 6, 2004). As of 2000, 24 percent of families with children aged 0–5 were headed by a single parent. http://www.rrnetwork.org/rrnet/uploads/1012951925.pdf (last visited May 6, 2004).*

3 *State of California, EDD, Labor Market Information Division; "A Labor Day Briefing For California" September 2003; p. 2. http://www.calmis.ca.gov/SpecialReports/Labor-Day-Briefing-2003.pdf (last visited May 6, 2004).*

4 *PEW Internet and American Life Project; "Rural Areas and the Internet" February 17, 2004; p. 24. See PEW Internet and American Life Project website (last visited March 25, 2004).*

5 *http://www.childrenspartnership.org/youngamericans/california.pdf (last visited May 6, 2004).*

6 *E-mail correspondence with Chon Gutierrez, interim director of DMV (March 16, 2004); information on percentage of transactions obtained from DMV Controller's Office, Jean Shiomoto, via phone interview (June 2, 2004).*

7 *http://www.pge.com/about_us/; http://www.sce.com/sc3/006_about_sce/default.htm (last visited June 2, 2004).*

8 *Phone interview, Kim Kartchner, American Payment Systems (APS) and subsequent e-mail (April 16, 2004).*

9 *Phone interview with Terry Tremmerling, vice president, Raley's (March 12, 2004); discovered that more affluent neighborhoods have little need for a service like APS. "American Payment Systems (APS) is the market leader for walk-in bill payment solutions. As the largest walk-in bill payment company in the U.S., APS processes millions of transactions and moves over $12 billion annually through retail locations nationwide." http://www.apsnet.com/index2.htm.*

10 *Sacramento locations for PG&E payments; www.pge.com (last visited May 6, 2004).*

[11] *Phone interview with Terry Tremmerling, vice president, Raley's, on March 12, 2004, 12:30–1:00 p.m. and Tacia Barton, PG&E payment research, April 21, 2004, 1:20 p.m.*

[12] *For both examples, salary savings calculations assume an average of .10 hour of cumulative staff time to collect, bundle and prepare payments for bank deposit, multiplied by an average of $35.51 an hour salary rate. (Salary & benefits = Using 75K as average annual salary & benefit package base: 75K ÷ 12 (months) ÷ 176 (hours) = $35.51 (per hour) ÷ 10 = $3.51 (per 1/10th of an hour).)*

[13] *2003 registration renewal figures based on information provided by Bill Davidson, DMV Forecasting unit, on May 14, 2004. Additional vehicle registration stats from http://www.fhwa.dot.gov/ohim/hs01/mv1.htm (last visited May 6, 2004). These examples are based on straight fees payments with no associated administrative functions.*

[14] *http://www.acinet.org/acinet/lois_agency.asp?stfips=06&by=state&x=21&y=4 (last visited May 6, 2004).*

[15] *http://www.tarrantcounty.com/etax/cwp/view.asp?A=765&Q=431098 (last visited June 2, 2004).*

GG 15

Making High Quality Customer Service a High Priority for All Employees in State Service

Summary

It is every state employee's responsibility to demonstrate good customer service but especially critical for those who have day-to-day contact with the public. There currently is no consistent level of customer service across California state agencies, in part, because there is no statewide recruiting tool to hire and retain qualified employees who demonstrate good customer service skills. This lack of consistency creates unnecessary hardship on those trying to interact with state government, creates inefficiencies at an operational level and unnecessary government costs. A statewide, Customer Service Representative job classification should be established and used across state agencies to ensure the people of California receive the highest level of service from its government.

Background

While there are some state departments that have separate customer service units, there is no customer service job classification used across state agencies. There are over 4,000 job classifications used in state government, but only two have the words "customer service" in their title, the Customer Service Specialist/Supervisor, Franchise Tax Board and the Vocational Instructor (Telemarketing/Customer Service) Corrections.[1] Yet there are departments, such as the Employment Development Department, the Department of Health Services, Franchise Tax Board, Department of Motor Vehicles and the Department of Consumer Affairs that have millions of face-to-face, telephone, e-mail and other written contacts with the public each year. The Employment Development Department reports that as many as 50 percent of the callers into their call centers receive a busy signal creating an irritating situation for the caller.[2]

A few departments use specialized classifications to answer incoming calls from the public and to work at public counters. Most use clerical, program technician and analyst classifications. The employees in these classifications often possess enough program knowledge to adequately perform the job duties, but may not have the skills necessary to provide customer service in an efficient manner. With the state budget deficit and staffing shortages that California is currently experiencing, it is more critical than ever to have competent and skilled customer service professionals on the "front line."

These "front-line" employees are usually the first and sometimes the only contact the public has with government. The ability of these employees to effectively assist the public directly affects whether government is perceived positively or negatively. According to Laura French, Principal, Words Into Action, Inc., “People call in a panic mode. The customer service rep needs to comfort and calm the caller. The caller needs to feel that he or she has called the right place and is talking to an expert who can solve their problem.”[3]

Mark Wallace, Vice President, DCI, an organization dedicated to information technology education and consulting, stated, “ . . . customer support in government needs to quickly become more proactive, customer-focused, efficient and effective . . . The responsiveness of front line support to customer’s expectations is the key to success in the public sector. This need continues to be amplified as customer expectations continue to soar.”[4] The same is true for Californians whose expectations to receive better customer service from its government are increasing, requiring the need to have qualified state employees who interact with the public. Such interactions occur every day in a variety of settings such as call centers, e-mail, correspondence and in person.

Poor customer service translates to higher costs

It is not only good government to serve the public effectively and efficiently, it is good business. A survey of consumers conducted by Harris Interactive in 2000 indicated that a company’s economic status is directly tied to effective customer service. “The findings also stress the importance of resolving the customer service issue on the initial contact.”[5] While government is generally not in the business of making a profit, it must not waste its limited resources by being ineffective or unresponsive. Multiple interactions with government to resolve a problem, such as repeated telephone calls, letters and face-to-face visits cost both the public and the government. Each “contact” has a cost and the longer it takes to resolve an issue, the higher the cost. For example, three state agencies with high call volumes, answer more than 70 million telephone calls per year at an annual cost of about $100 million.[6] If even a small percent of these calls were attributed to “call backs” because the issue was not resolved during the first contact, the additional costs are significant.

Private sector approach

The private sector has recognized that excellent customer service is critical to the survival and viability of the organization. John Goodman, President of the Technical Assistance Research Programs Institute, stated, “in the past few years, companies began to realize that service was really a competitive factor and began to view it as an integral part of their product.”[7] A survey by PricewaterhouseCoopers of 427 CEOs of fast growing companies found that “virtually all CEOs of the nation’s fastest growing companies (88 percent) single out quality of customer service as being very important to the growth of their business over the next 12 months.”[8]

Along with recognizing the value of customer service, the view of the customer service representative has been highlighted as an important profession. For example, according to Chris Kennedy, Human Resources Manager for Wells Fargo Regional Banking Group in Minneapolis, “when Wells Fargo hires tellers, customer service expertise now takes priority in the search for new tellers . . . we look first at customer service skills, because we can train them for the financial skills."[9] Business owner and author, Paul Hawken, agrees and has stated, "we concentrate on hiring people who embody the quality of service for which we strive. It is difficult to teach someone to be helpful and serve others if he or she is misanthropic to begin with."[10] The customer service representative is seen as needing a variety of skills to be effective. Those skills include communication, problem solving, interpersonal and computer. The customer service representative must also have the ability to multi-task.[11]

Being able to promote within the customer service field is also seen as key to the success of this profession. Julianna Erbeck, Vice President with North American, stated, "we want customer service to be viewed as a career path instead of just a stepping stone to something else. We provide the chance to take on more responsibilities and we offer opportunities for advancement within customer service."[12] In the private sector, customer service and the customer service profession are seen as key ingredients to a successful business venture.

Government sector catching on

The importance of good customer service and the role of the customer service representative have been gaining importance in the public sector. For example, the federal Bureau of Alcohol, Tobacco and Firearms' inform visitors to its website, "if you are a customer of ATF . . . then you should know that we are dedicated to improving services at all of the ATF service facilities."[13]

Many government agencies across the country use a customer service representative classification. Examples of this include the states of Arizona, Ohio and Idaho; and the cities of Bellevue, Washington; Alexander, Virginia; and Alameda, California.[14] Additionally, the State of Wisconsin and the Cities of Anaheim and Long Beach, California, use a customer service representative "series," that include entry, journeyman and advanced levels and allows promotions into a supervisory and/or managerial position.[15]

Governments of other countries also have recognized the importance of providing good customer service. Canada, New Zealand and Fiji, for example, all use customer service representatives within their government agencies.[16] Fiji's government informs visitors to their website that, "achieving customer satisfaction is a key priority for any good service provider. Fiji's civil service is no different."[17]

Other governments have not only recognized customer service as a critical profession, they have also engaged in the practice of rewarding excellent performance of public employees. Rewards range from recognition in the form of plaques, certificates, pins to monetary rewards. Stephen Goldsmith, former mayor of Indianapolis, cited monetary and other means of rewarding public sector employees for outstanding performance as a critical strategy to improving government operations.[18] Similar employee reward strategies and results have occurred within Texas state government operations.[19]

Time for change in California

It is time for California state government to act upon what the private sector and many other public agencies have come to recognize: customer service and the customer service profession are key ingredients to an organization's effectiveness. State agencies need the ability to recruit, hire and retain skilled employees to maintain a high level of customer service. A statewide customer service job classification should be developed and used by those state agencies that have day-to-day contact with the public. This would provide a valuable management tool to agencies to ensure that skilled employees are placed in the critical positions of dealing directly with the public. Overall, this would support and advance customer service as a valuable profession, improve the service provided to the public and enhance efficiencies in California state government operations.

Recommendation

The California State Personnel Board (SPB), or its successor, should establish a Customer Service Representative classification. The SPB should consider the following items in developing the classification:

- **The classification should use a "deep class" or "series" approach that provides promotional opportunities within the classification.**
- **The classification should include supervisor and manager levels.**
- **To promote the use of the classification across state agencies, the classification should require competencies in a variety of areas such as, technology, problem-solving/analytic skills, interpersonal and communication skills, ability to address complex issues and to multi-task.**
- **The core competencies of the classification should be based on "best practices."**
- **Any current, departmental-specific customer service classification should be consolidated into this proposed, statewide classification.**
- **All active classifications, as well as all duty statements of all departments, should be augmented to incorporate minimal customer service requirements.**
- **The Customer Service Representative classification should be supported with the offering of employee rewards and paid bonuses.**

Fiscal Impact

There will be no cost to the General Fund as a result of these recommendations, which call for a consolidation of various positions into one Customer Service Representative classification to be used throughout state government. Some savings may be expected though they cannot be fully quantified at this time.

Endnotes

1 *Department of Personnel Administration website, www.dpa.ca.gov/pie/database/payscale/rslpay.cfm (last visited May 3, 2004).*

2 *Interview with Rich Mankato, chief, intelligent call routing office, Employment Development Department (April 6 and 7, 2004).*

3 *Laura French, principal, Words Into Action, Inc., "Customer Service: Common Title Varied Jobs," March 26, 2004, p. 2.*

4 *Mark Wallace, vice president, DCI, "The Government Customer Support Conference," May 2004.*

5 *Dan Hucko, Harris Interactive, "New National Study Affirms Importance of Effective Customer Service & E-Commerce Sites," June 5, 2000, Harris Interactive Website.*

6 *Interview with Rich Mankato, chief, Intelligent Call Routing Office, Employment Development Department (April 6 and 7, 2004); interview with Angeta Venters-Bowles, division chief, Field Operations Division, California Employment Development Department (April 7, 2004); e-mail from Karen Connel, chief, Customer Information Branch, California Department of Motor Vehicles (April 6, 2004); interview with Cynthia Graff, associate governmental program analyst, Management Support Unit, California Department of Consumer Affairs (April 7, 2004).*

7 *U.S. Small Business Administration, "Customer Service," www.sba.gov/managing/marketing/customer.html p. 1. (last visited May 10, 2004).*

8 *PricewaterhouseCoopers Telecom Direct, "Business Trends: Customer Service Most Important, Cost Effective Source of Growth for Companies," November 2001.*

9 *Steve Brewer, Eureka Marketing Services "Customer Service Work Growing in Importance" "Servicework," February 12, 2003, p. 1.*

10 *U.S. Small Business Administration, "Customer Service," www.sba.gov/managing/marketing/customer.html, p. 1 (last visited May 10, 2004).*

11 *Endocare, Inc., Customer Service Representative Job Description, 2004.*

12 *Julianna Erbeck, vice president, North American Customer Service, "Customer Service Work Growing in Importance" "Servicework," February 12, 2003, p. 2.*

13 *Federal Bureau of Alcohol, Tobacco and Firearms website, www.atf.gov/about/specialist.htm (last visited May 11, 2004).*

14 *Customer Service Representative duty statements from cited government agencies.*

15 *Customer Service Representative duty statements from cited government agencies.*

16 *Customer Service Representative duty statements from cited government agencies.*

17 *Country of Fiji website, www.fiji.gov.fj/publish/page_632.shtml (last visited May 10, 2004).*

18 *Stephen Goldsmith, professor, Harvard Kennedy School of Government, California Performance Review Presentation, Sacramento, California, April 19, 2004.*

19 *Interview with Billy Hamilton, deputy controller, State of Texas (March 10, 2004).*

GG 16

Plain Language Makes Government More Accessible

Summary
California state government writing is unclear. This means Californians cannot easily understand what their state government is doing and do not know if their tax dollars are spent wisely. Unclear writing can be costly. Plain language should be used in all state government communication.

Background
Plain language is a potent tool for establishing trust. Plain language provides information in a clear way so that all Californians understand what their government is doing without cloaking it in incomprehensible jargon. It lifts the veil of government bureaucratese to reveal words whose meanings are transparent. "By using plain language, we send a clear message about what the government is doing, what it requires and what services it offers," President Clinton said in a 1998 presidential memorandum to federal executives.

Plain language is writing that the writer's audience can understand in a single reading. All documents on public websites, documents written for the Legislature and most regulations should be written for a general-public audience—similar to the audience of a general-circulation newspaper. A single reading means the audience should not have to study the document or hire an attorney to decipher it. Simply put, taxpayers should be able to read reports, correspondence and other documents that they pay state government to prepare.[1] Plain language uses logical organization, easy-to-read design, common everyday words, a minimum of technical terms, "you," "we" and other personal pronouns, the active voice, short sentences and descriptive subheads.[2] Plain language can save money. An Employment Development Department (EDD) worker wrote to the California Performance Review complaining about a confusing question on an unemployment form. At a call center where she worked, she and other EDD workers each received at least two calls a day from people confused by the question, which asks,"Did you work or earn any money, whether you were paid or not?" Most people understand the question, but if it could be rewritten so that she and other EDD call center workers each received only one call a day, the state would save money.[3]

Two researchers at the Naval Postgraduate School in Monterey documented the savings of plain language. "Plain style is more cost-effective than the bureaucratic style. The Navy alone could save annually anywhere between $27 million and $75 million worth of wasted reading and rereading time if its officers alone used the plain style."[4]

The federal Veterans Administration (VA) used a form letter asking veterans to update their beneficiaries. The VA sent millions of these letters each year. If veterans did not respond, the VA had to research the beneficiary information. When the VA rewrote the letter in plain language, it improved the veterans' response rate from 35 percent to 62 percent. The VA saved more than $8 million in each mailing cycle.[5]

California Government Code and Governor's Clarity Award

In 1982, Governor Jerry Brown signed plain-language legislation into law, now California Government Code Section 6215 (a)(b). It requires all California state government agencies to use "plain, straightforward language" in all state documents, forms, contracts, announcements, regulations, manuals and "any other written communication that is necessary to carry out the agency's responsibilities under the law."[6]

In 2001, the Governor's Office for Innovation in Government developed the Clarity Award. The goal of the award was to promote clear, concise and understandable language in state government documents. It was inspired by the federal Plain Language Network. The program gave out 16 awards in 2002 when there were 111 entries from 33 departments in 10 agencies. The award was discontinued when the Office for Innovation was closed in 2003.[7]

Other plain language efforts

Existing plain language efforts can offer the State of California direction and models for improving clarity in its written documents. For example, the Plain Language Association International (PLAIN) was formed in 1993. It is a growing all-volunteer nonprofit organization of plain-language advocates and professionals. The association has members in Canada, the United States, Australia, the United Kingdom, Sweden, South Africa, New Zealand and Japan. Its members include authors, communications specialists, consultants, designers, editors, managers, professors, trainers and writers in various professions. PLAIN's mission is to promote the interests of plain-language professionals and to help people understand and use plain-language principles.[8] At the federal government level, the Plain Language Action & Information Network is a government-wide group of volunteers that works to improve communications from the federal government to the public. Its website states "We believe better communication will increase trust in government, reduce government costs and reduce the burden on the public."[9] In addition, the Clinton Administration issued a memo to the heads of federal executive departments and agencies, directing them to use plain language in their written documents.[10]

Washington State's Department of Ecology has created a Plain Talk Team. Team members assist department employees and managers with reviewing and revising their writing. The team is modeled after a clear writing program of the same name at the Department of Labor and Industries. Because the team consists of employee volunteers, it has been implemented at no cost.[11]

Recommendations

A. The Governor should appoint a Task Force to develop guidelines for state workers based on the principles of the Plain Language Association International.

B. The Governor should re-establish the Governor's Clarity Award.

Fiscal Impact

These recommendations can be accomplished within existing resources.

Endnotes

1 *William C. Paxson, "Why State Government Can't Say It In Plain English," "The Sacramento Bee" (May 22, 1983), p. Forum 6.*

2 *These are an aggregation of plain-writing tips found on these two organizations' websites: Plain Language Association International (PLAIN), http://www.plainlanguagenetwork.org (last visited May 4, 2004); and The Plain Language Action & Information Network, http://www.plainlanguage.gov (last visited May 4, 2004).*

3 *E-mail from and interview with Marie Maidment, call center specialist, Employment Development Department, Richmond office, April 12, 2004 and April 15, 2004, Sacramento, California.*

4 *James Suchan and Robert Colucci, "The High Cost of Bureaucratic Written Communications," "Business Horizons," Indiana University Graduate School of Business, Vol. 34, No. 2, pp. 1–10 (March–April 1991).*

5 *Joseph Kimble, "Writing for Dollars, Writing to Please" (Lansing, Michigan, 1996) and http://www.plainlanguagenetwork.org/kimble/dollars.htm (last visited May 4, 2004).*

6 *California Government Code, Section 6215 (a)(b).*

7 *Interview with Erin Larson, former administrator of Clarity Award, Governor's Office for Innovation in Government (March 5, 2004).*

8 *Plain Language Association International (PLAIN), http://www.plainlanguagenetwork.org (last visited May 4, 2004).*

9 *The Plain Language Action & Information Network, http://www.plainlanguage.gov (last visited May 4, 2004).*

10 *Office of the President, "Memorandum for the Heads of Executive Departments and Agencies; Subject: Plain Language in Government Writing" Washington, D.C. (June 1, 1998). http://govinfo.library.unt.edu/npr/library/direct/memos/memoeng.html (last visited May 3, 2004).*

11 *Washington State, http://www.ecy.wa.gov/pubs/0401003.pdf (last visited May 4, 2004).*

DRAFT DRAFT

STATE OF CALIFORNIA

EXECUTIVE ORDER

by the

Governor of the State of California

Proclamation ________

Whereas, the people of California seek a transparent and responsive government; and

Whereas, transparency allows the people of California to clearly see and understand what their government is doing; and

Whereas, Californians who better understand their government are more likely to trust it and feel a part of it; and

Whereas, clear, straightforward communication in plain language between government and its constituents is the key to transparency; and

Whereas, clear communication in plain language is more cost-effective; and

Whereas, legal, scientific and technical jargon may be valuable in communicating to narrow audiences, its value is limited when used to communicate to the public; and

Whereas, government communication is most useful and cost effective when it translates complex issues into plain language; and

Whereas, California state government must become the first true 21st Century government in America, a government that is as innovative, efficient and dynamic as the state itself;

NOW, THEREFORE, I, Arnold Schwarzenegger, Governor of the State of California, by virtue of the power and authority vested in me by the Constitution and statutes of the State of California do hereby proclaim:

1. State Agencies and Departments when writing documents, including websites, regulations, manuals, bulletins, memorandums, announcements and forms shall adhere to Plain Language principles, including the use of common everyday words, the use of personal pronouns, the active voice, easy-to-read design, short sentences, descriptive headlines and sub-headlines and avoiding jargon, technical terms, acronyms and other abbreviations.
2. There shall be created a position of Plain Language Advocate (Advocate) whom the Governor will appoint. The Advocate will be a volunteer state employee and a champion of Plain Language and knowledgeable of Plain Language techniques.
3. The Advocate will recruit other Plain Language champions from throughout state government. These volunteers, with the permission of their supervisors, will be trained in Plain Language techniques and formed into teams.
4. The Advocate and other Plain Language volunteers will serve voluntarily with no extra compensation.
5. Plain Language Teams will offer their services to state Agencies and Departments. At the invitation of Agencies and Departments, teams will review written communications, including announcements, regulations, manuals, memorandums, bulletins, forms, or Web sites to ensure they are written using Plain Language techniques. The Teams will offer suggested revisions to Agencies and Departments.
6. The Governor will re-establish the Clarity Award which will recognize clear, straightforward writing by State Agencies and Departments. The Award will be coordinated by the Plain Language Advocate who will coordinate its frequency, judging and publicity with the Governor's Office.

IT IS FURTHER ORDERED that as soon as hereafter possible, this order be filed in the Office of the Secretary of State and that widespread publicity and notice be given to this order.

IN WITNESS WHEREOF, I have hereunto set my hand and caused the Great Seal of the State of California to be affixed this the ____ day of ______ 2004.

Arnold Schwarzenegger

Governor of California

GG 17

Tax Relief on Manufacturing Equipment

Summary
California is losing manufacturing jobs to lower tax states.[1] The Governor should work with the Legislature to provide a 5 percent sales tax credit for sales tax paid in the previous year on manufacturing and telecommunications equipment.

Background
The cost of doing business in California is third highest in the country; its composite tax and business costs are 32 percent higher than the national average.[2] This high-cost business climate hurts its companies, particularly manufacturers who are competing in national and global markets. California lost a total of 190,000 manufacturing jobs in 2001 and 2002.[3] Manufacturers have a choice of where to locate facilities.[4] Decisions on where to build manufacturing production facilities are especially sensitive to differences in taxes and business costs.[5]

California's manufacturing workers are paid an average of $25,000 more per year than service-sector employees. The economic multiplier effect of each manufacturing job is two and one-half, the highest of any type of job. Thus, when California loses one manufacturing job, 2.5 jobs in other sectors of the economy also disappear.[6]

Between 1989 and 1993, California lost 300,000 manufacturing jobs.[7] In 1994, California enacted a Manufacturer's Investment Tax Credit in an attempt to stem the flow of manufacturing jobs out of California, offset the higher costs of doing business and help restore California's business climate. The credit was allowed to expire in 2003 amid concerns about its effectiveness at creating jobs. Dorothy Rothrock of the California Manufacturer's and Technology Association has said that the Manufacturer's Investment Tax Credit, along with other positive California features, were not sufficient incentive to overcome a decline in defense spending and high California costs. Ms. Rothrock advises that Manufacturer's Investment Credit is a smaller program than a sales tax exemption, with smaller foregone tax revenues but also less stimulus effect.[8]

Two-thirds of respondents to a survey by the California Manufacturing and Technology Association stated that they had invested more in California at least partly because of the Manufacturers Investment Credit. In the same survey, 86 percent said they hired more employees in California as well.[9] Others indicated that since the legislature had made the continuation of California's tax credit past 2003 contingent upon specific sustained job growth, many businesses found it to be no incentive at all.[10] Ray Rossi of Intel Corporation states that the expiration of the Manufacturing Investment Credit amounted to a 6 percent tax increase for manufacturers on the heels of high energy costs. Board of Equalization Member Bill Leonard says companies have told him they have refrained from purchasing manufacturing equipment in California since the Manufacturer's Investment Credit was allowed to expire.[11]

California manufacturers have called for a sales tax exemption on manufacturing equipment. Thirty-eight states exempt the purchase of manufacturing equipment from sales tax. Of those, 15 also offer an investment tax credit to further encourage investment in new equipment.[12]

According to a Milken Institute study, a sales tax reduction would create long-term benefits for the economy by producing increased personal income and corporate tax revenues that would exceed the loss of sales tax revenue. In the short term, however, it would result in reduced overall revenues in the year equipment was purchased (see Exhibit 1 below).[13]

Exhibit 1
Milken Institute Study[14]
(dollars in millions)

Variable	Year 1	Year 2	Year 3	Year 4	Year 5
Additional State Revenue	$260	$458	$517	$577	$624
Foregone Tax Revenue	$445	$460	$478	$494	$510
Net State Revenue	–$185	–$2	$39	$83	$114

If the waiver were provided on a delayed basis, the revenues in the short term could be made positive as well. Manufacturers have indicated that a one-year delay would not prevent most from making an investment.[15]

It should be noted that while the sales tax is at least 7.25 percent throughout California, only 5 percent is deposited into the State General Fund (.5 percent is for the Local Revenue Fund, .5 percent is for the Local Public Safety Fund and 1.25 percent is for city/county transportation funds and other operations). Any amounts collected above the 7.25 percent also are not deposited into the state's General Fund.

While the legislature can approve a permanent or temporary waiver of this tax with a simple majority, a two-thirds approval of the legislature is currently required to undo any permanent waiver (as it would be perceived as a tax increase in the year implemented). In the past, the legislature has placed a sunset date on some waiver programs to maintain flexibility in extending or sunsetting the program without the two-thirds threshold.

Recommendation

The Governor should work with the Legislature to provide a 5 percent sales tax credit beginning in 2006 for all sales tax paid in the previous year on manufacturing and telecommunications equipment.

The credit would be allowed on sales tax returns once twelve months had elapsed from the date of the equipment purchase. This legislation would be effective from 2005 through 2014, to allow credits to be taken from 2006 thru 2015.

Fiscal Impact

A sales tax reduction of 5 percent on manufacturing and telecommunications equipment would result in more than 25,000 new jobs per year over the next ten years, of which over 7,000 would be in the manufacturing sector. These estimates assume that the equipment investment projections in the Milken Study are reduced by 20 percent because businesses would not be allowed to claim the reduction until a year after the date of the equipment purchase. State tax revenues from added personal and corporate income tax receipts would offset the sales tax credits in all of the ten years of this program. As this decrease is only the state's share of the sales tax, there would be no adverse effects to counties, cities or other jurisdictions.

General Fund

(dollars in thousands)

Fiscal Year	Revenues	Credits	Net Revenues	Change in PYs
2004–05	$0	$0	$0	0
2005–06	$208,000	$0	$208,000	0
2006–07	$366,400	$356,000	$10,400	0
2007–08	$413,600	$368,000	$45,600	0
2008–09	$461,600	$382,400	$79,200	0

Endnotes

1 *Interview with Dorothy Rothrock, director of Government Relations, California Manufacturing and Technology Association, Sacramento, California (April 30, 2004).*

2 *Milken Institute, "The Economic Impact of a Sales Tax Reduction on Manufacturing Equipment," Policy Brief (Santa Monica, California, June 2002), p. 10.*

3 *Memorandum from Dorothy Rothrock, vice president, Government Relations, California Manufacturers and Technology Association to Assembly Revenue and Taxation Committee (February 3, 2003).*

[4] *Memorandum from Stephen Levy, Institute of Regional and Urban Studies to Budget Project Friends (September 2, 2003).*

[5] *Interview with Ray Rossi, director of external affairs for Intel Corporation, Sacramento, California (May 11, 2004); Milken Institute, Policy Brief, "The Economic Impact of a Sales Tax Reduction on Manufacturing Equipment," pp. 1, 7.*

[6] *Testimony of Jack Stewart to John Vasconcellos, October 9, 2002, p. 2.*

[7] *Memorandum from Dorothy Rothrock to Assembly Revenue and Taxation Committee.*

[8] *Memorandum from Dorothy Rothrock to Assembly Revenue and Taxation Committee.*

[9] *California Manufacturers and Technology Association, "CMTA Survey Results Manufacturers Investment Credit" (Sacramento, California), p. 1.*

[10] *Interview with Ray Rossi.*

[11] *Interview with Bill Leonard, board member, Second District, Board of Equalization, Sacramento, California (April 29, 2004).*

[12] *Interview with Matt Sutton, policy director, Tax and Corporate Counsel Issues, California Manufacturing and Technology Association, Sacramento, California (April 30, 2004).*

[13] *Milken Institute, "The Economic Impact of a Sales Tax Reduction on Manufacturing Equipment," pp. 22–25.*

[14] *Milken Institute, "The Economic Impact of a Sales Tax Reduction on Manufacturing Equipment," pp. 22–25.*

[15] *Interview with Matt Sutton, policy director, Tax and Corporate Counsel Issues, California Manufacturing and Technology Association, Sacramento, California (May 20, 2004).*

GG 18

Increase the Amount of Money Recovered by the State Compensation Insurance Fund

Summary
When insurance companies pay a loss and another party is legally liable for it, they must often use a legal process called subrogation to recover the loss. Effective subrogation can keep insurance rates down.[1] The State Compensation Insurance Fund (SCIF), which provides workers' compensation insurance to employers, has a subrogation rate of .5 percent of annual benefits paid. The average subrogation rate for the insurance industry is 3 to 5 percent. SCIF should increase its subrogation rate so that it can reduce premiums.

Background
SCIF is a self-supporting non-profit, public enterprise fund that provides workers' compensation insurance protection to employers.[2] It has an eight-member board, consisting of five voting members appointed by the Governor and three non-voting ex-officio members, including the Director of the California Department of Industrial Relations, a member appointed by the President pro Tempore of the state Senate and a member appointed by the Speaker of the state Assembly.[3]

In 2003, IBM conducted an organizational review of SCIF.[4] It found that weaknesses exist in SCIF's systems to identify, evaluate and record subrogation recoveries.[5] The report found, among other things, that SCIF could save millions of dollars each year by better managing the subrogation process, thus increasing its subrogation rate.[6]

The industry average subrogation rate is 3 to 5 percent of annual benefits paid. For 2002, SCIF's subrogation rate was less than .5 percent of annual benefits paid, or $10 million. By way of comparison, Oregon's average annual subrogation rate was 2.4 percent for the three year period from 2001 through 2003.[7] Of state funds, Oregon's SAIF Corporation is considered to be the most similar to SCIF.[8] IBM estimates that SCIF paid losses of $2.20 billion in calendar year 2002. It concluded that if SCIF had achieved a 3 percent subrogation rate, it would have recovered an additional $57 million.[9]

SCIF indicates that $2.9 billion was paid in benefits in 2003.[10] Assuming this same level of benefits and with a subrogation rate of between 2.4 and 3 percent, SCIF could potentially recover between $69.6 million and $87 million annually.

Recommendations

A. **The Governor should work with the State Compensation Insurance Fund (SCIF) Board of Directors to require SCIF to increase its subrogation rate to at least 3 percent.**

B. **SCIF should provide a plan for increasing its subrogation rate to the Governor's Office by October 30, 2004.**

Fiscal Impact

Only partial savings are anticipated for Fiscal Year 2004–05 to provide sufficient time for implementation of the recommendation. Costs assume that a current automated system exists that can be modified and that minimal consulting, systems maintenance and staff costs will be incurred. The additional recoveries resulting from this proposal could potentially be used reduce premiums.[11]

State Compensation Insurance Fund
(dollars in thousands)

Fiscal Year	Savings	Costs	Potential Net Savings (Costs)	Change in PYs
2004–05	$29,000	$407	$28,593	1.5
2005–06	$72,500	$364	$72,136	3
2006–07	$72,500	$364	$72,136	3
2007–08	$72,500	$364	$72,136	3
2008–09	$72,500	$364	$72,136	3

Note: The dollars and PYs for each year in the above chart reflect the total change for that year from 2003–04 expenditures, revenues and PYs.

Endnotes

1 *State Compensation Insurance Fund, "Claims Reference Manual, Number 10-20-855A" (San Francisco, California, November 12, 2003), p. 7.*

2 *Ins. C., Section 11770 et seq.*

3 *Ins. C., Section 11770.*

[4] *State Compensation Insurance Fund, "The Final Report to the Steering Committee, Operational Review of Operations to Improve Business Efficiency and Effectiveness," by IBM Consulting Services (San Francisco, California, July 25, 2003) (Consultant's report).*

[5] *State Compensation Insurance Fund, "IBM Organization review Status Report" (San Francisco, California, April 2004), p. 6.*

[6] *State Compensation Insurance Fund, "The Final Report to the Steering Committee, Operational Review of Operations to Improve Business Efficiency and Effectiveness," p. 15.*

[7] *E-mail from Coni Rakes, SAIF Corporation to Michael Loretta, California Performance Review (June 4, 2004).*

[8] *Interview with Allan Hunt, assistant executive director, W.E. Upjohn Institute for Employment Research, Kalamazoo, Michigan (May 27, 2004).*

[9] *State Compensation Insurance Fund, "The Final Report to the Steering Committee, Operational Review of Operations to Improve Business Efficiency and Effectiveness," p. 35.*

[10] *E-mail from Pat Quintana, government relations officer, State Compensation Insurance Fund to Lucia Becerra, California Performance Review (June 4, 2004).*

[11] *Cost estimates were provided by SCIF to the California Performance Review, June 5, 2004.*

GG 19

Centralize for Efficiency the Assessment of Commercial Aircraft

Summary

In California commercial air carrier fleets (passenger airlines and freight delivery services) are assessed as personal property in each county where their planes land.[1] Because a carrier can be subject to multiple local assessments, the base valuation of their fleets can differ among counties. Centralizing the assessment process under the Board of Equalization would eliminate the current burden on commercial air carriers and result in a more efficient system.

Background

The Board of Equalization (the Board) is required under the California Constitution to annually assess property that is owned or used by regulated public utilities, including telephone, natural gas and electricity providers. The Constitution further grants the Legislature authority to have the Board assess property that is owned or used by other public utilities, including common carriers transporting people or property.[2] Currently, commercial aircraft fleets are assessed by the local assessor as personal property in each county where any of its planes land rather than being centrally assessed by the Board.[3] The assessed value of all such aircraft is estimated at $10 billion.[4]

Because commercial aircraft fly in and out of California and no single plane remains located in the state on a permanent basis, the value of the aircraft is assessed under a fleet concept.[5] Under this method, a value is placed on all aircraft owned by a carrier of a particular type (i.e., an identical make and model regardless of age) identified as the "fleet". California Revenue and Taxation Code (the Code) Section 401.15 provides how a fleet is to be valued by the county assessors. Only a portion of the entire fleet's value, however, is subject to local assessment to reflect the actual presence of the fleet in a particular county. That portion is based upon a statutory allocation formula that determines the frequency and the amount of time a carrier's aircraft makes contact and maintains a presence within a particular county.[6]

Administrative burden on commercial air carriers

There are 254 public use airports in California. Twenty-eight of them function as primary commercial service airports that provide scheduled passenger service, which also include 12 air cargo centers with greater than one million pounds of cargo reported annually.[7]

The non-centralized assessment process requires commercial air carriers to file separate business property statements for each type of aircraft in each county where their planes land. Some carriers file as few as four statements while others file as many as 265.[8]

Each air carrier must have a market value established for its fleets for assessment purposes, which requires a separate valuation by each county assessor for the same aircraft. This causes a duplication of effort among local jurisdictions.[9] Commercial air carriers also assert that their aircraft fleets are not valued uniformly throughout California even though each assessor values the same identical aircraft pursuant to Section 401.15 of the Code. The carriers attribute differences in valuation to the non-centralized assessment process performed by individual county assessors.[10]

The Board's staff acknowledges that "by its very nature, property appraisal is somewhat subjective and opinions of value differ."[11] Southwest Airlines (Southwest) has experienced wide variances in aircraft valuation among the seven counties it serves for its overall fleet, ranging from $2.4 million to $412 million over a five year period. Southwest's findings are based upon comparisons between its internal valuation of the airline's fleet and the differences by the local assessors for the same planes using the required methodology for valuation under Section 401.15 of the Code. The $2.4 million figure represents the smallest variation, which occurred in 2001 (i.e., of the seven counties, the highest valuation exceeded $2.4 million over the lowest county valuation). The $412 million represents the highest deviation among counties, which occurred in 1998.[12]

Because a fleet's base valuation should be uniform among the counties using the criteria in the Code, the differences in valuation have caused commercial air carriers to appeal their county assessments. The Air Transport Association (the Association) reports five major airlines filed 111 separate appeals in California in 2002 and 90 in 2003. Another group of four carriers filed a total of 29 appeals over the last two years and another carrier filed 21 in the past three years.[13]

California's assessment exception

According to the Association, 30 states tax commercial air carriers. Only four states—Alaska, Indiana, Massachusetts and California—assess locally.[14] Alaska, Indiana and Massachusetts, however, only have one major airport. Accordingly, California is the only state with multiple major airports where airlines are required to file local business property statements in numerous jurisdictions.

Centralization under the Board of Equalization

Senate Bill 593 (Ackerman), introduced in 2003, proposed to transfer the assessment function of all personal property (including aircraft) of commercial air carriers from local county assessors to the Board of Equalization. Opponents of the bill argued that local assessors have evaluated aircraft and other such property for many years and the Board was lacking manpower and expertise to appropriately evaluate this type of property.[15] Although the Board took no formal position on the legislation, its bill analysis did acknowledge apparent administrative efficiencies in centralized assessment, noting that the current information collection process is duplicative. The Board's analysis also noted that limiting assessments to just aircraft (instead of all personal property) would eliminate the need to perform onsite inspections at each airport.[16] Finally, the Board's analysis concluded that because the value of the aircraft is the most significant portion of the personal property assessment (estimated at between 90 to 95 percent), it would likely be the subject of any future appeal and/or litigation when an assessment is disputed.[17] Accordingly, commercial air carriers would benefit from only having to pursue one appeal with the centralized assessment authority instead of multiple county jurisdictions.[18] Centralization would further address the concerns of commercial air carriers about the lack of uniform assessed values for aircraft.[19]

Existing mechanism as model

Centralizing the assessment of property for particular types of industries is not unprecedented. Centralized assessment of railroads and utilities has been in place for many years in California and viewed as a sound tax policy.[20] For public utilities, the Board performs the assessment function in lieu of the local assessor. The Board transmits the assessed valuation to the applicable county auditor who applies the local tax rate. That information is provided to the county tax collector who is responsible for sending the tax bill to the taxpayer. Transferring the assessment function for commercial aircraft to the Board would follow the same procedure and all other roles with respect to taxation would be retained by the local jurisdiction.[21]

Centralizing the assessment function with the Board would reduce administrative responsibilities of counties that assess commercial air carriers and allow local assessors to redirect resources to other property assessment and revenue generating functions. Local government also would benefit from not having to hold appeal hearings because any challenges to the assessment valuation would have to be filed with the Board.

Competitive business environment

Although the state would incur new costs by assuming responsibility for assessment centralization, the airline industry maintains the transfer would increase efficiency and reduce the industry's administrative costs helping at a time when its survival is the most precarious it has been in 30 years.[22] Aviation is an important industry in California, leading to more than $14.5 billion in tourism for California in 2001.[23] Yet, travel-generated earnings for the air transportation industry dropped $400 million from 2001 to 2003 while travel-generated employment dropped by nearly 12,500 jobs during the same period. The number of air passengers arriving to Los Angeles in 2003 fell by 611,000 over the previous year; San Francisco experienced a drop of 945,000.[24]

Recommendation

The Governor should work with the Legislature to centralize the assessment function of commercial aircraft with the Board of Equalization.

Fiscal Impact

This recommendation would have a fiscal impact on the state unless the centralized assessment function is absorbed from existing resources from the Board of Equalization.[25] The Board of Equalization estimates that for Fiscal Year 2005–06, 5.5 new positions would be needed to implement the centralization function. In the following fiscal year, the number of positions would decrease to 5.3 and remain constant. This recommendation would create an ongoing cost to the general fund.[26] California's travel industry would benefit, since this creates a more streamlined assessment procedure for commercial air carriers, cutting their administrative costs and improving their financial viability.

General Fund

(dollars in thousands)

Fiscal Year	Savings	Costs	Net Savings (Costs)	Change in PYs
2004–05	$0	$0	$0	0
2005–06	$0	$614	($614)	5.5
2006–07	$0	$519	($519)	5.3
2007–08	$0	$519	($519)	5.3
2008–09	$0	$519	($519)	5.3

Note: The dollars and PYs for each year in the above chart reflect the total change for that year from 2003–04 expenditures, revenues and PYs.

Endnotes

1 *For purposes of this paper, commercial air carriers shall mean certificated air carriers within the meaning of Rev. & T. C. Section 1150 or scheduled air taxi operators within the meaning of Section 1154(a) and (b).*

2 *California Constitution Article 13, Section 19. This section assigns the Board of Equalization responsibility to assess property owned or used by regulated railway, telegraph, or telephone companies, car companies operating on railways and companies transmitting or selling gas or electricity. It also empowers the Legislature to authorize the Board of Equalization to assess property owned or used by other public utilities. This section also identifies private corporations and persons that own, operate, control or manage a line, plant or system for the transportation of people or property directly or indirectly to or for the public and common carriers as public utilities.*

3 *Rev. & T.C. Sections 401.15 and 1152; and Board of Equalization, Property Tax Rule 202.*

4 *Board of Equalization, "Legislative Bill Analysis on S.B. 593," (Sacramento, California, July 18, 2003), p. 12.*

5 *Board of Equalization, "Legislative Bill Analysis on S.B. 593," p. 4.*

6 *Board of Equalization, "Legislative Bill Analysis on S.B. 593," pp. 4–5.*

7 *Department of Transportation, "Aviation in California: Fact Sheet," Sacramento, California, March 2004 (fact sheet).*

8 *Memorandum from Jim May, Air Transport Association to the California Chamber of Commerce (March 26, 2004). The 265 filings cited by Jim May relates to all personal property beyond just aircraft landing at airports, which would include non-real property located at airports as well as distribution centers and other non-airport locations.*

9 *Board of Equalization, "Legislative Bill Analysis on S.B. 593," p. 10; and Senate Revenue & Taxation Committee, Analysis on S.B. 593, (June 11, 2003).*

10 *Letter from Kathryn C. Rees, legislative advocate on behalf of Southwest Airlines to the Honorable Dede Alpert, chair, Senate Appropriations Committee (July 10, 2003); and Interview with Eric Miethke, Law Offices of Nielsen, Merksamer, Parrinello, Mueller & Naylor, Sacramento, California (May 12, 2004).*

11 *Board of Equalization, "Legislative Analysis on S.B. 593," p. 11.*

12 *Letter from Kathryn C. Rees to Dede Alpert, July 10, 2003; and Interview with Rose Valentinetti, Southwest Airlines (May 14 and 24, 2004).*

13 *E-mail from James A. Hultquist, managing director, Taxes, Air Transport Association to California Performance Review (May 11, 2004). The e-mail identified the following appeal information: United 60 appeals in 2002 and 40 in 2003; American 10 in 2002 and 12 in 2003; Southwest 8 in 2002 and 8 in 2003; Delta 20 in 2002 and 16 in 2003; and Hawaiian 13 in 2002 and 14 in 2003. In the last three years Airbone reported filing 21 appeals and in the past two years a total of 29 were filed by ATA Airlines, Atlas, Polar and Federal Express.*

14 *Texas is an exception with respect to local assessment. In Texas, aircraft are reported only to one county regardless of the number of counties served.*

15 *Letter from Pat Leary, legislative representative of California State Association of Counties to Honorable Dick Ackerman, California Senate (April 15, 2003).*

16 *Board of Equalization, "Legislative Bill Analysis on S.B. 593," p. 10.*

17 *Board of Equalization, "Legislative Bill Analysis on S.B. 593," pp. 10–11; and Interview with Eric Miethke (May 12, 2004). Identified that besides aircraft, other business personal property includes unlicensed surface vehicles, ramp equipment, ground equipment, furniture and supplies, etc. These items, unlike mobile aircraft, can be identified to specific locations. Eric Miethke stated the problem of valuation differences for the same aircraft by different counties is the main reason for centralizing the assessment function whereas other personal property could remain subject to local assessment.*

18 *Board of Equalization, "Legislative Bill Analysis on S.B. 593," pp. 10-11 and Senate Revenue & Taxation Committee, Analysis on S.B. 59.*

19 *Board of Equalization, "Legislative Bill Analysis on S.B. 593," p. 11.*

20 *Senate Revenue & Taxation Committee, "Analysis on S.B. 59."*

21 *Interview with Rose Marie Kinnee, legislative analyst, Board of Equalization, Sacramento, California (May 21, 2004).*

22 *Letter from Kathryn C. Rees to Dede Alpert (July 10, 2003).*

23 *Department of Transportation, "Aviation in California: Fact Sheet," March 2004.*

24 *California Travel and Tourism Commission and the Business, Transportation and Housing Agency, Division of Tourism, California Fast Facts 2004 — Statewide and Regional Tourism Facts and Figures (Sacramento, California). Air passenger numbers include both domestic and international arrivals.*

25 *Advocates for commercial air carriers assert transferring the assessment function to the Board of Equalization can be revenue neutral by reducing a proportional amount of funds from the grants issued to the applicable county assessors pursuant to Rev. & T. C. Section 95.35, which is funded in the Governor's 2004–05 Budget under item 9210 Local Government Financing. That assertion fails to recognize that such counties through fiscal year 2006–07 are entitled to such grants at the statutory amount provided they remain eligible and no provision expressly permits a reduction should the propose transfer occur to the Board of Equalization. The purpose of these grants is to assist a county's ability to reduce the state's general fund allocation to schools by generating or preserving additional property tax revenue through*

increased performance of an assessor's office. Presumably the transfer of the assessment function to the Board of Equalization would allow the county assessor to re-direct staff to other activity related to raising revenue.

[26] *Email from Rose Marie Kinnee, legislative analyst, Board of Equalization (June 3, 2004). Cost estimates provided by Ms. Kinnee disclosed an operative date of January 1, 2006 for the centralization function assuming urgency legislation is introduced in the 2005 legislative session and becomes effective by July 1, 2005.*

GG 20

Reduce the Administrative Burden on Small Businesses in California by Allowing Self-Certification

Summary

Many small businesses that would be eligible to contract with the state do not apply for small business certification because it is time consuming and labor intensive. Because most sole proprietorships are microbusinesses and all microbusinesses are eligible for small business certification, the application process for these small businesses should be simplified to allow self-certification.

Background

Small businesses comprise 98 percent, or 2.5 million, of the companies in California, they employ more than 50 percent of the workforce and they generate more than half of California's gross domestic product.[1] A sole proprietorship is an unincorporated business owned by one person.[2] Sole proprietorships may be operated by the proprietor alone or may employ workers. Nationally, there were about 15 million non-employer individual (sole) proprietorships in 2001.[3] California is the leader among the states with the largest number of non-employer, individual proprietorships.[4]

Recent California legislation changed various sections of the Small Business Procurement and Contract Act. Those changes included establishing a subset designation of small business as "microbusiness." A microbusiness is a small business that, together with affiliates, has average annual gross receipts of $2.5 million or less over the previous three years, or a manufacturer with 25 or fewer employees.[5] Microbusinesses may be organized as sole proprietorships, partnerships, limited liability partnerships, limited liability companies, or corporations; however, most microbusinesses are organized as corporations.[6]

California spends billions of dollars each year on construction, goods and services. The Small Business Procurement and Contract Act ensures certified small businesses have equal access to state contracting opportunities by providing a 5 percent bid preference on certain state contracts.[7] The bid preference requires the state to award a bid to a certified small business if, after applying the bid preference, its bid is equal to or lower than the lowest non-small business bid, or equal to or higher than the highest scored non-small business proposal.[8]

All state agencies are required to aggressively pursue an annual 25 percent small business participation level in state contracting. The state is attempting to increase the number of certified small businesses providing goods and services to the state because their contribution stimulates state and local economies.[9]

Benefits of small business certification

In addition to the 5 percent bid preference, there are other benefits in becoming a certified small business. They include eligibility for benefits under the Prompt Payment Act, which provides greater penalty payments when properly completed invoices are not paid within 45 days and listing in the state's Internet Certified Firm Listing, which gives small businesses more visibility and expanded business networking opportunities. Despite these benefits, many small businesses do not apply for certification because of the time consuming and labor intensive application process.

Certification criteria

State law requires the Department of General Services to review and certify small business applications and maintain a list of certified businesses for the purpose of procurement and contracting with state agencies.

To be eligible for certification, a small business must be independently owned and operated and cannot be the dominant business in its field of operation. It must also have its principal office located in California and its owners or officers must live in the state. Together with its affiliates, it must either be a business with 100 or fewer employees and gross receipts of $10 million or less over the previous three years, or a manufacturer with 100 or fewer employees.[10]

To be eligible for certification, a microbusiness must be a small business as defined above, and together with its affiliates, must be either a business with average annual gross receipts of $2.5 million or less over the previous three years or a manufacturer with 25 or fewer employees.[11]

The state certification process

The certification process, which is a paper-based, manual process, is spelled out in regulation. In addition to an application, small businesses must submit a variety of accompanying documents, including copies of their last three federal tax returns, including all schedules, forms and supporting statements. If a small business has employees it also must submit a copy of the state Quarterly Wage and Withholding Report for the past four quarters. Sole proprietorships, most of which are microbusinesses and all microbusinesses, must complete the same application and submit the same documentation to become certified as any small business.

While the California Department of General Services website indicates there are more than 13,000 small businesses that have been certified, a recent report indicates there are currently

14,884 certified small businesses.[12] The chart shows the breakdown of those businesses by ownership type.

OWNERSHIP TYPE	PERCENTAGE	MICROBUSINESS	TOTAL
Corporations	57.8	6,166	8,592
Sole Proprietorships	34.9	4,602	5,181
Partnerships	3.8	474	570
Limited Liability Companies	3.2	416	472
Limited Liability Partnerships	0.3	30	37
Joint Venture	0	3	6
Other	0	16	26
TOTAL	100	11,707	14,884

Most sole proprietorships are microbusinesses. Of the total number of certified small businesses (14,884), 11,707 or about 78 percent, are microbusinesses.

How other governments certify small businesses

While other governmental entities have different certification criteria than the state of California, small business self-certification is becoming more common. For example, the U.S. Small Business Administration uses an "honor system" under which small businesses self-certify that they meet federal criteria.[13] Likewise, several states have implemented small business self-certification, including Virginia, Vermont and Ohio.[14] Some local governments in California also allow small business self-certification, including Contra Costa County and the Los Angeles County Unified School District.[15]

Simplifying the state's certification process makes sense

Implementing a simplified application process for sole proprietorships, the vast majority of which are microbusinesses, makes sense. Under a simplified process, these businesses could certify under penalty of perjury that they meet certification requirements, without having to submit proof of average annual receipts.

Recommendations

A. **The Department of General Services (DGS), or its successor, should amend relevant sections of Title 2, California Code of Regulations, to allow microbusinesses and sole proprietorships to complete a simplified application form, rather than the current application.**

B. The DGS should streamline the small business certification process for microbusinesses and sole proprietorships to:

- **Eliminate the requirement to submit documentation of annual gross receipts, but should be required to have documentation that supports their eligibility as a small business readily available for audit.**
- **Allow microbusinesses and sole proprietorships to sign under penalty of perjury that the business meets all small business certification criteria.**
- **Make the simplified application form available online and in hardcopy to allow the form to be submitted either online, by fax or mail.**

C. The DGS, or its successor, should monitor microbusinesses and sole proprietorships that have been approved for small business certification, if those businesses are within 10 percent of the upper limit for the number of employees or the average annual gross receipts.

D. The Governor should repeal Executive Order #D-37-01 and issue a new Executive Order that emphasizes the importance of small businesses to the California economy and announces the changes to the state's small business certification process.

Fiscal Impact

Applications from microbusinesses and sole proprietorships comprise about 78 percent of the certification workload. Significant savings could be achieved by implementing a simplified process for these small businesses. The office within DGS that certifies small businesses is budgeted for 35 personnel years (PYs). Implementing this self-certification proposal is estimated to decrease the workload by about 70 percent, or a reduction of 24.5 PYs, for a savings of about $1.9 million per year.

General Fund
(dollars in thousands)

Fiscal Year	Savings	Costs	Net Savings (Costs)	Change in PYs
2004–05	$475	$0	$475	(6.15)
2005–06	$950	$0	$950	(12.25)
2006–07	$950	$0	$950	(12.25)
2007–08	$950	$0	$950	(12.25)
2008–09	$950	$0	$950	(12.25)

Note: The dollars and PYs for each year in the above chart reflect the total change for that year from 2003–04 expenditures, revenues and PYs.

Other Funds
(dollars in thousands)

Fiscal Year	Savings	Costs	Net Savings (Costs)	Change in PYs
2004–05	$475	$0	$475	(6.15)
2005–06	$950	$0	$950	(12.25)
2006–07	$950	$0	$950	(12.25)
2007–08	$950	$0	$950	(12.25)
2008–09	$950	$0	$950	(12.25)

Note: The dollars and PYs for each year in the above chart reflect the total change for that year from 2003–04 expenditures, revenues and PYs.

Endnotes

1 *Small Business Reform Task Force, "Envisioning Small Business Reform," May 1, 2002, p. 1.*

2 *Franchise Tax Board, "Income Taxes for Your Business Type," http://www.taxes.ca.gov/incbus.html (last visited June 2, 2004.)*

3 *U.S. Census Bureau, "Statistics about Business Size (including Small Business) from the U.S. Census Bureau" http://www.census.gov/epcd/www/smallbus.html (last visited April 21, 2004).*

4 *U.S. Census Bureau, "'Mom and Pop' Shops Keep Growing, Census Bureau Reports," Washington, D.C., September 12, 2003 (press release) (See attached Excel table: Nonemployer Businesses and Receipts by States: 2002.)*

5 *Gov. C. Section 14837(d)(2).*

6 *Interview with Patricia Conners, manager, Reciprocity, Outreach & Technology, Department of General Services, West Sacramento, California (April 27, 2004).*

7 *Gov. C. Sections 14836–14840, 14842–14842.5 and 14845–14847; Pub. Con. C. Sections 2002 and 10116; and California Code of Regulations, Title 2, Section 1896.2.*

8 *California Code of Regulations, Title 2, Chapter 3, Article 2, Section.2(e).*

9 *Executive Order D–37–01 by the Governor of the State of California, May 13, 2001.*

10 *Gov. C. Section 14837(d)(1); and California Code of Regulations, Title 2, Chapter 3, Article 2, Section 1896(1).*

11 *Gov. C. Section 14837(c)(2).*

12 *Department of General Services, "Local Government Wins," http://www.pd.dgs.ca.gov/recipro/localpartner.htm (last visited June 1, 2004); and Department of General Services, "Business Information System Ad Hoc Report by Certification Type and Owner Type," Sacramento, California, April 27, 2004.*

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14 *State of Virginia, "Virginia Women's Business Enterprise Program Self-Certification Form 2001," http://www.dba.state.va.us/mwbusinesses/search/full.pdf (Last visited June 2, 2004); and State of Vermont, "Vermont Minority/Woman-Owned Business Frequently Asked Questions (FAQs)," http://www.aot.state.vt.us/CivilRights/Documents/FAQFinal.pdf (last visited June 2, 2004); and State of Ohio, "The New Small Business Enterprise Program," http://www.cincinnati-oh.gov/cdap/pages/-3803-/ (last visited June 2, 2004).*

15 *Contra Costa County, http://www.co.contra-costa.ca.us/depart/gsd (last visited May 24, 2004); and Los Angeles County Unified School District, "Small Business Enterprise Certification Application", http://www.laschools.org/fcs/sbo/lausd-sbe-certification-application.pdf (last visited June 2, 2004).*

GG 21

Reduce Paperwork by Recognizing Small Business Program Certification Performed by Other Governmental Entities

Summary

The process of certifying small businesses to contract with governmental entities is duplicated at the state, local and special district levels. While a few local governments accept the state's small business certification as the basis for their local small business programs, California law prohibits the state from accepting local governments' small business certifications as the basis for the state's small business program. State law should be amended to allow all California governments to recognize each others' certification program to help businesses avoid duplicating paperwork.

Background

The state's small business certification and reciprocity programs

Under state law, the Department of General Services' (DGS) Office of Small Business and Disabled Veteran Business Enterprise Services (the Office) has sole responsibility for certifying small businesses to participate in contracts to provide construction, goods and services to the state. It is also responsible for compiling and maintaining a comprehensive bidders' list of certified small businesses for state contracts.[1] To become certified by the state, small businesses are required to submit an application and to provide voluminous documentation to prove they meet program requirements, including having fewer than 100 employees and less than $10 million in average annual gross receipts.[2]

The Office also administers a reciprocity program under which cities, counties and special districts can agree to accept the state's small business certification as the foundation of their local small business programs. The reciprocity program has been in operation since May 2001. The Office has a full time staff of three who are responsible for outreach and education to encourage local governments to become reciprocity partners with the state.[3]

The benefits of reciprocity partnerships

In its marketing materials, DGS identifies a number of potential benefits to reciprocity partnerships:

> ***Local Government Wins***
>
> For local governments, a reciprocity partnership ensures procurement and contracting staff have access to an advanced, centralized, certified-firm database with versatile,

customizable query tools—available on a 24/7 basis. The database currently details more than 13,000 firms that have been "certified" by the state as "small businesses." This means local programs are assured of offering procurement/contracting opportunities to small businesses that have already met specifically defined eligibility requirements. In addition, statewide exposure for local businesses can mean increased contracting opportunities; and increased contracting opportunities can positively impact the local economy.

Small Business Wins
To begin with, it's almost effortless for a small business to participate in multiple small business programs when reciprocity partnerships exist. Increased program participation provides expanded opportunities for small business to "do business" with government. And, a business' visibility is increased both locally and statewide because reciprocity partners have access to the same centralized database."[4]

Although DGS' reciprocity program materials indicate a benefit for local governments that accept the state's certification, it is clear from the low participation rates (discussed below) that most local governments do not see sufficient benefits to become reciprocity partners with the state.

Reciprocity partnerships

Of the 58 counties, 478 cities and nearly 3,400 special districts in California, only about 20 local agencies have chosen to become reciprocity partners with the state.[5] The 20 local governments that have chosen to become reciprocity partners use the state's small business certification process as the foundation for their programs.

In addition to the state's small business certification criteria, these 20 local agencies may have specific local eligibility criteria that must be met. For example, to qualify for contracts with Los Angeles County, a local small business enterprise must be certified by the state; the business' principal office must be located within Los Angeles County for at least the last 12 months; and the business must be certified by the County's Office of Affirmative Action Compliance.[6] Businesses that have been certified by both the state and Los Angeles County are eligible to contract with both these governmental entities.

Most local agencies, however, have not partnered with the state and have separate application and documentation requirements and processes.

Barriers to creating reciprocity partnerships

There are several barriers and challenges to creating reciprocity partnerships under the current reciprocity program.

In September 2003, DGS' Office of Legal Services issued a legal opinion that regardless of whether local agencies use substantially the same certification criteria and analysis process used by the state, DGS cannot delegate certification responsibility to local agencies.[7] Since California law gives DGS "sole responsibility" for small business certification, the state cannot honor local governments' small business certification; hence the reciprocity program is not truly reciprocal.

Although local agencies have certification processes that are as rigorous as the state's, participating local agencies must have their existing list of small businesses recertified by the state. Local governments would also have ongoing reliance on the state's certification process.[8] Despite outreach efforts implemented in May 2001, less than two dozen of the nearly 4,000 local governments in California have expressed any interest in becoming reciprocity partners and their interest has been limited.[9]

Some local entities certify disadvantaged, minority and women-owned business enterprises for contracts that have federal funding and may not maintain separate lists for small businesses. Proposition 209, passed in 1997, prohibits the state from certifying businesses to participate in state contracts on the basis of race, ethnicity, or gender. Thus, the state cannot add a business certified on one of these bases to its existing list of certified small businesses. This need not be a barrier. Los Angeles County, for example, certifies disadvantaged, disabled veteran, minority and women-owned businesses to participate in county contracts under their Community Based Enterprise Program. This program is separate from their small business program.

Recommendations

A. **The Governor should work with the Legislature to amend relevant sections of Government Code section 14835, et seq., to allow the state to accept a small business certification from any local government in California that uses certification criteria and review processes that are substantially the same as the state's.**

B. **The Governor should issue an Executive Order encouraging local governments to enter into reciprocity partnerships with the state.**

C. **The Department of General Services, or its successor, should continue outreach and education activities.**

Fiscal Impact

This recommendation is not expected to have a significant fiscal impact on the state. Some savings may be realized, since local certification may reduce the amount of time spent by state workers on processing documentation. Implementing these recommendations is expected to encourage small businesses to do business with state and local governmental entities, which could stimulate state and local economies.

Endnotes

[1] *Gov. C. Section 14835, et seq.*

[2] *Department of General Services, "Small Business Certification," http://www.pd.dgs.ca.gov/smbus/sbcert.htm (last visited June 3, 2004).*

[3] *Interview with Mariel Dennis, Gloria Anderson and Patricia Conners, Small Business, Disabled Veterans Business Enterprise Certification, Department of General Services, West Sacramento, California (April 12 and April 16); and interview with Patricia Conners, Small Business, Disabled Veterans Business Enterprise Certification, Department of General Services, West Sacramento, California (April 23, 2004).*

[4] *Department of General Services, "Local Government Wins,"http://www.pd.dgs.ca.gov/recipro/localpartner.htm (last visited June 1, 2004).*

[5] *Interview with Mariel Dennis, Gloria Anderson and Patricia Conners, Small Business, Disabled Veterans Business Enterprise Certification, Department of General Services, West Sacramento, California (April 12 and April 16); and interview with Patricia Conners, Small Business, Disabled Veterans Business Enterprise Certification, Department of General Services, West Sacramento, California (April 23, 2004).*

[6] *Los Angeles County, "Office of Affirmative Action Compliance," http://oaac.co.la.ca.us/SBEEligibility.shtml (last visited June 2, 2004).*

[7] *Memorandum from Department of General Services, Office of Legal Services to Patricia Connors, Reciprocity manager (September 8, 2003).*

[8] *Interview with Randall Martinez, co-chair of the Small Business Council, Department of General Services, Los Angeles, California (April 23, 2004).*

[9] *Department of General Services, "Reciprocity Program, General Update," West Sacramento, November 20, 2003 (computer printout).*

GG 22

Create a One-Stop Business License Center for California Businesses

Summary

People who want to start a business in California do not know where to begin. Even established business owners find it difficult to navigate the state bureaucracy. A one-stop business license center should be created to provide a single point of contact, accessible by both telephone and the Internet. Such a center would streamline processes, resulting in better customer service for business owners while increasing regulatory compliance and revenue.[1]

Background

People wanting to do business in California must interact with the state to establish and maintain their businesses. They must obtain necessary permits and licenses, register their businesses, report information and pay taxes. For instance, a business in California is required to register with the state for purposes of reporting sales taxes, income taxes, employee wages and insurance. In addition, business owners are required to obtain a variety of licenses and permits to carry out certain activities, such as selling alcohol or collecting debts. These are just a few of the requirements. A business owner could be required to contact nine or more state departments and agencies for a single business.[2]

For example, a person wanting to open a beauty salon in Sacramento must register or obtain permits and licenses from eight different state entities and someone wanting to open a gasoline service station must register or obtain permits and licenses from nine state entities.[3]

From a business owner's perspective, state government is not a collection of independent agencies, but rather one "state government." As a result, business owners expect seamless services from the state. Business owners in California are also demanding online services from the state equivalent to those offered in the private sector and they want a customer-centered approach that provides timely, useful and accurate information.[4]

According to a report issued in 2002 by the California Small Business Reform Task Force, "Small businesses represent 98 percent—or 2.5 million—of the companies in the State, employing more than 50 percent of the workforce and generating more than half of the gross domestic product."[5] Streamlining the business license and permit process would, therefore, have a significant impact on California's business climate.

California has previously implemented programs to improve state services to small businesses. One recent program was created by the Small Business Regulatory Reform Act of 2000.[6] It established a Small Business Advocate in the Governor's Office of Planning and Research and required each state agency to designate at least one person to serve as a small business liaison. Creating the Small Business Advocate was a good idea, but it did not go far enough.

Other states have improved their services to small businesses by creating a consolidated state business license and permit process. For example, in 1980 the state of Washington created a Master License Service (MLS) to provide a convenient, accessible and timely one-stop system for business licenses and permits. The MLS developed one master application for the most commonly acquired business licenses and permits. The Washington MLS estimates that its master application is used to issue all required licenses and permits for about 80 to 85 percent of businesses in the state.[7]

Washington's MLS is comprised of an intake unit, a call center and a business liaison section. The intake unit processes initial applications and renewals, maintains records and collects associated fees. The call center handles all telephone, e-mail and Internet inquiries and disseminates forms, informational booklets and brochures. The business liaison section provides technical assistance and is responsible for tracking changes in licensing and permit laws at the state and local level, as well as any changes in fees.

The Washington MLS enables state agencies to electronically store, retrieve and exchange license information in one location. The system is accessible to the public 24 hours a day and business owners can use it to obtain or update their information electronically. An additional benefit to the MLS is that it allows the state to use a single business identification number for each business. The business identification number is recognized by all state licensing and regulatory agencies.

The system also allows the state to issue one "master license" to each business. The master license lists the individual licenses and permits approved for the business through the master application. In addition, when licenses and permits are issued, the MLS electronically registers the business with appropriate regulatory agencies such as the state's central tax collection and employment departments. The electronic registration has reduced paperwork and increased compliance with business regulations, ultimately resulting in additional revenue to the state.

The MLS also helped to identify and eliminate the state's obsolete and duplicative licensing requirements. Finally, the MLS allows the state to consolidate all license and permit fees in one place so business owners can issue a single payment covering multiple fees.[8]

In order to facilitate a smooth transition to an MLS, Washington's governor appointed a third-party facilitator or "business advocate" who reported directly to the governor and provided oversight for the project. The business advocate worked with the affected agencies and was a critical component of the project.[9]

The data system Washington uses for its MLS is a licensing information intranet system. The system contains information relevant to eleven state agencies responsible for regulating businesses. Information from the master application is entered into the MLS licensing information intranet system. The majority of information collected is used for license and permit purposes. About 100 state licenses can be obtained by using the master application.

A licensing information intranet system could also be used to electronically transfer information on small businesses to other databases purposes other than licensing. For instance, relevant information from the MLS system could be transferred to a database of businesses certified as small businesses in the state. Numerous state agencies, departments, business organizations and other entities could use the database as a referral source for conducting state business with small businesses. Other entities could use the database as a resource to promote small businesses throughout the state.

Some consolidation of California state license information systems is already underway. California's Department of Consumer Affairs processes the bulk of California's professional licenses and is working to combine all of its independent information systems into one centralized information system. According to the Department of Consumer Affairs, additional enhancements to accommodate a master application for licenses and permits issued by the department could be built into the new system with little or no additional cost. The new system is expected to be fully implemented in about three years.[10] The new system could be developed as a central component of a California MLS licensing information intranet system. The Washington MLS took approximately two years to implement.

An MLS requires relatively few resources. Washington's MLS has 39 employees and its budget is supported by application and renewal fees. The one-time fee for filing a master application in Washington is $15 and about 10 percent of licenses and permits are renewed annually for a $9 renewal fee. Washington State conducted a study to determine the appropriate application fee amounts. Although the master application and renewal fees are in addition to fees previously charged for individual licenses and permits, they are reasonable in light of the resulting streamlined state processes and improved customer service.

Recommendations

A. **The Governor should direct the State and Consumer Services Agency, or its successor, to create a master licenses service similar to Washington State's MLS.**

   Establishing a consolidated license and permit center like Washington's MLS would greatly improve California's services to small businesses. It would also improve California's business regulation process and minimize its burden on business owners.

Finally, a California MLS would increase compliance with business regulations and, therefore, generate additional revenue.

B. The Governor should direct the State and Consumer Service Agency, or its successor, to work with other regulatory departments and seek legislation if necessary to establish a uniform business identification number for each business to be recognized by all affected departments and to share necessary information between departments.

A uniform business identification number would increase compliance with business regulations in California, facilitate better information sharing between departments and improve customer service to small businesses. Sharing information between regulatory departments would allow the state to register a business with multiple departments electronically as licenses and permits are processed. Information about the business would need to be manually input and updated only once, significantly reducing the number of duplicate or conflicting records from one department to another.

C. The Governor should appoint a third-party facilitator (business advocate) who reports directly to the governor through the Governor's office to provide oversight for creating California's MLS.

An appointed business advocate would work with business owners, the Legislature and all affected state and local parties to ensure the state's smooth transition to a consolidated business license and permit system. The Director of Small Business Advocate, Governor's Office of Planning and Research would be an appropriate choice. The duties could be amended to include third-party facilitator.[11]

D. The Governor should direct the State and Consumer Services Agency, or its successor, to seek legislation to enact a one-time master application fee and a master renewal application fee. Revenue from the fees should be used to pay for the MLS.

Fiscal Impact

This recommendation would result in state costs to develop an MLS intranet system. However, the Department of Consumer Affairs has identified $22 million from its budget to replace its multiple legacy systems. The department believes the additional enhancements for the master application process could be built into the new system with little to no additional cost. Additional costs also would be incurred to interface with other state entities, but, these cannot be determined at this time. Based on the timeline provided by the department, it would take about three years to phase in the new system.[12] As a result, an MLS would not be fully implemented prior to Fiscal Year 2008–2009.

There would also be costs to staff the MLS. The Washington Department of Licensing, Master Licensing Service has a staff of 39 positions. If California staffs the MLS at the same level, it would cost approximately $1.7 million in salary and benefits annually.

Like Washington, California's MLS would have a dedicated fund account. It would be supported by the businesses that use the service. Washington charges a one-time $15 master application processing fee and a $9 annual renewal processing fee.[13] There is not one particular state entity that records every new business in California, so the actual amount of revenue generated from the master application and renewal fees cannot be determined.

Implementing the master application process in California would result in savings and efficiencies that would be realized by the Department of Consumer Affairs and other departments including; staffing, printing, storing and mailing of applications and the cost of issuing separate license/permits. Cost savings and efficiencies are unknown at this time. However, the Florida Department of Business and Professional Regulation realized $10 million in savings annually when it replaced its legacy systems.[14]

Endnotes

1. *Interview with Mary Wollesen, statewide director, Small Business Development Centers, Sacramento, California (March 19, 2004); interview with Helen Sullivan, director, Small Business Development Center, University of California, Merced, Sacramento, California (March 23, 2004).*
2. *The Department of Industrial Relations, Department of Consumer Affairs, Secretary of State, Department of Fair Employment and Housing, California Environmental Protection Agency, Employment Development Department, State Board of Equalization, Department of Toxic Substances Control and the Franchise Tax Board; California Environmental Protection Agency, "Business Permits Made Simple," California Government Online to Desktops (CalGOLD), http://www.calgold.ca.gov (last visited June 2, 2004).*
3. *California Environmental Protection Agency, "Business Permits Made Simple" California Government Online to Desktops (CalGOLD), http://www.calgold.ca.gov (last visited June 2, 2004).*
4. *Business Process Review—California Department of General Services Enterprise Business Office Volume One Final Report (March 1, 2001).*
5. *California Small Business Reform Task Force, "Envisioning Small Business Reform," Sacramento, California (May 1, 2002).*
6. *Chapter 1059, Statutes of 2000.*
7. *Interview with Nancy Skewis, administrator, Master License Service, Washington State Department of Licensing (May 4, 2004).*
8. *Interview with Nancy Skewis, administrator, Master License Service, Washington State Department of Licensing (May 4, 2004).*
9. *Interview with Nancy Skewis, administrator, Master License Service, Washington State Department of Licensing (May 4, 2004).*

[10] *Interview with Denise Brown, chief deputy director, California Department of Consumer Affairs, Sacramento, California (May 6, 2004); interview with Arnold Hamilton, Solution Engineer, Department of Consumer Affairs, Sacramento, California (May 11, 2004).*

[11] *Interview with Jan Boel, director, Governor's Office of Planning and Research, Sacramento, California (June 1, 2004).*

[12] *Interview with Denise Brown, chief deputy director, California Department of Consumer Affairs, Sacramento, California (May 6, 2004); interview with Arnold Hamilton, solution engineer, Department of Consumer Affairs, Sacramento, California (May 11, 2004).*

[13] *Interview with Nancy Skewis, administrator, Master License Service, Washington State Department of Licensing (May 4, 2004).*

[14] *Interview with Scott Stewart, chief information officer, Florida Department of Business and Professional Regulation (April 20, 2004).*

GG 23

Reduce Administrative Overhead Costs for Local Workforce Investment Areas

Summary
California's workforce investment system is not structured to administer a cost-efficient program. The Local Workforce Investment Areas (referred to as Areas), required by federal law, are numerous and often overlap. To achieve a more efficient workforce investment system, the Governor should initiate a consolidation or realignment of the Areas in order to realize savings. Those savings should then be redirected to increase employment and training services.

Background
The federal government has a long history of providing money for employment and training programs that are administered by the states, with services provided by local governments. These employment and training services traditionally have targeted unemployed individuals, displaced workers, job seekers, and the business community to help stimulate the economy and contribute to economic development.

From 1982 to 1998, the federal Job Training Partnership Act served as the federal employment and training program. It provided funding for employment and training services, which were provided by California cities and counties in 52 Service Delivery Areas. In 1998, Congress enacted the federal Workforce Investment Act (WIA), which significantly reformed the nation's workforce preparation system.[1] The WIA, implemented in 2000 in California, replaced the federal Job Training Partnership Act and established a one-stop career center system. California operates its workforce investment system using the federal legal framework. Except for the consolidation of two Areas, California's current workforce system is basically the same system as the one established under the Job Training Partnership Act 20 years ago.[2] The California Labor and Workforce Development Agency and the California Workforce Investment Board both say the current structure of the Areas should be evaluated because they are too numerous, not cost-effective, and could be reconfigured to better meet worker and employer needs.[3]

Local workforce investment areas
In order to receive federal job training dollars, federal law requires the Governor to designate Areas, based on federal criteria — such as population, geographic location, and commonality of labor market areas — after consulting with the California Workforce Investment Board, local elected officials, and the public.[4] The Areas serve as the local grant recipient of the federal

funds, which must then be spent on mandated employment and training services in the one-stop career centers.[5]

To designate an Area, a local jurisdiction must apply to the Governor requesting the designation.[6] Based on the federal criteria, a local area is either automatically or temporarily designated.[7] For automatic designation, the local jurisdiction must have a minimum population of 500,000.[8] An automatically designated Area remains permanently designated unless it chooses to not continue serving in this capacity.[9]

For temporary designation, federal criteria requires the local area to either: 1) have a minimum population of 200,000 or more, have acted as a Service Delivery Area under the Job Training Partnership Act, and performed well; or 2) be granted designation based on the California Workforce Investment Board's recommendation and the Governor's approval.[10] Temporary designation covers the initial two years following the WIA implementation. For those Areas that perform successfully during these two years, federal law requires the Governor to redesignate the Areas for an additional three years, which is through the remainder of the state's five-year strategic workforce investment plan.[11]

Currently, there are 50 Areas in California. (See Exhibit 2 for map of local workforce areas.) Eighteen are automatically and permanently designated. Based on the most recent population data (2001), there are potentially two additional counties that currently have temporary designations but which could qualify for automatic designation.[12] Assuming these two additional counties request automatic designation from the Governor by July 1, 2005, there will be a new total of 20 permanent areas. There is also an opportunity to create still other permanently designated areas if other jurisdictions request it of the Governor.

There are 32 temporarily designated Areas.[13] In 2002, all 32 of the temporary Areas were subsequently redesignated until June 30, 2005.[14] As mentioned above, two could qualify for automatic designation. An opportunity to consolidate the remaining 30 temporary Areas into permanent Areas will arise on July 1, 2005, as long as they meet federal criteria (common labor market areas, etc.). Based on this information, beginning July 1, 2005, California has the opportunity to consolidate Areas, bringing the number down from 50 to between 20 and 30.

Local workforce investment boards

Each Area is required to establish a governing Board whose members are appointed by the chief elected local officials.[15] The Boards oversee California's 300 one-stop career centers to ensure the federal WIA money is used to provide the required employment and training services.[16] Each Board hires staff to perform administrative functions such as program and policy oversight, fiscal accounting and budgeting, data collection and reporting, and systems administration. At a minimum, the administrative staff typically consists of an executive director, a director of fiscal operations, a director of program operations, a director of program services, a systems administrator, and an administrative assistant.[17] Each Board can spend no more than 10 percent of its total annual WIA allocation on administrative costs.[18]

A recent study surveyed 16 of the 50 Boards for salary and benefit levels of six key administrative positions common to most Boards.[19] Exhibit 1 displays the range of the administrative salary and benefit costs. The survey found the average salary and benefits cost for a Board is approximately $500,000 per year.

Exhibit 1

Position Title	Total Annual Salaries & Benefits*
Executive Director	$108,077–$133,406
Director of Fiscal Operations	$76,918–$97,096
Director of Program Operations	$77,137–$95,913
Director of Program Services	$77,137–$95,913
Systems Administrator	$70,880–$87,703
Administrative Assistant	$44,827–$55,997
TOTAL	**$454,978–$566,029**

*The average benefit rate is 34 percent of the salaries.

Note: All figures are rounded.

Consortium——A cost-efficient administrative model

Several counties and cities have joined to form consortia as a means of operating efficiently and saving money. Although a consortium represents several counties and/or cities, it is viewed as a single Area with a single Board to administer the programs in that Area. The California Employment Development Department has identified a number of advantages to these consortia, especially their ability to save money through economies of scale.[20] Every consortium that is formed reduces the number of independent and separate administrative entities needed to operate California's WIA system. As a result, more federal funds can be redirected to employment and training services.

One example of this is the Northern Rural Training Employment Consortium (NoRTEC), which represents nine counties in the northernmost part of California. NoRTEC spends only 4 percent of its total WIA allocation on administrative costs, which includes approximately $500,000 on salaries and benefits.[21] This makes NoRTEC one of most cost-efficient operating Boards in the state, since its administrative costs are well below the statewide average of 7 percent.[22]

Federal WIA funding reduction

During the past three years, the federal government has reduced its funding for programs in California by 28 percent, or $157 million. Because each of the 50 Areas has a Board, the workforce system is increasingly costly to administer since it does not take advantage of economies of scale. This makes the time ripe for consolidation and realignment.

Training for California's workers

California spent approximately $68.5 million in fiscal year 2002–03 to train or retrain 28,740 workers, a reduction of $16.4 million, or 19 percent, from fiscal year 2001–02.[23] In 2002–03, the average annual training cost per worker was $2,400. Had California not experienced the reduction, an additional 6,833 workers could have been trained or retrained. If California is to remain economically competitive, it will be increasingly necessary to maximize the ability to continuously train and provide skills to workers in order to meet employers' needs and assist workers in maintaining quality jobs.

California's five-year strategic workforce investment plan

Federal law requires the states to submit a five-year strategic workforce investment plan in order to receive federal WIA funding.[24] The state plan must include the Areas and Boards that are designated by the Governor.[25] California's initial five-year plan will end June 30, 2005, and a new plan must be submitted to take effect July 1, 2005.[26] As of June 30, 2005, the 32 temporary Areas will cease to exist and the Governor must designate new Areas.

Federal WIA reauthorization legislation is pending in Congress

The federal WIA expired September 30, 2003, but is currently authorized by a temporary congressional extension.[27] It should be noted that one of the federal bills included the President's proposal for WIA reauthorization, which would expand authority of governors to designate Areas.[28] Notably, the President has also identified a need to reduce administrative costs for the nation's workforce development system and to increase the funding spent on direct employment and training services.[29]

Recommendations

A. **The Governor should direct the California Labor and Workforce Development Agency, or its successor, to develop a plan to realign and consolidate the Areas and Boards based on the consortium model.**

B. **The Governor should review the consolidation plan, which must be submitted in the state's five-year strategic workforce investment plan, by June 30, 2005.[30]**

C. **The Governor should direct the Labor and Workforce Development Agency, or its successor, to begin the consolidation of the newly designated Areas beginning July 1, 2005.**

Exhibit 2

Local Workforce Investment Areas

D. **The Governor should direct the Labor and Workforce Development Agency, or its successor, to develop a state policy that requires savings generated from the consolidation to be redirected to employment and training services.**

Fiscal Impact

Consolidating and reducing the number of Areas and Boards will cost the state nothing. It will, however, allow more federal dollars to be spent directly on employment and training services. For example, if 20 to 30 Areas were eliminated, salary costs could be reduced by $10 million to $15 million and redirected to employment and training services. This money could provide training to an additional 4,100 to 6,250 workers per year. Also, there would likely be additional federal dollars available as a result of reducing the Boards' operating expenses and equipment costs. The federal fund redirection could begin as early as 2005–06.

Endnotes

1 *Public Law 105-220, the Workforce Investment Act of 1998.*

2 *Email from the Employment Development Department to the Intergovernmental Relations team of the California Performance Review, dated April 16, 2004, p. 1.*

3 *Interview with Victoria L. Bradshaw, Acting Secretary of the California Labor and Workforce Development Agency, Sacramento, California (April 15, 2004); and interview with Larry Gotlieb, Chair of the California Workforce Investment Board and Vice President for Government and Public Affairs for Kaufman and Broad Home Corporation of Los Angeles, Los Angeles, California (April 13, 2004).*

4 *Public Law 105-220, Sections 116 (a), 116(a)(1), 116(a)(2), 116(a)(3), 116(a)(4); and 20 Code of Federal Regulations Part 661.250 et seq.*

5 *Public Law 105-220, Section 117(d)(3)(B)(i)(I); and 20 Code of Federal Regulations Part 661.305.*

6 *Public Law 105-220, Sections 116(a)(2), Sec. 116(a)(3), Sec. 116(a)(4); and Governor Gray Davis, "California's Strategic Five-Year Plan" (Sacramento, California, April 1, 2000, Updated December 31, 2000), p. 23 and Attachment H-2.*

7 *Public Law 105-220, Sections 116(a)(2), Sec. 116(a)(3), Sec. 116(a)(4).*

8 *Public Law 105-220, Section 116(a)(2).*

9 *Memorandum from Maria Flynn, administrator for the Office of Policy Development, Evaluation and Research, U.S. Department of Labor, Employment and Training Administration, to the Intergovernmental Relations team of the California Performance Review (April 30, 2004).*

10 *Public Law 105-220, Sections 116(a)(3), Sec. 116(a)(4); and Governor Gray Davis, "California's Strategic Five-Year Plan" (Sacramento, California, April 1, 2000, Updated December 31, 2000), p. 23 and Attachment H-2.*

11 *Public Law 105-220, Sections 116(a)(3)(B), Sec. 116(a)(4); and Governor Gray Davis, "California's Strategic Five-Year Plan" (Sacramento, California, April 1, 2000, Updated December 31, 2000), p. 23 and Attachment H-2.*

12 *Department of Finance, "California County Profile," population data as of January 1, 2001, http://www.dof.ca.gov/HTML/FS_DATA/profiles/pf_home.htm. (Last visited May 20, 2004.) Sonoma and Stanislaus Counties have populations of 468,800 and 459,900 respectively.*

[13] *Email from the California Workforce Investment Board to California Performance Review (April 12, 2004 and May 27, 2004).*

[14] *Public Law 105-220, Section 116(a)(3)(B); and 20 Code of Federal Regulations Part 661.270; and email from the California Workforce Investment Board to California Performance Review questions (April 12, 2004); and Memorandum from Maria Flynn, administrator for the Office of Policy Development, Evaluation and Research, U.S. Department of Labor, Employment and Training "Administration, to the Intergovernmental Relations team of the California Performance Review (April 30, 2004).*

[15] *Public Law 105-220, Sections 117, 117(a); and 20 Code of Federal Regulations Part 661.300.*

[16] *Employment Development Department, "California One-Stop Career Centers as of April 1, 2004," http://www.edd.ca.gov/ONE-STOP/osfile.pdf. (Last visited April 26, 2004.); and WIA Sec. 121.*

[17] *Northern Rural Training Employment Consortium, "Administrative Entity Compensation Survey and Analysis Update," by Clarity Consulting Group, (The counties surveyed were Del Norte, Siskiyou, Modoc, Lassen, Plumas, Butte, Tehama, Shasta, Trinity Counties) (March 2004), http://www.nortec.org/mc/salsurvey_final.html. (Last visited May 5, 2004.) (Consultant's report).*

[18] *Public Law 105-220, Section 128(b)(4); and 20 Code of Federal Regulations Part 667.210.*

[19] *Northern Rural Training Employment Consortium, "Administrative Entity Compensation Survey and Analysis Update," by Clarity Consulting Group, (The counties surveyed were Del Norte, Siskiyou, Modoc, Lassen, Plumas, Butte, Tehama, Shasta, Trinity Counties) (March 2004), http://www.nortec.org/mc/salsurvey_final.html. (Last visited May 5, 2004.) (Consultant's report).*

[20] *Email from the Employment Development Department to the Intergovernmental Relations team of the California Performance Review (April 16, 2004), pp. 1–2.*

[21] *Email from the Northern Rural Training Employment Consortium to the California Performance Review (May 20, 2004).*

[22] *Email from the Employment Development Department to the Intergovernmental Relations team of the California Performance Review (May 20, 2004); and email from the Employment Development Department to the Intergovernmental Relations team of the California Performance Review (May 20, 2004).*

[23] *Email from the Employment Development Department to the Intergovernmental Relations team of the California Performance Review (May 21, 2004). Note: The training cost data is based on the Adult and Dislocated Worker funding streams.*

[24] *Public Law 105-220, Section 112; and 20 Code of Federal Regulations Parts 661.220 and 661.230.*

[25] *Public Law 105-220, Section 112; and 20 Code of Federal Regulations Parts 661.220 and 661.230.*

[26] *Public Law 105-220, Section 112; and 20 Code of Federal Regulations Parts 661.220 and 661.230; and Memorandum from Maria Flynn, administrator for the Office of Policy Development, Evaluation and Research, U.S. Department of Labor, Employment and Training Administration, to the Intergovernmental Relations team of the California Performance Review, April 30, 2004.*

[27] *American Society for Training & Development, "Washington Policy Report, October 2003," http://www.astd.org/NR/rdonlyres/519C623C-55C9-4EFA-B273-684C5346A932/0/October2003WPR.pdf. (Last visited May 28, 2004.)*

[28] *Committee on Education and the Workforce, "Remarks by President Bush Highlight the Need for Congress to Complete Work on Job Training Legislation," Washington, D.C., April 5, 2004. (Press release.)*

[29] *National Association of Workforce Boards, "Bulletin," http://www.nawb.org/asp/wia_prop.asp. (Last visited May 28, 2004.)*

[30] *Public Law 105-220, Section 112; and Memorandum from Maria Flynn, administrator for the Office of Policy Development, Evaluation and Research, U.S. Department of Labor, Employment and Training Administration, to the Intergovernmental Relations team of the California Performance Review, April 30, 2004.*

GG 24

Establish Competitive Sourcing Guidelines for State Departments

Summary
Competitive sourcing can save revenue, improve service, and provide a vehicle for performance management and evaluation. Depending upon agency or departmental need, however, such alternatives may not always make business sense. State agencies and departments need careful and consistent guidelines for all competitive sourcing alternatives to help them determine the best method to use and to ensure proper execution.

Background
Competitive sourcing of governmental services offers agencies options for improving services while saving money. Competitive sourcing strategies ideally create competitive government through a combination of activities, including restructuring departments and/or reengineering core functions, strategic planning, public-private partnerships and employee innovation. Competitive sourcing methods include:

- **Contracting—**where the state pays a private organization (profit or non-profit) to provide a service or part of a service.
- **Franchising—**where a private firm has rights to the provision of governmental services within a certain geographic area.
- **Vouchering—**where government pays for the service through redeemable certificates of purchase.
- **Subsidies—**where a private sector producer is subsidized to reduce consumer cost;
- **Service or "load" shedding—**where government ceases to provide a function, which is subsequently assumed in the private sector.
- **Asset sale or lease—**where the government sells assets such as real estate to private firms.
- **Private infrastructure development and operation—**where the private sector finances and operates a public element such as a road or airport and recovers costs through charges to consumers or users.
- **Deregulation—**where the state eliminates regulations allowing private providers the opportunity to compete.
- **Volunteerism—**where volunteers provide a governmental service.
- **Self-Help—**where community groups maintain governmental properties, parks or school playgrounds, as examples.[1]

Determining the best competitive sourcing alternative depends first on identifying essential and necessary services. As a first step toward competitive excellence in government, for example, Governor Pete Wilson in 1995 asked "every California department to examine its mission and determine its core responsibilities."[2] Determine core efforts first, wrote the Governor's Council on Information Technology at the time: "We do not want government to make a function more efficient if it should not be performing that function at all. The key is to focus on results—what needs to be done and then doing it well."[3] *Washington Technology* in 1996 outlined the pressures leading Wilson to his competitive strategies, pressures that have persisted through two subsequent governors: "All of a sudden, states are much more motivated to close the deal and get the job underway. Of course, state governments have more compelling reasons to do so, including shrinking budgets; global competition for economic development; a growing demand for better service by citizens."[4] Just as the pressures remain, so remain the need for continued competitive sourcing solutions.

Competitive sourcing, similar to the identification of core governmental missions and responsibilities, is also neither new nor uncommon. Contracting out construction projects (airports, bridges, toll roads, and highways) has long been in practice. Many departments also contract printing functions and aspects of mail processing. Welfare reform in 1996 brought many new facets to competitive sourcing, such as contracting out case management aspects traditionally handled through governmental agencies. A Reason Foundation analysis highlights seven lessons learned as a result over time, which apply in any competitive sourcing context: agencies must allocate sufficient resources in terms of staff time as well as outside expertise; procurement processes must be fair and transparent; the request for proposal and projected contract design affect the level of competition; performance measures should be targeted, but comprehensive; the contract design must include performance incentives; public agencies must dedicate staff resources to monitor the work of contractors; and public and private agencies must find ways to coordinate services through cross-training and by ensuring shared access to data.[5]

South Carolina's Director of Corrections, John Davis, says . . . "coming up with a list of areas to consider for outsourcing is one thing, and actually doing the contracting in a way that delivers quality service at reasonable cost is another."[6] Identifying core responsibilities and utilizing multiple competitive sourcing options in such ways as to provide quality service is what builds new traditions. In their book *Government by Network, The New Public Management Imperative*, Stephen Goldsmith and William Eggers argue that "Although the traditional model isn't dead yet, it's steadily giving way to a very different approach in which government executives redefine their core responsibilities from managing people and programs to coordinating resources for producing public value."[7]

"In the end," writes Stephen Goldsmith in his book *The Indianapolis Experience, 1992–1999*, "competition isn't just a tool, it's a philosophy… Its real role is throughout government, not only in bids for service contracts but in every program, initiative and project that a government runs. In the private sector, companies depend on their ability to stay competitive. Governments don't always realize it, but so do they."[8]

Recommendations

A. The Department of General Services (DGS), or its successor, should work with all appropriate state agencies and departments to develop a competitive sourcing guide to assist departments in determining core functions, the general methods for managing competition and those activities best facilitated through outsourcing. An annual report (to be completed by August 15 of each year for the previous year's fiscal and program activity) should be required of each agency.

This guide should not only focus on how and under what circumstances to contract out, it should also include guidance on other competitive sourcing strategies and the circumstances under which these make sense.

B. DGS or its successor, in partnership with impacted agencies and departments, should develop guidance for ensuring performance evaluation of competitive government strategies including outsourcing.

A good model would be the Performance Institute's *Designing a Performance Based Competitive Sourcing Process for the Federal Government*, which outlines 37 recommendations for managing competition by function, involving employees in competitive strategies and providing cost evaluation and performance achievement analysis.[9]

C. DGS, or its successor, should sponsor and coordinate a best practices website and newsletter for successful competitive sourcing efforts.

Website and newsletter content should rotate among agencies and departments to showcase efforts. Creative methodologies for providing or improving service through the techniques of competitive sourcing should be replicable and deserve recognition on the part of the Governor, the legislature, and the public.

Fiscal Impact

This recommendation will result in minor costs to produce the competitive sourcing guide, for each agency to complete an annual report and to develop a website. These costs will be offset though improved competitive sourcing practices. It is not possible to estimate savings at this time. The annual reports on competitive sourcing decisions, however, should include cost-benefit data to show the amount of savings and improvement in outcomes achieved.

Endnotes

1 *William D. Eggers, Privatization Opportunities for States, Reason Foundation, Los Angeles, California.*

2 *California Governor Pete Wilson, February 7, 1996; quoted in "Why Determine Government's Core Functions?" staff of the Evergreen Freedom Foundation, as edited by the Mississippi Center for Public Policy.*

3 *Governor's Council on Information Technology, "Getting Results," p. 11, quoted in "Why Determine Government's Core Functions?" staff of the Evergreen Freedom Foundation, as edited by the Mississippi Center for Public Policy, p. 4.*

4 *Washington Technology, Getting the Best Value, Vol. 11 No. 15, November 7, 1996, p. 2; www.wtonline.com/news/11 (last visited March 12, 2004).*

5 *Snell, Lisa, "Annual Privatization Report 2003, Weighing Welfare Reform and Privatization," the Reason Foundation, Los Angeles, California, 2003, p. 3.*

6 *Davis, John, Director, South Carolina Corrections Department, quoted in "Going Outside, The Push to Privatize..." Jonathan Walters in "Governing," May 2004, www.governing.com/articles/5private.htm (last visited May 10, 2004).*

7 *Goldsmith, Stephen and William D. Eggers, "Government by Network, The New Public Management Imperative," Deloitte Research and the Ash Institute for Democratic Governance and Innovation at the John F. Kennedy School of Government at Harvard University, April 19, 2004, p. 3.*

8 *Goldsmith, Stephen, "The Indianapolis Experience, 1992–1999," Indianapolis, Indiana, 1999, p. 4.*

9 *Carl deMaio; Moore, Adrian; and Badolato, Vince; "Designing a Performance Based Competitive Sourcing Process for the Federal Government, 37 Proposed Changes to Regulations and Approaches to Competing and Outsourcing Commercial Activities in Government," October 2002, copyright the Reason Foundation and The Performance Institute, www.performanceweb.org/pi/research/ps299.htm (last visited May 24, 2004).*

GG 25

Establish Parameters for Redirecting of Special Funds

Summary

The current practice of transferring or loaning "special funds" to cover General Fund deficiencies lacks adequate transparency, makes it difficult to determine internal debt levels and lacks controls on repayment or forgiveness of debt.

Background

The State Controller is authorized to borrow special funds to meet cash flow needs in the General Fund.[1] These funds must be repaid, often with interest, by a specific date. However, in the last several years, in addition to short-term loans made to cover cash flow needs, special funds have in effect been permanently transferred to the General Fund as a means of addressing General Fund deficiencies.

In *Hathaway v. Wilson, et al*, which was eventually settled out of court, the question was raised about whether such transfers were legal. As part of the settlement of that case, the transfers in question were repaid with interest. However, on at least one occasion, in Fiscal Year 2003–2004, an agreement was reached to simply forgive repayment of a planned $500 million dollar loan from the Transportation Congestion Relief Fund to the General Fund.[2] This had the net effect of a permanent transfer. It also has the same effect as a General Fund tax increase, since the revenue raised and earmarked for the specific activities for which the special fund was created instead went permanently into the General Fund.

While these transactions are identified in the Budget Act, they are not easily understood by a public unfamiliar with the intricacies of state budgeting.

Transferring special fund money into the General Fund can severely compromise the purposes for which the special funds were created in the first place. As a result, critical infrastructure development that taxpayers believe they are paying for is not being funded.

Infrastructure funding mechanisms

The Traffic Congestion Relief Act, enacted in 2000, created two new special funds: One is the Traffic Congestion Relief Fund, which was expected to receive $5.4 billion to support 142 projects designed to reduce traffic congestion and enhance goods movement.[3] The other was the Transportation Investment Fund, which was to distribute approximately $600 million for improvements to local streets and roads.

In 2002, California voters approved Proposition 42, which amended the state Constitution to permanently dedicate state gasoline sales taxes to fund transportation projects. It also allowed the Governor and the Legislature to suspend the transfer of that money into those funds if such a transfer would have a significant negative effect on government functions funded by the General Fund.

Several budgetary actions have negatively impacted funding for transportation infrastructure in recent years:[4]

- The 2001 Budget Act delayed the transfer of sales tax funding until Fiscal Year 2003–2004
- Budget Acts of 2001 and 2002 loaned $1.283 of $1.5 billion to the General Fund
- The Fiscal Year 2002–2003 Mid-Year Spending Reduction Proposals included suspension of the Fiscal Year 2003–2004 Transportation Investment Fund transfer, about a $1 billion loss in transportation funding
- The Fiscal Year 2002–2003 Mid-Year Spending Reduction Proposals provided for a $100 million transfer from the Traffic Congestion Relief Act to the General Fund
- The Fiscal Year 2002–2003 Mid-Year Spending Reduction Proposals forgave a planned $500 million General Fund payment to Traffic Congestion Relief Act in FY 2003–2004

Unemployment insurance funding

The California Chamber of Commerce has warned that California employers face steep increases in the unemployment insurance tax rate in 2004 because of the bankruptcy of the state Unemployment Insurance Trust Fund (UITF), ". . . an insolvency brought on by steep and ill-advised benefit increases." The Chamber predicted the UITF will face a shortage of $1.38 billion in 2004, and says the UITF's insolvency is exacerbated by the failure of state government to consider "any employer-supported cost-saving or streamlining efforts".[5]

Little relief has been forthcoming

The Benefit Audit Fund and the Employment Development Department (EDD) Contingent Fund have been fully transferred to the General Fund for at least the last six years. The Benefit Audit Fund is comprised of penalties and interest collected from individuals who have fraudulently collected unemployment benefits. It finances administrative costs associated with the discovery and collection of unemployment benefit overpayments. The EDD Contingent Fund consists of penalties and interest collected from employers who fail to pay their employer payroll taxes on time. This fund can be used for EDD's administrative costs. In the past, as required by law, the end of year balances over $1 million were transferred to the Unemployment Fund, Disability Fund and the Personal Income Tax Fund in proportion to the revenues for penalty and interest relating to each fund.

By transferring the entire balances in the Benefit Audit Fund and the EDD Contingent Fund to the General Fund, California was forced to use federal Reed Act funds to fund administrative costs previously funded by these special funds. The Reed Act created a federal fund to be allocated to states when the federal UITFs reach their statutory limits. Reed Act funds can be used to pay unemployment benefits and administrative costs associated with the unemployment insurance program and job services program.

Recommendations

The Department of Finance, or its successor, should develop uniform protocols and procedures by June 30, 2005, to ensure that transfers and loans of special fund revenues to the General Fund include specific repayment requirements and that these transactions are made transparent and easily understood in each year's budget.

Fiscal Impact

This recommendation may reduce transfers from special funds to the General Fund.

Endnotes

1 *Special funds is a generic term used for "governmental cost funds" other than the General Fund. Governmental cost funds are commonly defined as those funds used to account for revenues from taxes, licenses, and fees where the use of such funds is restricted by law for particular functions or activities of government.*

2 *Department of Finance, "Governor's Budget Summary 2004-05" (Sacramento, California, January 9, 2004), pp. 174-178.*

3 *Department of Finance, "Governor's Budget Summary 2004-05," pp. 174-178.*

4 *Department of Finance, "Governor's Budget Summary 2004-05," pp. 174-178.*

5 *California Chamber of Commerce, "California Business Issues 2004," Sacramento, California, p. 38.*

GG 26

Establish Principles of Governance to Improve the Partnership Between State and Local Government

Summary

California's governments are partners that depend upon each other. The state government looks to local governments to provide many vital services to the public including roads, health and welfare, water, fire and police protection. Local government relies on the state for funding and other resources. To ensure an effective governing partnership, a set of principles should be adopted to guide that intergovernmental relationship.

Background

During the 1990s through 2004, the state and local financial relationship was challenging as more Californians wanted more services and government revenues fluctuated making paying for them more difficult. That put a strain on the long-term ability of the state and local governments to work together effectively as the state increasingly turned to reduce funding of its local partner.

Governor Schwarzenegger taking action

Working together; saving money, eliminating waste: A solid vision of sensible stewardship for California was spelled out in Governor Schwarzenegger's State of the State Address on January 6, 2004.[1] But only when each of these elements of good government can be successfully meshed together can this goal of restoring California's greatness be achieved.

The Governor's commitment to an all-important improvement in intergovernmental relations is one of the cornerstones of his administration. This requires each sector of government in California talking to each other, working with each other, and in the end, operating as efficiently as possible without waste or overlapping functions. Cooperation and partnership among governments is important and a vital part of the fiscal recovery of California. Without a teamwork mentality, a commitment to fiscal stability at all levels of government and an all-encompassing effort to eliminate red tape, good, solid, common-sense governance just is not possible.

Principles for building a partnership for better service

Adopting a set of principles for governance will create a framework to improve communication, and build a mechanism to resolve issues between the state and local governments. Further, it will provide a roadmap for the state and local governments to create a common set of goals and to establish a set of performance measures that California's governments will need to meet to be better able to respond to today's fiscal challenges. Below are seven principles that, if adopted, can serve as a foundation to govern California's intergovernmental relationship.

California governments must act as partners

The state and local government must work together to achieve the goals of the people of California whether in partnership saving taxpayer dollars, protecting the quality of life or promoting economic investment. For example, they should pool their resources to maximize cooperation for the public good, such as making procurement purchases in volumes that will result in lower unit costs to save money. The state and local governments also must work as partners with Native American tribes respecting their sovereign rights while ensuring the tribes' activities do not negatively impact local communities. In addition, California's governments must cooperate to ensure a positive business climate.

California governments must communicate effectively

California must have open, clear lines of communication to maintain an effective working dialogue between its many governments to ensure coordination and collaboration and to resolve problems quickly and effectively.

California governments must have predictable funding

The state and local governments should have predictable funding sources to carry out required functions and services. A long-term solution needs be put in place to embrace this principle.[2]

California governments must be performance-based and accountable

Government must be accountable for its performance. The state and local governments should agree on performance standards that measure performance and outcomes. Governments must incorporate sound business practices, submit to regular performance reviews and receive funding based on performance.

California governments must have clear roles and responsibilities

Each level of government must have clearly defined roles to eliminate overlap and duplication. Services should be provided closest to the people and administration should be done at the level where it is most cost-efficient. It should be simple and clear to Californians as to which level of government can provide help to solve their problem.

California governments should be streamlined

The state and local government should perform services at the most efficient level and reduce administrative costs as much as possible. Processes should be simplified to require information only once and use the least steps possible to provide service or complete a transaction.

California governments must be flexible and innovative

Each level of government should continually improve their operations and should strive to find better approaches to the problems California faces in a global economy. Continuous improvement should be an absolute. There should be flexibility to manage programs and deliver services in the manner that fits the changing needs of their constituents.

Changing government for the future

The long-term ability of California's governments to work together effectively is critical. Adopting a set of governing principles will set the tone and stage for a new team spirit between the state and local governments to improve the delivery of services. Following those principles that both respect and recognize the importance of cooperation and partnership will yield benefits for all Californians—saving money, increasing government efficiencies and ensuring stable government operations.

Recommendation

The Governor should adopt a set of governing principles and direct his administration to apply them during the performance of state business.

Fiscal Impact

The adoption of a set of governing principles can be accomplished without additional costs. Application of the principles will result in a more efficient and effective working relationship for the state and local governments.

Endnotes

1. *Governor Arnold Schwarzenegger, "Governor's State of the State Address," Joint Session of the California Legislature (Sacramento, California, January 6, 2004).*
2. *Office of the Governor of California, "Governor Schwarzenegger Announces Local Government Budget Agreement," Sacramento, California, May 12, 2004 (press release). Governor Schwarzenegger negotiated an agreement with representatives of local government to support a constitutional amendment to protect local governments' property, sales and vehicle license fee revenues in future years.*

GG 27

Create a Formal Mechanism for Improving State-Local Government Relations in California

Summary

California needs a formal mechanism to address local government relations. Establishing a Local Government Relations Office will help the Governor's office identify and address local government issues.

Background

Governmental relations within California involve several levels of local governments, including cities, counties, regional governments and special districts. In addition, government-to-government relationships exist at the state level with bordering states, nations, tribes and the federal government.

Efforts to address state-local government relations in previous administrations have varied widely. One of the most proactive efforts occurred under Governor Wilson, who established a Government Relations office within the Governor's Office of Planning and Research. This office focused its efforts on an integrated, coordinated focus on fostering local government relations.

Currently, the Governor's Office of Planning and Research serves local governments in two ways. First, it is the state point of contact for local government review for compliance with the California Environmental Quality Act (CEQA). Second, it is responsible for the analysis of state legislation that impacts local governments.

Recent negotiations for the upcoming state budget pointed to the need for a local government relations mechanism to open a clear channel of communication amongst different levels of government. This negotiation was facilitated by a representative of the Administration who has other duties in addition to overseeing local government issues. It took three years for local governments to raise their fiscal stability concerns to the state level because, among other things, there was no established state-local government channel of communication.[1]

Because of the importance of coordination, cooperation, and consultation between all levels of government, it is vital that local governments have a contact within the Governor's office to maintain good working relationships and to address issues as they develop.

Other states

New York and Utah each have a unique forum to address local government issues. In New York, the Comptroller's oversight and support of local government is a constitutional and statutory responsibility. The Comptroller carries out its responsibilities proactively, operating under the principles of partnerships with local governments. In addition to auditing and examining the accounts and fiscal records of local governments, the Comptroller provides an extensive range of services to help local governments to operate more efficiently and effectively.[2]

The Utah Advisory Council on Intergovernmental Relations serves as a forum for the discussion and resolution of intergovernmental issues affecting the various governments in the state. Issues are identified through monthly council meetings. Most information supporting Council recommendations is developed through a cooperative effort with state agencies, legislative staff and local government associations.[3]

Recommendations

A. **The Governor's office should create a Local Government Relations Office to improve relations with all levels of local government.**

   The open line of communication and dialogue established by this office will provide an effective, transparent, accountable and coherent government for California and its local jurisdictions.

B. **The Local Government Relations Office should coordinate governmental programs and be responsible for the development of appropriate linkages between the formal and informal institutions of government.**

   The office should provide a forum for conflict management between various governmental entities in California and do much to avoid the sometimes different and varying directions local governments receive from state agencies.

Fiscal Impact

It is estimated that the recommendations can be accomplished within existing resources.

Endnotes

1 *California State Association of Counties, "Local Government Leaders Praise Budget Package Proposed by Governor", http://www.csac.counties.org/feature.html. (Last visited May 27, 2004.)*

2 *New York State Office of the Comptroller, "Local Government", http://www.osc.state.ny.us/localgov/. (Last visited May 27, 2004.)*

3 *The Utah Advisory Council on Intergovernmental Relations, "What is the UACIR?" http://www.governor.state.ut.us/planning/InterGov/UACIRgh.htm. (Last visited May 27, 2004.)*

GG 28

Improve Local Government Finance by Increasing Predictability of Revenues

Summary

The system of financing local government in California does not provide a predictable and sound means of funding. The Governor should work with the Legislature to identify permanent sources of revenue funding for local governments.

Background

State and local governments struggle to meet the needs of the public, sometimes shifting costs without providing revenue to pay for mandated services. Local governments can raise taxes or fees to pay for local priorities or to fund state-required programs, but that flexibility has been reduced. Since 1978, voters and the Legislature have enacted several measures that reduced locally-controlled revenue. Much of this revenue has been replaced by transfers or subventions by the state, rendering local governments vulnerable to fluctuations in the budget cycles of the state and federal governments.[1]

California's local governments have historically relied on three major revenue sources: the property tax, the Vehicle License Fee (VLF), and the sales tax. Before passage of Proposition 13 in 1978, property taxes were the main source of locally-controlled government revenue. Each government entity (city, county, special district, and school district) was authorized to set the local property tax rate in its own jurisdiction and to establish its own spending priorities and limits. Among its provisions, Proposition 13:

- Set a maximum property tax rate of one percent of the value of property;
- Required any special taxes to be approved by two-thirds of the voters; and
- Gave the state power to reallocate the remaining property tax revenues.

Proposition 13 immediately shrank local property taxes by about 50 percent on average, but the impact varied depending on the jurisdiction's reliance on the property tax. Since the property tax was only one source of local government revenue, overall city revenues dropped 10 percent in the first year, while county revenues dropped about 25 percent.[2]

In the years since Proposition 13, voters have approved several ballot initiatives that have taken more and more power away from local governments and given it to the state.[3] Today, local governments have little discretion to generate or spend revenue on programs or services.

Local government grows dependent on the state

In 1978, the Legislature enacted Senate Bill 154, which provided $3 billion in direct assistance to cities, counties, special districts and schools based on each jurisdiction's relative loss of revenues for that budget year. This bill began a series of developments that created a patchwork system of financing local governments that has grown increasingly complex. In 1979, the Legislature enacted Assembly Bill 8, which created a long-term system for allocating the property tax based on the amount local government received in 1979. With the state controlling its allocation and its rate of increase capped at one percent per year, the property tax ceased to be a locally-controlled tax.

In 1992, California faced a budget deficit of $11 billion and enacted legislation that shifted funds from local governments to the Education Revenue Augmentation Fund (ERAF) for disbursement to school districts. Since its inception, the ERAF has resulted in a net shift from local governments to the state of more than $23 billion through fiscal year 2003–04.[4] Governor Schwarzenegger has proposed increasing the ERAF amounts redirected from local governments to schools by $1.3 billion for fiscal years 2004–2005 and 2005–2006. Under the Governor's proposal, the $1.3 billion will go back to local governments permanently after fiscal year 2005–2006.

Lack of clear funding reduces accountability

Before 1978, local taxing and spending decisions were made at the local level. This allowed taxpayers to easily identify taxes paid to local governments and hold local elected officials accountable. The large subventions provided by the state have blurred funding sources for local governments. When subventions are reduced during times of budget crisis, local governments are doubly affected. They must absorb the cyclical reduction in revenues that accompanies an economic downturn but also must deal with a reduction in subventions from the state, which makes their funding even more uncertain. This has led some local observers to comment that local governments are being used as a safety blanket by the state, which makes it harder for voters to know whether to hold local officials or state officials accountable for budget cutbacks.[5]

Recommendation

The Governor should work with the Legislature to identify permanent sources of revenue for local governments that are not subject to redirection to the state.

Fiscal Impact

There would be no change in state revenue because this proposal would not change funding streams provided to or received from local government.

Endnotes

[1] *Public Policy Institute of California, "Research Brief Changes in State and Local Public Finance Since Proposition 13", by Michael A. Shires, (San Francisco, California 1999), p. 1. A subvention is defined as "The provision of assistance or financial support", Merriam-Webster's Dictionary Online- http://www.m-w.com/ (Last visited May 14, 2004.)*

[2] *Public Policy Institute of California, "Research Brief, Changes in State and Local Public Finance Since Proposition 13", by Michael A. Shires, p. 1.*

[3] *Major limits to raising revenues include:*

- *Proposition 4 in 1979 limited local and state spending of tax proceeds to the prior-year amount and required the state to reimburse local entities for mandated costs.*
- *Proposition 62 in 1986 required the approval of new local general taxes by two-thirds of the governing body and a majority of local voters.*
- *Proposition 98 in 1988 set minimum spending levels for K–14 education, which required shifts from the Education Revenue Augmentation Fund (ERAF).*
- *Proposition 218 in 1996 restricted local governments' ability to raise revenues from taxes, assessments, and fees and subjects some revenue-raising methods to increased voter approval requirements.*

[4] *League of California Cities, "Fact Sheet: the ERAF Property Tax Shift," by Michael Coleman, Sacramento, California, pp. 1–2. (Fact sheet.)*

[5] *Interview with Steve Szalay, executive director, California State Association of Counties, Sacramento, California (March 15, 2004); and interview with Mark Pisano, executive director, Southern California Association of Governments, Sacramento, California (March 15, 2004).*

GG 29

Improve State and Local Performance Measurements

Summary
State and local governments lack meaningful measures to gauge performance and measure efficient use of government resources to achieve desired outcomes. The Administration should work with local governments to establish outcomes-based performance measures and provide administrative flexibility to local governments that meet or exceed agreed performance standards.

Background

Californians demand that their tax dollars be used wisely and managed responsibly. Yet, the public increasingly believes that state and local governments are bloated, unable to solve problems, and spend taxpayers' money inefficiently.[1] According to the U.S. General Accounting Office, a majority of citizens hold similar views about the federal government.[2]

As agents of the state, California's 58 counties perform services that account for a large portion of the state budget, including transportation, health and human services, welfare, resources and environmental protection. Although different levels of California government should cooperate to efficiently and effectively serve the people of the state, our system encourages competition for resources rather than cooperation. Based on recent history, local governments are concerned that they will receive responsibilities for additional programs without sufficient funding, or that the state may divert local funds for other programs. State officials are concerned that local governments have little incentive to provide services in a cost-effective manner, which leads to higher program costs. This causes mutual distrust among state and local governments.

Measuring government performance

One of the problems California governments face is not being able to show that they provide the services desired by the people in an effective manner. Illustrating California's problem in tracking the performance of county programs, in 1998 the Legislative Analyst's Office wrote:

> Despite the importance of county programs, there is little information on their results or "outcomes." This shortage of information makes it difficult for policymakers, residents, or county administrators to gauge a county's performance, or to observe changes in county performance levels over time.[3]

With insufficient information, it is difficult to determine whether government is attaining desired societal outcomes such as affordable housing, quality education, affordable healthcare, effective transportation, and a clean environment.

The problem is not limited to California government. Difficulties in assessing performance, linking programs to outcomes, and the public's demand that federal agencies do their jobs more effectively and at a lower cost led to the Government Performance and Results Act (GPRA) in 1993.[4] GPRA was intended to address issues such as muddled legislative mandates, absent or conflicting program goals, and inappropriate measures of success.[5] Assessing the program ten years later, the U.S. General Accounting Office found that GPRA has helped link resources to outcomes, although significant improvements can still be achieved.[6]

Input, output, and outcome measures

Government does a good job of counting inputs and outputs, but does a poor job of measuring outcomes. Inputs are the resources used to run programs, such as the funds allocated to administer a program. Outputs are the things or services produced with those inputs (the number of students in public universities, the number of drivers' licenses issued by the Department of Motor Vehicles or the number of criminal cases prosecuted, etc.) Although outputs are easily counted and describe how much work is being done, they do not indicate whether broad policy goals are being achieved or whether programs contribute to the public's well-being. In contrast, outcomes measure the actual impact of a program, such as changes in the real wages of college graduates or changes in commute times before and after adding lanes to a freeway. Measuring and achieving desired outcomes presents far more challenges to government organizations than focusing on outputs because many factors are beyond the direct control of government agencies; yet, outcome measures are necessary to determine whether government programs actually contribute to the public's well-being by achieving broad policy goals.

Accountability for performance

Government officials must be accountable to the public for their performance. To ensure this accountability, citizens must be able to determine how programs are funded and who is responsible for their operation. In California's system of financing local government, the state provides large subventions (i.e., financial support) to local governments.[7] When the state had budget deficits in the 1990s and 2000s, it redirected funds from local government to meet state obligations. This typically results in poorer service at the local level, but the funding methods make it difficult for the public to determine whether local or state government officials should be held accountable, rendering the system unresponsive. Fiscal pressures on state and local governments increase the attractiveness of shifting the cost of services from one level of government to another.[8]

Local officials indicate that they spend too much time completing paperwork to satisfy state requirements and that the resources they spend satisfying these requirements would be better used providing services.[9] Specific examples include increasing delegated authority and reducing the number of reports required. They also described how a lack of clarity between state and local governments regarding roles and responsibilities and the appropriate revenue mix to pay for required services undermines their ability to carry out their programs.[10] The lack of clarity contributes to duplicated services, oversight that is perceived as excessive by local governments, and a lack of accountability to the public. To ensure that its service objectives are met, the state responds by issuing more requirements.

The Placer County Consolidated Model Health Contract

The Placer County Consolidated Model Health Contract (Placer County Model) is an example where California state and local governments jointly developed outcome-based measures to focus on public health outcomes rather than meeting administrative requirements.[11] The Placer County Model was developed to address uncoordinated and unconnected services with separate funding sources and administrative requirements.[12]

The Placer County Model, which took three years of work between Placer County officials and the California Department of Health Services, consolidates 16 state and federally-funded health program contracts under a single contract. The contract provides Placer County with greater flexibility while shifting the focus to accountability for meeting the outcome of healthy people through prevention.[13] Placer County representatives believe that the consolidated model will result in significant savings in contracting, accounting, and reporting costs, which can be better used to provide services.[14] Under the Placer County Model, health care staff can also work together on health cases to treat all of a patient’s problems, which allows staff to more effectively serve the needs of clients.[15]

The Placer County Model has not been fully evaluated but early results suggest that program performance can be improved by focusing on outcomes. The long-term cost effectiveness is still unclear since the effort requires commitment from leaders, significant up-front costs, shifting relationships from compliance monitoring to partnership, re-focusing the emphasis from categorical to outcome measurements, and training.[16]

Other states’ attempts to measure program performance

Other state governments have created systems designed to measure program performance and to promote efficient use of resources for desired outcomes. Two examples are:

- The Oregon Benchmarks project is a set of indicators identified as important to the well-being of citizens and businesses in Oregon.[17] The Oregon Benchmarks project grew out of Oregon Shines, a strategic plan the state created between 1988 and 1989 by a committee of 180 leaders from government, business, education and labor. To implement the strategic plan, Oregon's Governor created the Oregon Progress Board, which gathered public input, to develop benchmarks for state agencies.[18] Where necessary, Oregon worked with the federal government to get waivers of administrative requirements, which granted greater flexibility in the design and implementation of programs. While Oregon's experience suggests that it is possible to create a set of commonly understood goals, Oregon also encountered hurdles in designing and implementing the benchmarks, including significant amounts of time required, difficulty in getting measures to be used, and issues in linking measures to benchmarks.[19]

- In 1992, Florida created the Government Accountability to the People Commission, which is dedicated to making state government more accountable and responsive. The Commission is charged with tracking the impact of state government on the well-being of Florida's citizens. Florida's Benchmarks project track seven major areas: families and communities, safety, learning, health, economy, environment and government. As part of the project, staff survey Floridians on the direction they think the state should go, with the stated purpose of creating common goals and assessing the state's progress.[20]

Recommendation

The Governor should create a special task force consisting of citizens and state and county government representatives to develop outcomes-based performance standards that can be used to evaluate local governments' delivery of state programs.

Implementation of such standards could be achieved by entering into bilateral compacts that would specify roles, responsibilities, duties, work programs, finances, desired outcomes, performance indicators, and evaluation systems for the state/county partnership. Application of the performance standards would identify efficiencies and improve outcomes. County governments meeting or exceeding established standards should be provided additional administrative flexibility from the state in the operation of their programs (e.g., reducing reporting requirements or coordinating dispersed funding sources) while deficient jurisdictions should receive no additional administrative flexibility.

Fiscal Impact

The cost cannot be estimated at this time. Development and implementation of performance standards would mean additional work for both the state and county governments and state costs of an unknown amount. The cost to develop performance measures would depend on the number and type of programs involved. Successful implementation, however, could produce better services that are more accountable to citizens and more cost-effective.

Endnotes

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2 *United States General Accounting Office, "Executive Guide: Effectively Implementing the Government Performance and Results Act," GAO /GGD-96-118 (Washington, D.C., 1996), p. 6.*

3 *Legislative Analyst's Office, Elizabeth G. Hill, California Counties: "A look at Program Performance" (Sacramento, California, 1998), p. 3*

4 *United States General Accounting Office, "Executive Guide: Effectively Implementing the Government Performance and Results Act" GAO /GGD-96-118, p. 6.*

5 *United States General Accounting Office, "Executive Guide: Effectively Implementing the Government Performance and Results Act", GAO /GGD-96-118, p. 6.*

6 *United States General Accounting Office, "Results Oriented Government: GPRA Has Established a Solid Foundation for Achieving Greater Results" (Washington, D.C., March 2004) p.1.*

7 *A subvention is defined as "The provision of assistance or financial support," Merriam-Webster's Dictionary Online- http://www.m-w.com/. (Last visited May 14, 2004.)*

8 *Legislative Analyst's Office, Elizabeth G. Hill, "Making Government Make Sense: A More Rational Structure for State and Local Government" (Sacramento, California, February 1993), p.1.*

9 *Interview with Mark Baldassare, director of Research, Public Policy Institute, April 12, 2004; and interview with California Council of Governments (Monday, March 15, 2004).*

10 *Interview with Mark Baldassare, director of Research, Public Policy Institute, April 12, 2004; and interview with California Council of Governments (Monday, March 15, 2004).*

11 *Foundation Consortium for California's Children and Youth, Lynn DeLapp, "The Placer County Consolidated Model Health Contract: A State-County Partnership to Improve Public Health Systems" (Sacramento, California, December 2002), p. 5.*

12 *Foundation Consortium for California's Children and Youth, Lynn DeLapp, "The Placer County Consolidated Model Health Contract: A State-County Partnership to Improve Public Health Systems," p. 3.*

13 *Foundation Consortium for California's Children and Youth, Lynn DeLapp, "The Placer County Consolidated Model Health Contract: A State-County Partnership to Improve Public Health Systems," p. 2.*

14 *Foundation Consortium for California's Children and Youth, Lynn DeLapp, "The Placer County Consolidated Model Health Contract: A State-County Partnership to Improve Public Health Systems," p. 2.*

15 *Foundation Consortium for California's Children and Youth, Lynn DeLapp, "The Placer County Consolidated Model Health Contract: A State-County Partnership to Improve Public Health Systems," p. 5.*

16 *Foundation Consortium for California's Children and Youth, Lynn DeLapp, "The Placer County Consolidated Model Health Contract: A State-County Partnership to Improve Public Health Systems," pp. 9–10.*

17 *State of Oregon, SEA Research Case Study: State of Oregon: A Performance System Based on Benchmarks http://web.pdx.edu/~stipakb/download/PerfMeasures/PerfMeasuresOregon.doc. (Last visited June 3, 2004), p. 2.*

18 *State of Oregon, SEA Research Case Study: State of Oregon: A Performance System Based on Benchmarks http://web.pdx.edu/~stipakb/download/PerfMeasures/PerfMeasuresOregon.doc. p. 3.*

19 *State of Oregon, SEA Research Case Study: State of Oregon: A Performance System Based on Benchmarks http://web.pdx.edu/~stipakb/download/PerfMeasures/PerfMeasuresOregon.doc. p. 3.*

20 *Florida Commission on Government Accountability to the People, "Florida Benchmarks" (Tallahassee, Florida, 1998), p. 6.*

GG 30

Require Native American Tribes under the Tribal-State Compact to Enter into Agreements with Local Governments to Address the Impacts of Tribal Casinos on Local Communities

Summary

Most of the existing Tribal-State Compacts (Compacts) between Native American tribal governments (Tribes) and the state do not require Tribes to enter into agreements with local governments to offset the impact of Tribal gaming facilities (Casinos) on the surrounding community. Under such agreements, Tribes reimburse local government for the costs of essential services such as road, sewer, water, fire and police services that support the Casinos. Without these agreements, local governments must either absorb the costs or turn to the state to provide funding for these expanded services. During Compact negotiations, the Governor should require that Tribes and local governments enter into judicially enforceable agreements to address and minimize the effects of Casinos on the surrounding communities.

Background

Establishing gaming on Indian land

Tribes began large-scale gaming in the early 1980s. As state lotteries grew in popularity, several Tribes in Florida and California began raising money by operating bingo games that offered larger prizes than those allowed under state law. When California attempted to shut down Casino operations, the state was sued in federal court (*California* vs. *Cabazon Band (1987)*). The court ultimately ruled that Tribes may not engage in gaming that is prohibited by state law, but that if state law regulates a form of gaming, then the Tribes within the state may engage in that gaming free of state control.[1]

As a result of that ruling, Congress passed the 1988 Indian Gaming Regulatory Act, which provided a statutory basis for gaming on Tribal land and defined exactly what Tribal land is.[2] The act requires Tribes to have Compacts with their respective state governments specifying the types of gaming permitted on Tribal land.[3] However, the law did not put an end to disputes over Tribal gaming between California governments and the Tribes.

In March 1998, the Wilson Administration negotiated a model Compact with the Pala Band of Mission Indians of San Diego County that placed a strict limit on the type and number of lottery-style machines allowed by state and federal law. At that time the California

Constitution outlawed slot machines. Proposition 5, the Tribal Government Gaming and Economic Self-Sufficiency Act of 1998, attempted to legalize, among other things, slot machines in Casinos. Proposition 5 was approved by voters in November 1998 but was subsequently struck down by the California Supreme Court, which ruled that the measure violated a provision of the 1984 State Lottery Act which banned casino-style gaming in California.[4]

After Proposition 5 was nullified by the court, the Davis Administration negotiated new Compacts with Tribes, allowing them to expand current gaming operations to include Nevada-style gaming and video slot machines, contingent on the passage of Proposition 1A.[5] It was approved in March 2000. To date, 63 Tribes have signed Compacts with the state.[6]

The state recognizes two types of Tribes in California: Compact Tribes and Non-Compact Tribes. Compact Tribes are defined as Tribes with a Compact and have more than 350 slot machines. Non-Compact Tribes have less than 350 slot machines or no gaming operations.[7]

County losses in the millions

For the most part, these Compacts have not addressed the needs of local governments. Local governments do not have the authority to override federal law that makes gaming legal on tribal land.[8] Tribal sovereignty also shields Tribes from most state and local laws and taxes, including land use planning, development fees, and environmental laws. As a result, local communities have no legal means to cover the costs created by the development of Casinos. This concerns state and local officials who want casinos to pay fees and abide by environmental regulations applicable to all private development in the community.[9]

Compact Tribes are required to pay into two funds: one to aid Non-Compact Tribes and the other to pay for state programs for gambling addiction as well as for the support of state and local government agencies impacted by Casinos (Support Fund).[10] The Support Fund lacks a mechanism to distribute funds to local jurisdictions and the amount in the fund is not enough to adequately mitigate Casino impacts.[11]

The disparity between the amount paid into the Support Fund and the amount needed to mitigate the impacts of Casinos is significant. While the Support Fund has grown to $25 million since 2000, it is not enough to pay for mitigation in all the local communities affected by Casino development. Under the statewide grant program, Riverside County with nine Casinos expects to receive $10.6 million from the Support Fund (nearly half the fund) to improve roads and emergency service response times within the county.[12] This will leaves only $14.4 million for the remaining 33 counties with Casinos.[13]

The California State Association of Counties has found there are 34 counties that had existing or proposed Casinos (54 existing, 26 proposed) as of November 2003. In those 34 counties there are 78 Tribes, of which only 18 have Memorandum of Understanding (MOU)-type agreements with the counties to cover the cost of additional transportation, fire, police, emergency services, and water and wastewater services needed as a result of the Casinos.[14]

Eight counties have done comprehensive fiscal impact analyses of the impacts of Casino development. The results are reflected below:

- The eight counties required a total of $200 million to address the impacts of Casino development including:
  - o $182.5 million in one-time transportation costs; and
  - o $16.7 million in annual costs such as police, fire, water, emergency, etc.[15]

- Only five of the eight counties are receiving mitigation payments totaling $21.4 million distributed as follows:
  - o $16.5 million for one-time costs; and
  - o $4.9 million for annual costs.[16]

Of the $182.5 million in one-time costs, the eight counties only received $16.4 million resulting in a one-time loss of $166 million. Of the $16.7 million in annual costs identified, the eight counties are receiving $4.9 million annually resulting in an annual loss of $11.8 million.

While these figures are from just eight counties, it is clear that all counties with Tribal gaming are incurring significant costs to mitigate Casino development. For example, Yolo County and the Rumsey Band of Wintun Indians agreement identified $100 million in such costs related to casino expansion and hotel development. Without MOU-type agreements with the Tribes, local governments will bear the costs to mitigate the impacts of Casino development.

Existing local government agreements

Some Tribes and local governments have worked together to cover these costs. For example, Placer County and the United Auburn Indian Community entered into an MOU for the development of the Thunder Valley Casino. The Tribe agreed to follow all local land use ordinances, create an environmental review document, pay for enhanced law enforcement and fire protection, improve local roads, compensate the county for lost taxes and establish a Tribal-County Advisory Council to resolve local issues. As part of the agreement, all provisions are enforceable through the Sacramento County Superior Court.[17] In addition to constructing a new fire station on the casino premises, the MOU guarantees a $1 million annual reimbursement from the Tribe to the County for police, fire and emergency services.

The Rumsey Band of Wintun Indians, in its agreement with Yolo County for the expansion of the Cache Creek Casino, agreed to comply with local environmental requirements, to pay annual road maintenance fees to the County and the City of Woodland and to pay its fair share of the proposed traffic impact mitigation efforts. The Tribe also agreed to reimburse the County for a park-and-ride lot and shuttle service that support the casino and included cost of living adjustments to the annual payment made to the County.[18] The Tribe and County agreed to resolve disputes through arbitration or in Yolo County Superior Court.[19] In total the Tribe and County identified $100 million to mitigate the impacts of the casino development. This MOU superceded an agreement between the Tribe and County that dated back to 1995.[20]

Without these agreements, the counties would have been forced to mitigate the impacts of Casino development with their own funding or with the limited funding available from the state.

Casino development and local politics

Such voluntary agreements are not the norm, and they are not universally popular. Some local officials are finding resistance to them, despite the ability of Tribes to build Casinos without involving local governments.

In Plymouth, the mayor and two city council members were recalled from office because of their support for the master services agreement between the city and the Ione Bank of Miwok Indians. The recalled city officials concluded that they could not stop the Casino, because the Tribe did not need city support to put land into federal trust and build the Casino. They decided to support the Casino proposal by executing an agreement that would give the city a portion of the Casino's profits, as much as $80 million over the next 20 years.[21] For this city of 1,000 residents, the money would have been a significant help in its effort to comply with a state mandate to fix its dilapidated water system.[22] Without the agreement, the Casino will still get built but the city will get no money to offset Casino impacts.

Likewise, in Rohnert Park two city council members will face a recall election this summer for supporting a $200 million agreement with the Graton Rancheria Tribe to offset a variety of Casino impacts and pay for traffic and law enforcement needs. Council members noted that the Casino site is on land outside the city and the Tribe's sovereign status gives the city little leverage against the Casino and 300-room hotel. A fellow council member believes the two will not be recalled because of the city's poor financial condition and the growing pressure for Tribes to pay for Casino impacts.[23]

Current compact negotiations

At the time of this writing, negotiations are underway between the Governor and several Tribes in an effort to renegotiate existing Compacts.[24] The Administration is seeking a fair share of gaming revenue. Currently the general fund receives nothing from Indian gaming.

Recommendation

The state should require that Tribes renegotiating or entering into new Compacts be required to enter into judicially enforceable agreements with local governments to address the physical and economic impacts of Tribal Casinos on the surrounding community.

Fiscal Impact

Requiring judicially enforceable agreements between local governments and Tribes will cost the state nothing. However, the state could save a significant amount of money, since local governments would not have to turn to the state for additional revenue to offset the impacts of Casinos in their communities.

Endnotes

1. *Institute of Governmental Studies, University of California, Berkeley, "Indian Gaming in California," (March 2004) http://www.igs.berkeley.edu/library/htIndianGaming.htm. (Last visited May 25, 2004.)*
2. *U.S.C. Title 25, Chapter 29, Section 2703 (4).*
3. *Institute of Governmental Studies, University of California, Berkeley, "Indian Gaming in California," http://www.igs.berkeley.edu/library/htIndianGaming.htm.*
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5. *Institute of Governmental Studies University of California, Berkeley, "Indian Gaming in California," http://www.igs.berkeley.edu/library/htIndianGaming.htm; and David De Voss, "Heap Big Casinos in Residential Neighborhoods", "California Gambling", (September 15, 2003.)*
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10. *Los Angeles Times, "Tribal Casinos Should Ante Up, Voters Say," (April 24, 2004); and California Gov. C. Section 12012.85; and California Gambling Control Commission, "Model Tribal-State Gaming Compact" http://www.cgcc.ca.gov/enabling/tsc.pdf.*
11. *Louis Sahagun, "Communities to Get Help From Tribes for Services, Equipment," Los Angeles Times (March 30, 2004).*
12. *Louis Sahagun, "Communities to Get Help From Tribes for Services, Equipment," Los Angeles Times.*
13. *California State Association of Counties, "CSAC Fact Sheet on Indian Gaming in California (As of 11/5/2003)," Sacramento, California, p. 1. (Fact sheet.)*
14. *California State Association of Counties, "CSAC Fact Sheet on Indian Gaming in California (As of 11/5/2003)," p. 1. (Fact sheet.)*
15. *California State Association of Counties, "CSAC Fact Sheet on Indian Gaming in California (As of 11/5/2003)," p. 3. (Fact sheet.)*
16. *California State Association of Counties, "CSAC Fact Sheet on Indian Gaming in California (As of 11/5/2003)," p. 3. (Fact sheet.)*

[17] *Placer County, "Supervisors Reluctantly Approve MOU for Casino," Auburn, California, August 25, 1999. (Press Release.)*

[18] *Yolo County, "Intergovernmental Agreement Between the County of Yolo and the Rumsey Bank of Wintun Indians Concerning Mitigation for Off-Reservation Impacts Resulting from the Tribe's Casino Expansion and Hotel Project," (2002) http://www.yolocounty.org/TribeAgree/County-TribeFinalAgreement.pdf. (Last visited May 25, 2004). pp.9–12.*

[19] *Yolo County, "Intergovernmental Agreement Between the County of Yolo and the Rumsey Bank of Wintun Indians Concerning Mitigation for Off-Reservation Impacts Resulting from the Tribe's Casino Expansion and Hotel Project," http://www.yolocounty.org/TribeAgree/County-TribeFinalAgreement.pdf. pp.22–23.*

[20] *Yolo County, "Intergovernmental Agreement Between the County of Yolo and the Rumsey Bank of Wintun Indians Concerning Mitigation for Off-Reservation Impacts Resulting from the Tribe's Casino Expansion and Hotel Project," http://www.yolocounty.org/TribeAgree/County-Tribe Final Agreement.pdf. p. 26.*

[21] *Don Thompson, "Plymouth Voters Recall Mayor, Council Who Favored Indian Casino," San Diego Union-Tribune (May 5, 2004).*

[22] *Steve Wiegand, "Recall Brawl Engulfs Town", "Sacramento Bee" (May 3, 2004).*

[23] *Clark Mason, "2 Council Members Targeted in Anti-Casino Backlash", "The Press Democrat" (April 28, 2004).*

[24] *Kate Folmar, "Stakes High in Political Battle Over Indian Gaming Revenues", "San Jose Mercury News" (May 3, 2004).*

GG 31

Eliminate the Exemption from the Educational Revenue Augmentation Fund for Multi-County Enterprise Special Districts

Summary

California has nearly 3,400 special districts, which provide many essential services at the local level.[1] Approximately 1,200 of these are enterprise special districts, of which 34 are exempt from paying into the Educational Revenue Augmentation Fund (ERAF) solely because they serve more than one county.[2] This exemption should be removed beginning in Fiscal Year 2004–2005, and these districts should pay into the ERAF on a permanent basis. Removing this exemption would result in an ongoing annual shift of approximately $30–40 million in property tax revenues from multi-county enterprise special districts to ERAF.

Background

Types of special districts

Special districts deliver specific classes of services in a defined territory. Special district services include water, hospital, cemetery, parks and others.[3] Many special districts are funded by property taxes. In addition, certain special districts known as enterprise special districts can charge fees for the services they provide. In 1978, the Legislature expressly encouraged enterprise special districts to lessen their dependence on property tax and raise revenue through user fees and charges.[4]

Exemptions from the Educational Revenue Augmentation Fund

In fiscal years 1992–1993 and 1993–1994, the state enacted ERAF, which redirected property tax allocations from cities, counties, and special districts for disbursement to school districts. These shifts reduce the state's obligations to fund education by an amount equal to the redirected funds.

Of the nearly 1,200 enterprise special districts, there are 650 that pay into ERAF, 550 that do not pay into ERAF because they do not receive property taxes, and 67 that receive property taxes but were exempted from paying into ERAF. Of the 67 exempt districts, there are 33 districts that provide transit and hospital services or that are governed by a city council and were exempted legislatively based on policy reasons; and 34 multi-county districts that were exempted legislatively solely because their service boundaries extend across more than one county.[5]

The purpose for exempting hospital and transit districts is that a reduction in property taxes would lead to an increase in fees, limiting access to health care and decreasing transit ridership. Districts that are governed by a city council are exempt because they contribute to the ERAF as a city. By contrast, multi-county enterprise special districts are exempt solely because they provide services in more than one county.[6]

Several sources indicated that multi-county enterprise special districts were originally exempted because they successfully argued that it would be too difficult to calculate property taxes and pro-rata share of ERAF payments among the multiple counties within a special district. Some of these districts also argued that they had to provide services to areas of counties that had little or no developed land upon which they could collect property taxes. According to these sources, neither the complexity of calculating the payment nor the lack of development are relevant today, and this long-standing inequity should be rectified.[7]

The 34 exempt multi-county enterprise special districts retain more property tax money than non-exempt districts that perform the same services. To address this inequity, Senator Torlakson introduced Senate Bill (SB) 407 in 2003, currently inactive. Among its other provisions, SB 407 would remove the ERAF exemption from the 34 multi-county districts that are exempt solely because their service boundaries extend across county lines.

Recommendation

The Governor should work with the Legislature to remove the exemption from the Education Revenue Augmentation Fund (ERAF) for multi-county enterprise special districts.

Fiscal Impact

The September 17, 2003, Assembly analysis of SB 407 estimates that removing the exemption for the 34 multi-county enterprise special districts would result in shifting about $35 million of property tax revenue from those districts to ERAF. These funds represent a cost savings to the General Fund.

General Fund

(dollars in thousands)

Fiscal Year	Savings	Costs	Net Savings (Costs)	Change in PYs
2004–05	$35,000	$0	$35,000	0
2005–06	$35,000	$0	$35,000	0
2006–07	$35,000	$0	$35,000	0
2007–08	$35,000	$0	$35,000	0
2008–09	$35,000	$0	$35,000	0

Note: The dollars and PYs for each year in the above chart reflect the total change for that year from 2003–04 expenditures, revenues and PYs.

Endnotes

1 *California Senate, Committee on Local Government, "What's So Special About Special Districts? A Citizen's Guide to Special Districts in California", 3rd ed., by Kimia Mizany and April Manatt, (Sacramento, California, February 2002).*

2 *In 1992, California faced a large budget deficit and enacted legislation that shifted property tax funds from local governments to the Education Revenue Augmentation Fund ERAF for disbursement to school districts, Rev. & T. C. Section 97 et seq.*

3 *More than two dozen "principal acts" authorize special districts to deliver specific classes of services such as water, hospital, cemetery, and parks. Special districts can also be created by a special act of the Legislature to address the unique needs of a particular area. (See Growth Within Bounds: Planning California Governance for the 21st Century, by Ben Williams, Executive Director, Commission on Governance for the 21st Century, Governor's Office of Planning and Research, (Sacramento, California, January 2000) p. 74. See also "Special Districts Annual Report", Steve Westly, California State Controller, (Sacramento, California, May 5, 2004), Appendix A, Statutory Authorization of Special Districts in California).*

4 *Gov. C. Section 16270.*

5 *Interview with Jennifer Swenson, Consultant, Senate Committee on Local Government, Sacramento, California (May 11–13, 2004); and interview with Greg Brummels, Don Rose, Wayne Beck and Alice Fong, State Controller's Office, Sacramento, California (May 10–12, 2004); and interview with Ben Williams, Department of Water Resources, Sacramento, California (May 11, 2004); and interview with Matt Paulin, Department of Finance, Sacramento, California (May 12, 2004).*

6 *California Rev. & T. C. Section 97.2.*

7 *Interview with Jennifer Swenson, Consultant, Senate Committee on Local Government, Sacramento, California (May 10-13, 2004); and interview with Ben Williams, Department of Water Resources, Sacramento, California (May 11, 2004); and interview with Greg Brummels and Don Rose, State Controller's Office, Sacramento, California (May 13, 2004); and interview with Kim Le, Sacramento County Auditor-Controller, Sacramento, California (May 24, 2004); and interview with Catherine Smith, California Special Districts Association, Sacramento, California (May 25, 2004).*

GG 32

Reform the State Mandates Process to Make Reimbursement More Cost-Efficient, Predictable and Fair

Summary
The California Constitution requires the state to reimburse local governments for state mandates. Although a process exists through the Commission on State Mandates (Commission) to provide for reimbursement of legitimate claims, the process is cumbersome, inefficient and costly to the state. This process should be reformed to make it more cost-efficient, predictable, and fair for both state and local government.

Background
The California Constitution provides that whenever the Legislature or any state agency mandates a new program or higher level of service on a local government, the state shall reimburse the local government for the costs of that program or increased level of service.[1] To implement the reimbursement process, the Commission on State Mandates was created in 1985 to adjudicate mandate claims filed by local government entities.[2] The Commission is composed of seven members: the State Controller (Controller), State Treasurer, Director of the Department of Finance, Director of the Governor's Office of Planning and Research, a member of the public with experience in public finance, a school board member and a county supervisor.

The Commission reviews "test claims" submitted by local government and determines whether a mandate exists. If the Commission determines the state has imposed an unfunded mandate on local government, it approves the test claim. To determine the reimbursement amount to local agencies, the test claimant develops proposed parameters and guidelines that identify the mandated program, eligible claimants, reimbursement period, reimbursable activities, and other necessary claiming information. The Commission hears and may adopt, amend, or reject the claimant's proposed parameters and guidelines following a comment period for state agencies and interested parties.[3]

Following the Commission's adoption of the parameters and guidelines, the Commission adopts a statewide cost estimate for eligible costs. These estimates are reported to the Legislature, which forms the basis for funding the mandates through the annual budget bill and an annual claims bill. In the final step, the Controller issues claiming instructions, which local agencies follow when filing claims for reimbursement.[4]

Mandates are forever

Once the Commission recognizes a mandate, local governments submit claims for each fiscal year, including actual mandate costs for the previous year and estimates for the current year. The state incurs an ongoing funding obligation while the performance of the new program or level of service becomes a routine function of local government. This funding obligation continues into the future since the performance of the mandate obligation remains the responsibility of local government.

Wide variation in costs submitted

Although the actual cost of a mandate can vary among individual local jurisdictions for legitimate reasons, local governments occasionally file claims containing widely varying costs for providing the identical, or similar, service. For example, claims filed by local governments for expenses related to administering the Peace Officer Procedural Bill of Rights (POBOR) have been unexpectedly high and vary widely among local entities. When the Legislature enacted POBOR, the cost of providing these peace officer procedural protections was thought to be insignificant. In 1999–2000, the city of Long Beach identified 310 disciplinary cases subject to mandated POBOR procedural protections and claimed more than $6,000 per case, totaling $1,860,000. Long Beach's costs exceeded by threefold the combined costs claimed by the cities of Sacramento, Fresno and San Jose for similar POBOR-related expenditures.[5]

Mandates survive superseding events

The state remains liable for making reimbursements even when events render a mandate determination inappropriate or obsolete. There is no current mechanism for reducing or eliminating mandates when there is a change in law or when the cost for implementing a mandate decreases over time. For example, sometimes federal mandates are imposed subsequent to a state mandate relating to the identical program. Under the current structure, there is no mechanism to retire the state mandate. Another example of the need to revisit mandates occurs when the mandated activity reflects or later becomes part of a local government's routine business practices (for example, a requirement to publish a meeting agenda).

Untimely information

The Commission provides semi-annual reports to the Legislature, which contains information on the number of mandates found, the estimated statewide costs of each mandate, and the reasons for recommending reimbursement. Despite the availability of such information, the state does not receive early, accurate information regarding mandates, which hampers it in predicting its obligation to reimburse local government. This arises from problems in various phases of the process, including weaknesses in legislative review and limited participation by appropriate parties in projecting accurate cost figures.

Assembly Bill 3086: An example of problems in the mandates process

Implementation of AB 3086 (Olberg, Ch. 778, 1996) illustrates how systemic problems promote costly litigation by local government and expose the state to a continuing funding obligation despite superseding developments. AB 3086, enacted in 1996, requires all high school students to read and be taught the Declaration of Independence, the United States Constitution (including the Bill of Rights), the Federalist Papers, the Emancipation Proclamation, the Gettysburg Address and George Washington's Farewell Address. Despite the fact that these readings are traditionally taught in California high schools, the bill imposed a new state mandate and created a new financial obligation for the state. The bill was an open invitation for local governments to file claims for reimbursement.

A test claim ensued and the Commission determined that the AB 3086 requirements imposed a reimbursable mandate.[6] School districts then became eligible to file claims for reimbursement of associated costs. According to the Controller, unpaid claims for reimbursement of the AB 3086 mandate from Fiscal Year 2000–2001 to date totaled $320,233.

> In addition to costing the state money to reimburse school districts for teaching materials that most schools were already using, an event subsequent to the passage of AB 3086 reveals further weaknesses in the mandates process. In 1998, the State Board of Education adopted the *History/Social Science Content Standards for California Public Schools*, in which all requirements of the AB 3086 mandate are contained as standards. For example, the standards specify that eighth grade students ". . . discuss Abraham Lincoln's presidency and his significant writings and speeches and their relationship to the Declaration of Independence, such as. . . Gettysburg Address . . . Emancipation Proclamation . . ." Eighth-graders also must read Washington's Farewell Address. The standards specify that eleventh-grade students understand ". . . the debates on the drafting and ratification of the Constitution, and the addition of the Bill of Rights."[7] This example clearly illustrates how the mandate reimbursement process can result in duplication and unfairness, in a time when state and local governments are struggling to fund necessary services.

Recommendations

A. **The Governor should direct state agencies to review pending draft legislation as early in the process as possible and to focus on mandate impacts in their review to make reimbursements more cost-efficient, predictable and fair.**

B. **The Governor should direct state agencies to actively review and provide input into the parameters and guidelines document during the Commission on State Mandates process. This should occur whenever the Commission on State Mandates determines that a reimbursable mandate exists.**

C. **The Governor should direct the Department of Finance to develop standardized cost units for specific functions that claimants use in their cost submissions.**

Fiscal Impact

In May 2004, the Governor entered into an agreement with representatives of local government to address financing issues, including the reimbursement of unfunded mandates. The recommendations in this paper are intended to complement the Governor's agreement by identifying the existence and cost of mandates earlier in the process. Together with the agreement, these reforms should result in savings to both state and local government, making the mandates process more cost-efficient, predictable and fair.

Endnotes

1 *California Constitution Article XIII B, Section 6; and Gov. C. Section 17514. A mandate is not created when (a) the local agency itself requested the program or level of service requirements or (b) a new crime is created or an existing definition of a crime is changed. In the mandates context, the phrase "local government" includes cities, counties, K–14 educational agencies, and special districts.*

2 *Gov. C. Section 17525.*

3 *Commission on State Mandates, "Mandate Determination Process," www.csm.ca.gov/chart.html. (Last visited June 1, 2004.) A test claim is a claim filed with the Commission alleging that a particular statute or executive order imposes costs mandated by the state. The Commission hears and makes a determination on each claim. The Commission also decides claims alleging that the State Controller's office has incorrectly reduced payments to a local agency or school district.*

4 *Commission on State Mandates, "Mandate Determination Process:", www.csm.ca.gov/chart.html. (Last visited June 1, 2004.)*

5 *Legislative Analyst's Office, "Analysis of the 2004–05 Budget Bill, Mandates: Mounting Liabilities and Need for Reform" (February 2004).*

6 *Commission on State Mandates, Statement of Decision No. CSM 97-TC-02, (Sacramento, California, 1998). In the Decision, the Commission concluded that the test claim statute constitutes a reimbursable state mandated program for specified activities related to four of the documents identified in AB 3086 (the Federalist Papers, Emancipation Proclamation, Gettysburg Address and George Washington's Farewell Address). The Commission found that the remaining two documents, the Declaration of Independence and the United States Constitution, were already required to be taught under existing State law.*

7 *Legislative Analyst's Office, "2002–2003 Budget Analysis, Proposition 98 Mandates", (Sacramento, California, 2002).*

GG 33

Eliminate General Fund Support for the California Science Center

Summary
The California Science Center relies on General Fund support and private donations from the California Science Center Foundation for its operation. The demand for General Fund support will continue to increase as the operation expands.[1] Funding for the California Science Center should be shifted to the California Science Center Foundation, or the General Fund costs should be recouped through admission fees.

Background
The California Science Center is a state-of-the art science museum located south of downtown Los Angeles. Admission to the Center is free for its more than 1.3 million annual visitors. Located in state-owned Exposition Park, the Center operates as a public-private partnership with the Foundation. The Foundation is a private organization and obtains private donations from a large list of contributors. California is responsible for maintaining the Center's buildings and grounds, as well as providing more than 120 civil service staff for its daily operations. For its part of the partnership, the Foundation raises funds to support the Center's permanent and changing exhibits, educational programs, events, and capital projects. The Foundation's fund-raising activities include seeking corporate, public and private donations; renting the Museum's exhibit halls for special events; and charging for parking. The exhibit halls are rented for events and the proceeds are retained by the Foundation.

The Center's master plan calls for the expansion of its facilities and programs in three phases, which includes construction of new buildings and permanent exhibits. Phase I was completed in 1998. The Center is currently in the midst of Phase II, which includes building the Science Center School, a new parking structure, and the Amgen Center for Science Learning. Phase III of the master plan is still in the planning stages.

While the Foundation raises the bulk of the funding for capital costs for the facilities, the state's ongoing maintenance and operational responsibilities also increase with the addition of new facilities. The Governor's proposed budget for Fiscal Year 2004–2005, if approved, would increase the General Fund obligation by $1.4 million to operate the Science Center School, a charter school in Los Angeles. The total proposed FY 2004–2005 General Fund support for the Center is $11.5 million, with an additional $2.7 million General Fund appropriation for the lease revenue bond payment for the state's share of Phase II construction costs. This debt is the state's part of the overall construction costs for the improvements made to the property through the Phase II of the master plan.

The General Fund support for the Center will continue to increase as the master plan nears completion. As its facilities age, the Center's maintenance and operation costs will also increase. A significant portion of the $11.5 million supports the civil service staffing costs. The Bureau of State Audits (BSA), in its 1999 report, noted the potential conflict of interest caused by state civil service staff reporting directly to the Foundation. The Executive Director and two deputies serve both the State of California and the Foundation, and may therefore face competing interests. The aforementioned BSA report stated that in some instances, these executives failed to adequately protect the state's significant investment in the Center.[2]

Other science museums

Museums typically charge admission fees to raise operational revenue. For example, the Exploratorium in San Francisco charges admissions of $12 for adults and $8 for youth. The San Francisco Academy of Science charges admissions of $8 for adults and $5 for youth. The Foundation also could charge a fee to raise millions of dollars for the operation of the facility. The issue of charging admissions was raised with the Foundation by Lisa Mangat of the Legislative Analyst's Office (LAO), in the LAO's 2004–2005 Budget Analysis. The Foundation declined to charge admissions, expressing concern that attendance would decrease, and cited the experience of the Chicago Museum of Science and Industry.[3] When the Chicago Museum of Science and Industry began charging a fee ten years ago, attendance dropped by 50 percent; however, the Museum states that their current annual attendance is 1.5 million.[4] While this is lower than its previous attendance figures, the Museum caused their attendance figures to stabilize by enhancing its efforts to increase membership and community awareness, thereby increasing donations.[5] This strategy could be used by the Foundation to shift from relying on public funds to focusing on increasing membership, thereby allowing for the continuation of all museum operational needs and future growth by membership fund raising activities.

To their credit, the California Science Center Foundation has the capacity to raise significant funds; it has already raised $77 million in public and private funds toward the $140 million Phase II costs.[6]

Recommendation

For Fiscal Year 2005–2006 the State and Consumer Services Agency, or its successor, should eliminate the General Fund support for the operation of the California Science Center, but leave intact the annual General Fund lease revenue bond payment of $2.7 million for Phase II construction costs.

Alternatively, the State and Consumer Services Agency, or its successor, should negotiate with the California Science Center Foundation and California Science Center policy-makers to develop and charge an appropriate admission fee to recoup the General Fund's operational support for the California Science Center.

Fiscal Impact

The level of General Fund support proposed for the California Science Center in FY 2005–2006 is approximately $11.5 million. Although this does not include the $2.7 million revenue bond payment, it does include $1.9 million in funding for support of the African American Museum. If the funding level for the African American Museum remains constant, the potential savings as a result of this proposal, beginning in FY 2005–2006, will be approximately $9.6 million. This is based on the assumption that the necessary personnel processes will be initiated in FY 2004–2005 with full implementation of the proposal by July 1, 2005.

General Fund
(dollars in thousands)

Fiscal Year	Savings	Costs	Net Savings (Costs)	Change in PYs
2004–05	$0	$0	$0	0
2005–06	$9,578	$0	$9,578	(123.6)[7]
2006–07	$9,578	$0	$9,578	(123.6)
2007–08	$9,578	$0	$9,578	(123.6)
2008–09	$9,578	$0	$9,578	(123.6)

Note: The dollars and PYs for each year in the above chart reflect the total change for that year from 2003–04 expenditures, revenues and PYs.

Endnotes

1 *California Science Center, "Construction Projects," http://www.californiasciencecenter.org/GenInfo/AboutUs/ConstructionProjects/ConstructionProjects.php (last visited June 9, 2004).*

2 *California State Auditor, Bureau of State Audits, "Summary of Report Number 98115" (Sacramento, California, April 1999).*

3 *Interview with Lisa Mangat, legislative analyst, Legislative Analyst Office, Sacramento, California (May 7, 2004).*

4 *Interview with Jennifer Ickes, Media Relations, Chicago Museum of Science and Industry, Chicago, Illinois (May 11, 2004).*

5 *Interview with Vickie Sanchez, membership director, Chicago Museum of Science and Industry, Chicago, Illinois (May 11, 2004).*

6 *California Science Center, "Donors," http://www.californiasciencecenter.org/GenInfo/Membership/Donors/Donors.php (last visited June 9, 2004).*

7 *Department of Finance, "Governor's Budget May Revision 2004–05" (Sacramento, California, May 13, 2004), p. SCS 1.*

GG 34

Simplify and Consolidate Court-Ordered Fines

Summary
State court fines, fees, penalties, assessments and costs imposed against criminal offenders should be simplified and consolidated. These court-ordered debts should be more uniformly collected and the revenue generated from them should be distributed more simply.

Background
California has more than 3,100 separate court fines, fees, surcharges, penalties and assessments levied on offenders.[1] The fines, fees, surcharges and assessments appear in statutes spanning 27 different government codes. This is in addition to the many fines, fees, assessments and special costs local governments impose most offenses.

An individual convicted of a misdemeanor driving under the influence (DUI) violation could be liable for the following $4,830 in fines, fees, assessments and costs: $1,000 base fine; $200 surcharge (20 percent of base fine); $1,000 state penalty assessment (100 percent of base fine); $700 local penalty assessment (70 percent of base fine); $500 courthouse construction penalty (0–50 percent of base fine); $1,000 restitution fine, $20 court security fee; $150 alcohol and drug problem assessment program fee; $50 alcohol abuse education program fee; $50 local alcohol content testing fee; another $100 alcohol and drug problem assessment program fee; $25 booking fee and $35 accounts receivable fee for installment payments.[2]

The offender could also be charged the reasonable cost of county probation services and the cost of confinement in city or county jail.[3] Many of these penalties and fees, however, are never imposed because they appear in statutes spread across many code sections, and sentencing judges do not have time to research all applicable fines to be levied in every case.[4]

In addition, complicated administrative fees can be added to some court-ordered debt to cover collection costs. These administrative fees are considered reimbursement costs and, therefore, are the last type of debt to be satisfied under the "priority of payment" schedule. It is, therefore, unlikely the fees are providing meaningful resources to local governments as intended.[5]

Statutes and case law allow interest to be applied only to some unsatisfied court-ordered debts and collection incentives, such as 10 percent rebate programs intended to ensure counties collect restitution fines, further complicating the system. Finally, many local collection entities take advantage of a Penal Code section that allows collection programs meeting certain criteria to deduct the cost of the collection program from revenues collected, prior to disbursing any other funds. There is no limit to the amount of administrative costs that can be recovered under this section. [6]

Collecting the debts

California Chief Justice Ronald M. George emphasized the importance of collecting court-ordered debts in his 2003 State of the Judiciary address. He said, "The failure to enforce court orders imposing fines and fees undermines the judicial system not simply because of the ensuing loss of revenue—but also because it diminishes respect for the courts and their roles."[7]

State court fines, fees and penalties are collected by multiple government entities, including courts, cities, counties and the state. The Judicial Council, the policymaking body of the California courts, recently surveyed the courts in 47 counties. It found that many of them contract with private vendors to handle collections while others rely on county collection programs, court collection programs or programs jointly operated by the county and the court.[8]

Twenty-seven counties participate in the Franchise Tax Board's Court-Ordered Debt Collection Program, which has collection powers not available to private collection vendors, such as the ability to intercept state tax returns and lottery winnings.[9] The program is automated and charges 15 percent on all debts collected to cover its administrative costs.

The patchwork of collection makes it difficult to ensure court orders are uniformly enforced statewide. This raises questions about the equality of justice rendered by the courts because it is unlikely that debts imposed in two counties for the same offense are being pursued for collection in the same manner throughout the state. This is because the state's laws allow collection practices to vary significantly from one county to another.[10]

Distributing the revenue

Once a debt has been collected, in whole or in part, distributing the money is not simple. There are more than 150 ways collection entities are to distribute revenue collected from criminal court debts, depending on the fine, fee, surcharge or penalty assessment imposed.[11] In addition, revenue from some fines must be split between state and local funds, with varying percentages going to each. For example, offenders convicted of taking more than 12 abalone at a time from specified waters are assessed a fine of $15,000 to $40,000. When collected, the revenue is divided equally between the State Fish and Game Preservation Fund and the county Fish and Game Propagation Fund where the offense occurred.[12]

Other distributions are more complex. For example, offenders convicted of violating motor vehicle exhaust emissions laws with a vehicle weighing more than 6,001 pounds that was first sold or registered after 1971 are assessed a fine. The revenue from this fine is distributed as follows: 15 percent to the county where the crime was prosecuted; 10 percent to the prosecuting agency; 25 percent to the law enforcement agency involved; and 50 percent to the air quality management district or air pollution control district where the offense occurred. The distribution of this fine changes, however, if the law enforcement agency is the California Highway Patrol, in which case the fine is distributed only three ways instead of four. This is only for the first conviction. Revenue from fines imposed in subsequent convictions for the same offense is distributed another way.

Revenue from other fines is required to be distributed among several state and local funds based on percentages that can differ from one county to another.[13] Overall, revenue from criminal court-ordered debts can go to more than 8,000 different destinations because revenue from some fines is required to be distributed to cities, counties, law enforcement departments, probation offices, prosecutor's offices, or school districts, for which there are many of each throughout the state.[14]

There is a significant amount of revenue generated from court-ordered debts. One of the many penalties imposed is the state penalty assessment.[15] Revenue from this assessment alone averages $150 million annually and is distributed to the following state-dedicated funds:

- The Trial Court Automation Fund;
- The Restitution Fund;
- The Driver Training Penalty Assessment Fund;
- The Peace Officer Training Fund;
- The Corrections Training Fund;
- The Local Public Prosecutors and Public Defenders Fund;
- The Fish and Game Preservation Fund;
- The Traumatic Brain Injury Fund; and
- The Victim Witness Assistance Fund.[16]

Some funds continue to receive revenue from criminal court-ordered debts even though the programs they were intended to support no longer exists. For example, the Driver Training Penalty Assessment Fund still receives about $40 million annually in state penalty assessment revenue, although it has not been used for its statutory purpose since 1991 (California public schools no longer provide behind-the-wheel drivers' training).[17] Deposits to this fund have been diverted each year to a variety of criminal justice-related programs and to the state's General Fund.[18]

When offenders make partial payments toward their total court-ordered debt, the revenue distribution system is further complicated by a statutory "priority of payment" schedule. Payments are applied first to victim restitution orders then the state surcharge, followed by fines, penalty assessments and restitution fines on a pro rata basis. Once those debts are satisfied, payments are applied toward any reimbursable costs, such as probation costs.[19]

Revenues from court-ordered debts collected by courts and counties owed to the state are forwarded to the State Treasurer and reported to the State Controller monthly, and are included in financial reports filed quarterly with the Administrative Office of the Courts.[20]

The State Controller and the Judicial Council periodically audit local governments to ensure compliance with court-ordered debt collection and revenue distribution.[21] The complex system for imposing, collecting and distributing court-ordered debts results in burdensome bookkeeping, reporting and auditing requirements at the state and local levels. Local officials and the courts must have an elaborate tracking and collection system, and audits are much more difficult than would be the case with a simpler system. The *Manual of Accounting and Audit Guidelines for Trial Courts*, updated and published annually by the State Controller's Office, has a distribution table for court-ordered debt revenue 46 pages long for criminal court fines.

Improving the system

Recent efforts by the Legislature and the Judicial Council could help streamline the state's criminal court-ordered debt imposition and revenue distribution systems. Senate Bill 940 (Chapter 275, Statutes of 2003) required the Judicial Council to adopt guidelines for collecting court-ordered debts. The focus of the guidelines is to provide for prompt, efficient and effective collection of court-ordered fees, fines, forfeitures, penalties and assessments.[22] The Judicial Council established a committee comprised of many state, court and county officials to develop recommendations for the guidelines, which are expected to be finalized and presented to the Judicial Council for consideration at its meeting in August 2004.[23]

The Judicial Council guidelines are likely to increase enforcement and collection of court-ordered debts, which is a good start. They will not, however, address the need for consolidating the number of debts collectively imposed against offenders. They are also not likely to improve California's overly complex system for distributing the money collected. Nevertheless, the process used to develop the proposed guidelines shows the Judicial Council's ability to bring together stakeholders with widely varying interests and to obtain consensus on controversial issues.

The Judicial Council has used this approach to resolve other controversial issues. For example, the Judicial Council recently brought together a task force to make recommendations for consolidating court filing fees in civil matters. The task force recommendations are expected to be introduced into legislation in the near future. Later in 2004, the Judicial Council intends to establish a similar task force to make recommendations for consolidating criminal fines, fees, forfeitures, penalties and assessments.

Recommendations

A. The Judicial Council should continue with its plan to establish a task force to develop recommendations to simplify the criminal court fine system by consolidating fines, fees, penalties, assessments and surcharges that apply to multiple offenses into a single fine schedule.

The consolidated fine schedule should result in one fine to be imposed in every case, although the actual amount imposed could vary depending on factors such as the severity of the offense. For example, the fine imposed for a misdemeanor offense could range from $300 to $3,500.

Membership of the task force should be representative of the many diverse state and local entities that collect and distribute court-ordered debts as well as entities that receive revenue from them. The recommendations should be presented to the Legislature for consideration and implementation.

B. The Governor should work with the Judicial Council and the Legislature to enact appropriate recommendations for consolidation and distribution of criminal and civil fees and penalties, and to uniform funding mechanisms to support court-ordered debt collection.

C. Once a consolidated fine schedule is established in statute, if the Legislature chooses to increase total state court fine revenue in the future, it should adjust the proposed consolidated fine schedule rather than establish new fees, fines, penalties, assessments or surcharges.

D. The Governor should work with the Legislature to designate an appropriate executive or judicial branch office to be responsible for ensuring court-ordered debts are appropriately and uniformly collected. Once designated, the entity should ensure that, when appropriate, delinquent court-ordered debts are referred to the Franchise Tax Board's Court-Ordered Debt Collection Program for collection.

E. The Governor should work with the Legislature to enact legislation eliminating the Driver Training Penalty Assessment Fund and dedicating its deposits to another criminal justice-related program or to the General Fund.

Fiscal Impact

The impact of these recommendations cannot be determined at this time. As an example, a minimum state court fee of $200 imposed in every criminal conviction would result in a revenue increase of $380 million to the state. There were 6.2 million criminal cases (excluding parking violations) resulting in adult criminal convictions in Fiscal Year 2001–2002.[24] If state court fines, fees and assessments had been simplified into one $200 fine applied in all cases, the state would have been owed $1.2 billion. Assuming a collection rate of 50 percent, the state would have received $620 million. Instead, California received approximately $240 million in state court fees, fines and assessments in FY 2001–2002,[25] a difference of $380 million. In addition, there may be significant savings in state and local administrative costs from centralized collections, simplified accounting and audit procedures.

Endnotes

1 *California State Controller, "Manual of Accounting and Audit Guidelines for Trial Courts—Revision 16" (Sacramento, California, January 2004), Appendix C; California Codes.*

2 *Veh. C. Section 23536 (fine for first DUI is $390 to $1,000); Pen. C. Section 1465.7 (state surcharge); Pen. C. Section 1464 (state penalty assessment); Gov. C. Section 76000 (local penalty assessment); Gov. C. Section 70372 (state court construction penalty); Pen. C. Section 1202.4 (restitution fine for misdemeanor offense is $100 to $1,000); Pen. Section 1465.8 (court security fee); Pen. C. Section 1463.13(d) (fee when court orders offender to participate in county alcohol and drug problem assessment program); Veh. C. Section 23645 (alcohol abuse education fee); Pen. C. Section 1463.14(b) (penalty $50 or less for alcohol testing); Veh.C. Section 23649(a) (additional alcohol and drug problem assessment program fee); Gov. C. Section 29550(a) or 29550.2 (booking fee); Pen. C. Section 1205 (installment account fee).*

3 *Pen. C. Sections 1203.1b and 1203.1c.*

4 *Judicial Council of California, "Draft Report of the SB 940 Collections Subcommittee—Standard Fee Schedule" (Sacramento, California, May 2004).*

5 *California State Controller, "Victim Compensation and Government Claims Board Audit Report—Restitution Fines and Court-Ordered Restitution" (Sacramento, California, February 2004), p. 20.*

6 *Pen. C. Section 1463.007.*

7 *Chief Justice Ronald M. George, "State of the Judiciary" (Anaheim, California, September 6, 2003), http://www.courtinfo.ca.gov/reference/soj090603.htm (last visited June 1, 2000).*

8 *Judicial Council of California, "Draft Report of the SB 940 Collections Subcommittee—Standard Fee Schedule" (San Francisco, California, May 2004).*

9 *Interview with Renee Gibson, collections manager, Court-Ordered Debt Collection, Franchise Tax Board, Sacramento, California (May 26, 2004); Rev. & T. C. Section 19280.*

10 *See, e.g., Pen. C Section 1463.007 (comprehensive collection program is optional); Rev & T. C. Section 19280 (referral of delinquent court debts to Franchise Tax Board for collection is optional).*

11 *California State Controller, "Manual of Accounting and Audit Guidelines for Trial Courts—Revision 16" (Sacramento, California, January 2004), Appendix C.*

12 *Fish & G. C. Sections 5521, 5521.5, 12006.6, 13100 and 13003.*

13 *Pen. C. Sections 1463.001, 1463.002, 1463.28; Rev. & T. C. Section 19282.*

14 *California State Controller, "Manual of Accounting and Audit Guidelines for Trial Courts—Revision 16" (Sacramento, California, January 2004), Appendix C.*

15 *Pen.C. Section 1464.*

16 *Pen.C. Section 1464(f); "Governor's Budget 2004–05."*

[17] *"California Association for Safety Education, et al. v. Kathleen Brown" (1994) 30 Cal.App.4th 1264, at p. 1273 (rev. denied); Governor's Budgets 1991–92 through 2004–05, Control Section 24.10.*

[18] *Governor's Budgets 1991–92 through 2004–05, Control Section 24.10.*

[19] *Pen. C. Section 1203.1d.*

[20] *Gov. C. Section 68101; interview with Tina Hansen, finance division director, Administrative Office of the Courts, Sacramento, California (April 2, 2004).*

[21] *Interview with Bob Stonehouse, fiscal analyst, Division of Accounting and Reporting, State Controller's Office, Sacramento, California (March 8, 2004).*

[22] *Pen. C. Section 1463.010 (Chapter 275, Statutes of 2003, Section 3).*

[23] *Interview with Tina Hansen, finance division director, Administrative Office of the Courts and Vice Chair of the Senate Bill 940 court-county working group, and Sheila Gonzalez, deputy director, Southern Regional Office, Administrative Office of the Courts and Chair of the Senate Bill 940 court-county working group, Sacramento, California (May 20, 2004).*

[24] *Judicial Council of California, "2003 Court Statistics Report," Table 7b.*

[25] *Interview with Bob Stonehouse, fiscal analyst, Division of Accounting and Reporting, State Controller's Office, Sacramento, California (March 8, 2004).*

GG 35

Revise the Homeowners and Renters Assistance Program and Strengthen the Property Tax Postponement Program

Summary

California has two separate tax relief programs, administered by different departments, to assist low-income seniors and people with disabilities. One no longer fulfills its legislative intent and should be revised while the other program should be expanded to meet the anticipated increase in demand, resulting from the revision of the first program.

Background

The following provides a summary of characteristics for the Homeowners and Renters Assistance Program (HRAP) and the Property Tax Postponement Program (PTP), both of which provide assistance to seniors and the disabled.

Senior/Disabled Tax Programs		
Program	**Homeowners and Renters Assistance Program[1]**	**Property Tax Postponement Program[2]**
Administered By	Franchise Tax Board	State Controller's Office
Short Description	The program provides a partial repayment of property taxes or rent paid by eligible low-income seniors and persons with disabilities. Homeowners receive an amount based on property taxes paid and household income. Renters receive an amount based on household income. Claimants do not repay the assistance.	The program pays property taxes on behalf of eligible low-income seniors and persons with disabilities. The State Controller's Office establishes a low-interest loan and puts a lien on the participant's house. The State is repaid with accrued interest when the program participant dies or sells the property.
Eligibility	• Senior or Disabled • 2003 Household Income: $37,676 • Equity: no requirement • Consent of all property owners not required	• Senior or Disabled • 2003 Household Income: $24,000 or $34,000 determined by when the participant entered the program • Equity: 20 percent • Consent of all property owners required

Senior/Disabled Tax Programs (cont'd)		
Program	**Homeowners and Renters Assistance Program**	**Property Tax Postponement Program**
Payment Timing	Claimant files in July following the calendar tax year. There is no requirement for assistance to be paid to the claimant within a given timeframe.	Loan is established and property taxes are paid to the county when the taxes are due.
Maximum Amount	$473 assistance in 2003. The maximum amount of assistance is adjusted annually. In most cases, if not all, the amount of assistance provided is less than the amount of property taxes due.	Entire amount of property taxes can be postponed.
Program Activity ($) FY 2002–03	Received: $0 Disbursed: Renters: $145,944,940 Homeowners: $ 37,007,570 Total: $182,952,510 [3]	Loan Repayments Received: $16.7 million Loans Disbursed: $12.8 million Net Revenue: $3.9 million Accounts Receivables at year end: $109 million[4]
Program Activity (#) FY 2002–03	Average Assistance Claims # Amount Homeowners 154,130 $240.11 Renters 473,994 $307.90 Total 628,124 [5] $291.27	Average Assistance Loans # Amount New 8,700 Repaid 5,600 Increase in Loans 3,100 [6] $1,470
Administrative Costs	About $5.5 million annually; 19 PYs[7]	About $1 million annually; 13.5 PYs[8]

The Franchise Tax Board's HRAP was enacted in 1967 to provide direct property tax relief to seniors living on fixed incomes. It was later expanded to include renters who meet the income requirements, and to homeowners who are blind and/or disabled, regardless of their age.[9]

The State Controller's Office PTP was established through a constitutional amendment in 1976, and has experienced few changes. It provides qualified participants the opportunity to postpone paying their property taxes by establishing a loan, which is paid off at the time the home is sold.[10]

Both programs were established to help low-income seniors remain in their homes in the face of steep increases in property taxes. For example, when the HRAP was established in 1967, property taxes had increased by 167 percent over the previous decade.[11]

In 1978 California voters passed Proposition 13, which stabilized property taxes in California by reducing them to one percent of property value and restricting increases to two percent per year.[12] The California Budget Project reports Proposition 13 was successful in lowering the burden of taxation on elderly homeowners.[13]

While homeowners can participate in both programs, few opt to do so. Only 26 percent of program participants also participate in the HRAP, reducing their loan balances.[14] Conversely, only 1.5 percent of HRAP participants also participate in the PTP program.[15] This may be because the PTP program generally has a household income limitation of $24,000, which is significantly lower than the current HRAP limit of $37,676.[16]

Twenty-one other states provide property tax relief in the form of a payment or a refundable tax credit. Thirteen of these states provide assistance to both homeowners and renters; eight limit assistance to either homeowners or renters. Ten states coordinate the claim process with their personal income tax process and require some type of form be filed with the state to claim the credit. In half of those states, a credit can be claimed directly on the state tax form. In the other half, separate forms must be filed with the tax form; individuals with no filing requirement can file a separate claim form.[17]

A bill that would synchronize the household income requirements for participants in both programs is before the Legislature. The measure, Assembly Bill (AB) 1886, would also gradually raise the limit to $39,000 by 2007, with annual adjustments for inflation thereafter.[18] The State Controller's Office projects the measure will increase the number of loans by 5,000 by Fiscal Year 2007–2008, and that the program will need an additional $3.5 million to meet the demand for loans.[19] However, they also believe that revising the HRAP would not produce a material increase in the PTP program.[20]

Recommendations

The Governor should work with the Legislature to:

A. Increase the threshold for the State Controller's Office Property Tax Postponement (PTP) Program so that more individuals can participate.

The PTP program household income limitation should be increased immediately to $39,000. This will allow the participation of people who have previously participated in the assistance program but who could not participate in the tax postponement program because of the low household income limitation. Additionally, the household income limitation should be adjusted annually for inflation.

B. Phase out the Homeowners portion of the Homeowners and Renters Assistance Program (HRAP).

The HRAP is no longer needed for homeowners because Proposition 13 reduced and stabilized property taxes. The Property Tax Postponement (PTP) program should continue to ensure that low income senior and disabled homeowners do not lose their homes due to not being able to pay their property taxes.

Fiscal Impact

Revision of the HRAP and expansion of the PTP program would result in ongoing General Fund savings of $174.1 million beginning in FY 2005–2006. This assumes that the PTP program will double in size as a result of these recommendations.

General Fund

(dollars in thousands)

Fiscal Year	Savings	Costs	Net Savings (Costs)	Change in PYs
2004–05	$0	$0	$0	0
2005–06	$37,007	$14,317	$22,690	(6)
2006–07	$37,007	$14,317	$22,690	(6)
2007–08	$37,007	$14,317	$22,690	(6)
2008–09	$37,007	$14,317	$22,690	(6)

Note: The dollars and PYs for each year in the above chart reflect the total change for that year from 2003–04 expenditures, revenues and PYs.

Endnotes

1 *Unless otherwise noted, the information in this column comes from California Franchise Tax Board, "Homeowner and Renter Assistance Program," http://www.ftb.ca.gov/individuals/hra/index.html (last visited June 2, 2004).*

2 *Unless otherwise noted, the information in this column comes from California State Controller's Office, "Property Tax Postponement for Senior Citizens, Blind or Disabled Citizens," http://www.sco.ca.gov/col/taxinfo/ptp/geninfo/description.shtml (last visited June 2, 2004).*

3 *E-mail from Pat Pavone, director, Filing Services Bureau, California Franchise Tax Board (May 12, 2004).*

4 *State Controller's Office, Collections Division in the Tax Administration Bureau," 2004–05 Proposal to Address SCO Fiscal Deficit" (Sacramento, California, February 29, 2004), p. 1.*

5 *E-mail from Pat Pavone, director, Filing Services Bureau, California Franchise Tax Board (May 12, 2004).*

6 *State Controller's Office, Collections Division in the Tax Administration Bureau," 2004–05 Proposal to Address SCO Fiscal Deficit" (Sacramento, California, February 29, 2004), p. 1.*

7 *California Department of Finance, "Governor's Budget 2004–05" (Sacramento, California, January 2004), p. SCS 69.*

8 *State Controller's Office, Collections Division in the Tax Administration Bureau, "2004–05 Proposal to Address SCO Fiscal Deficit" (Sacramento, California, February 29, 2004), p. 2; and interview with Stephen Edwards, chief, Tax Administration Bureau, State Controller's Office, Sacramento, California (June 3, 2004).*

9 *R. & T. C. Section 20505.*

10 *California State Controller's Office, "Property Tax Postponement for Senior Citizens, Blind or Disabled Citizens," http://www.sco.ca.gov/col/taxinfo/ptp/index.shtml (last visited June 2, 2004).*

11 *California Franchise Tax Board, Filing Services Bureau Analysis Section, "Homeowners and Renters Assistance Program Evaluation" (Sacramento, California, April 2003), p. 4.*

12 *California Constitution Article XIII A, Tax Limitation Initiative (Proposition 13) adopted June 6, 1978.*

13 *California Budget Project, Proposition 13: Its Impact on California and Implications for State and Local Finances, (Sacramento, California, April 1977), p. 4.*

14 *Interview with Stephen Edwards, chief, Tax Administration Bureau, State Controller's Office, Sacramento, California (June 3, 2004).*

15 *Interview with Stephen Edwards, chief, Tax Administration Bureau, State Controller's Office, Sacramento, California (June 3, 2004).*

16 *California State Controller's Office, "Property Tax Postponement for Senior Citizens, Blind or Disabled Citizens," http://www.sco.ca.gov/col/taxinfo/ptp/geninfo/description.shtml (last visited June 2, 2004); and California Franchise Tax Board, "Homeowner and Renter Assistance Program," http://www.ftb.ca.gov/individuals/hra/index.html (last visited June 2, 2004).*

17 *E-mail from Pat Pavone, director, Filing Services Bureau, California Franchise Tax Board (May 12, 2004).*

18 *California Assembly Bill 1886, 2004.*

19 *State Controller's Office, Collections Division, Tax Administration Bureau, "AB 1886 Bill Analysis" (Sacramento, California, March 2, 2004), p. 4.*

20 *Interview with Stephen Edwards, chief, Tax Administration Bureau, State Controller's Office, Sacramento, California (May 18, 2004).*

GG 36

Implement Biennial Vehicle Registration for Efficiency and Lowered Costs

Summary

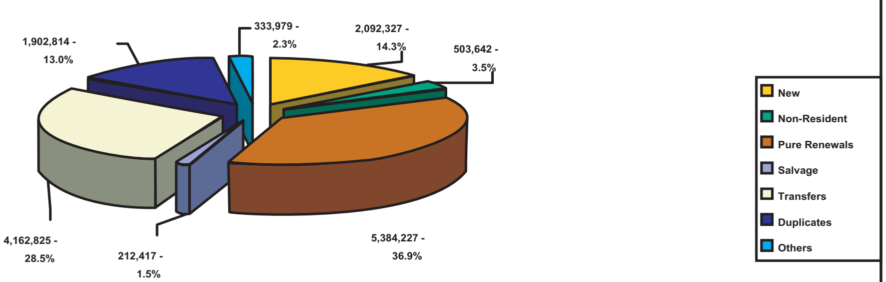
The California Department of Motor Vehicles (DMV) now registers vehicles on an annual basis. Although most vehicle registration transactions can be handled without a face-to-face transaction in a DMV field office, many customers continue to demand in-person service, resulting in long lines and longer-than-desirable wait-times. DMV should consider a biennial (every two years) registration process that would free up field office technicians to improve customer service, save money and produce a sizable one-time revenue windfall.

Background

Currently, DMV registers 24 million vehicles each year, and collects approximately $3.1 billion in renewal fees. It is one of 44 states providing vehicle registration on an annual basis. By changing to biennial registration for most privately owned vehicles, the annual renewal volume would be reduced to approximately 12 million vehicles. Costs would be lowered in processing those transactions, but more importantly, lines would be reduced, wait times would shrink, and workload in field offices would be lessened—all resulting in improved customer service.[1]

By reducing the demand for field office service, biennial registration will allow the department to redirect many positions to other critical workloads in the second year of implementation. The chart below illustrates the impact of vehicle registration on field offices. This workload, currently 37 percent of vehicle registration transactions, could be largely cut in half with biennial renewal.

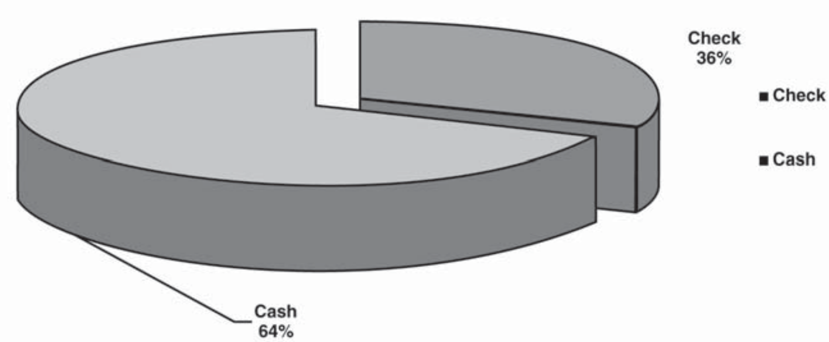
Exhibit 1. Field Office VR Transactions - FY 2002/03 (Excluding Auto Clubs)



Source: Statement of Transactions (SOT) for all Field Office VR transactions. Production Statistics Detail Report was used to determine Auto Club counts. Auto Club counts were then subtracted from SOT Field Office coun

Approximately 15 million transactions involved cash payments in 2003, representing 64 percent of all field office traffic for vehicle registrations. (See chart below.) Customers who use cash must visit field offices and are currently unable to use alternative payment methods. For these customers, eliminating annual transactions, rather than providing alternative forms of service, is essential to reduce their numbers to improve overall customer service and reduce service delivery times. A biennial renewal program represents the most significant opportunity for accomplishing such a reduction.

Exhibit 2. Field Office VR Transactions by Payment Method FY 2002/03



Source: Statement of Transactions and DL Issuance Activities Report for Total Transactions. DMV Accounting reports for checks received.

There would be some exemptions from the mandatory biennial renewal program, mainly large tractor-trailer rigs or California Vehicle Registration Act (CVRA) and are used for long-haul intrastate and interstate commerce. The CVRA refers to how these big rigs are registered and the process by which DMV collects annual fees based on the weight of the vehicle and the cargo being transported.

Biennial registration would place an unacceptable financial burden on truck drivers and/or owners (currently paying between $330–$2000 in annual weight fees; and could not be realistically doubled) and also because California is a member of the International Registration Plan (a multi-jurisdictional agreement covering a myriad of big rig trucking rules and regulations for drivers and vehicle owners who haul goods across state lines), which does not allow participating states to assess fees biennially.

The conversion to biennial renewal is envisioned to take place over a two-year period to achieve proper workload leveling and a reduction in transactions. New vehicle transactions, vehicles registering for the first time in California and renewals on which smog certification is due would be subject to biennial registration the first year. The remaining vehicles would be proportionately converted the following year.

Based on current figures, the Vehicle License Fee (VLF) account will receive a one-time windfall of $1.259 billion the first year this is implemented; approximately $550 million could be realized for the Motor Vehicle Account, with an additional $325 million for the State Highway Account. As specified earlier, the windfalls occur because half the vehicle population will pay two years' fees, while the other half will pay one year's fees, thus increasing the actual revenue received across-the-board by 50 percent.[2]

Impact on the public

The average renewal customer pays the department $110 for annual registration, and will owe $220 under a biennial program. The lowest priced registrations will increase from $40 to $80. These are manageable figures for most customers, but may be difficult for low-income persons. For those who must provide smog certification with a renewal, there will be another $50–$75 fee at the smog station; 31.5 percent of renewals currently require smog certification and this figure is not expected to change.[3]

The average new vehicle is priced at approximately $30 thousand, and costs $236 to register. The fee for a new vehicle will double to $572 under biennial registration. These fees are typically included in new vehicle financing. New purchasers are the most likely vehicle owners to endorse this proposal.

Approximately 85 percent of vehicles are registered to individuals or families, and the average household owns 1.5 vehicles—meaning that a significant share of customers will be asked to renew two vehicles in the first year of a biennial program. Developing a program to avoid this *is* possible, but it is important the first two years of the program achieve a relatively balanced workload. Allowing too many vehicle owners to shift into the second year will undermine the objectives of the program by creating a year-to-year imbalance in registration volumes. Using a third year for implementation is also possible but delays the benefits of the proposal that much longer.

Impact on business

Approximately 15 percent of all vehicles in California are registered to businesses. The average business owns three vehicles, meaning that businesses will be faced with at least two or more vehicles subject to biennial registration in the first year. Businesses tend to operate newer vehicles and are more likely to pay weight fees, meaning their costs will be higher than the average. When Alaska implemented biennial registration, its strongest resistance came from the business community and from commercial vehicle operators. It should be pointed out, however, that Alaska now has a successful biennial program despite initial resistance.

Rental car companies (and other companies with light vehicles) will also be impacted. Many of these companies purchase thousands of vehicles at the same time of the year; some companies will see several biennial notices arrive simultaneously. One rental car company had some 8,000 units impacted by the elimination of the VLF offset in October of 2003. To mitigate these concerns for rental car companies as an example, legislation could reinstate the ability of these businesses to pass on VLF costs to customers as a line item in rental contracts, a provision of law that expired several years ago. With the reinstatement of this so-called "pass-through" device, a single line-item on rental contracts will increase by only a few dollars for customers.

Other state use biennial registration

There are currently 14 states where biennial renewal is either mandatory or optional. The chart below provides information regarding those states. Of the states where biennial registration is mandatory, only Alaska and New York mandate biennial renewals for large big-rig vehicles (CVRA/IRP-type vehicles).[4]

1.	Alaska	Biennial mandatory, fees vary based on residence location, but vehicles owned by any business and leased vehicles are exempt. The base fee for passenger vehicles is $100 with an additional fee payable to certain municipalities based on the class and year of vehicle.
2.	Arizona	Biennial optional. No statistics are kept but it is more popular with new vehicles. Arizona fees are similar to California's VLF, and biennial participants have the $8 registration fee waived in the second year.
3.	Connecticut	Biennial mandatory, fee for passenger vehicle is $75, light trucks $181-$245 based on weight. No local tax collected.
4.	Idaho	Biennial optional, and 10% opt for biennial. Fees are $35–$60 annually, depending on vehicle age and county of residence, plus a $1–$4 processing fee. Biennial customers avoid the processing fee in second year.
5.	Louisiana	Biennial mandatory for non-excisable trailers only, other vehicles have an annual renewal.
6.	Maryland	Biennial mandatory, fees for cars are $81–$108, light trucks are $94.50–$122. No local tax collected.

7.	Massachusetts	Biennial mandatory, fee for passenger vehicles is $41, light truck fees based on $12 per 1,000 pounds with a $101 minimum. Local tax of $25 per $1,000 value is paid.
8.	Missouri	Biennial optional, about 50 percent opt for biennial. The option is restricted by model year, presumably for workload balancing (even year model vehicles can only choose biennial renewal in even years, odd, in odd years). Fees are based on horsepower (HP), with vehicles over 72 HP paying $51.25 annually, plus a $3.50 processing fee; both fees are doubled for biennial registration.
9.	Montana	Biennial optional, as is permanent registration for older vehicles (5 percent choose biennial). Fees vary by county, with an annual base of $6–$125 depending upon year model. Biennial or permanent registration does not cover the annual county tax.
10.	Nevada	Implementing a voluntary biennial renewal pilot in July of 2004.
11.	New Mexico	Biennial registration is optional.
12.	New York	Biennial mandatory, passenger vehicle fees vary based on residence and weight. There is a base fee for weight of $20.50–$112 plus county fees of $10-$20.
13.	Oregon	New vehicles initially registered for 4 years, biennial mandatory after that and for used cars. Passenger vehicles fees are $54 for 2 years or $108 for 4 years. No local tax collected.
14.	Virginia	Biennial optional, but not allowed for large commercial vehicles or IRP participants. Passenger vehicle fees are $29.50–$34.50 annually. Local fees are collected for only a single county at $29.50 annually.

Effect on existing law

There are at least 48 sections of the California Vehicle Code, the California Health and Safety Code and the California Revenue and Taxation Code which must be modified. Many other sections may need revising to address concerns raised when legislation is put forward.

Recommendations

A. **The Governor should work with the Legislature to *require* two year registration periods for automobiles, motorcycles and lightweight commercial vehicles, and exempt from biennial registration renewal vehicles subject to California Vehicle Code Sections 8052 (IRP) and 9400.1 (CVRA).**

B. **The Governor should direct the Department of Motor Vehicles to prepare a staffing plan to identify how many positions can be saved through the implementation of this plan, including recommendations of which positions should be redirected to improve services or should instead be eliminated.**

Fiscal Impact

The General Fund may receive a one-time boost of $1.259 billion in the first year after implementation by not transferring the increased VLF collections to the cities and counties. While the one-time costs for development and implementation of this proposal are significant, these can be absorbed within DMV's budget. However, significant additional costs would accrue in the unlikely event 1) existing remittance equipment is unable to accommodate the changeover to a biennial system or 2) this proposal requires a longer implementation period.

General Fund

(dollars in thousands)

Fiscal Year	Revenues	Costs	Net Revenues	Change in PYs
2004–05	$0	$0	$0	0
2005–06	$0	$0	$0	0
2006–07	$1,259,000	$0	$1,259,000	0
2007–08	$0	$0	$0	0
2008–09	$0	$0	$0	0

Note: The dollars and PYs for each year in the above chart reflect the total change for that year from 2003–04 expenditures, revenues and PYs.

Endnotes

1 *Memorandum from Ken Miyao to Sunne Wright McPeak, secretary, Business, Transportation and Housing Agency, May 3, 2004.*

2 *Memorandum from Ken Miyao to Sunne Wright McPeak.*

3 *Memorandum from Ken Miyao to Sunne Wright McPeak.*

4 *Memorandum from Ken Miyao to Sunne Wright McPeak.*

GG 37

Limit State's Liability to Actual Fault

Summary

California pays millions of dollars in civil judgments each year. California should join the vast majority of states and adopt a cap on the government's liability to protect the taxpayers from exorbitant judgments. The state should also reform other aspects of tort law to further protect the taxpayer and improve the state's business climate.

Background

Cap on state tort liability

States are not liable for personal injury or property damage claims unless they adopt a law allowing citizens to assert such claims, essentially waiving the traditional doctrine of sovereign immunity that exempts states from liability.[1] Such injuries are called "torts". After a California State Supreme Court ruling cast doubts on total immunity, California enacted the California Tort Claims Act, which allows the public to bring certain types of claims against state and local entities.[2] Although the types of claims are limited, the amount of damages that can be awarded is not.

California pays approximately $123 million in tort claims annually.[3] A study of awards during the 1990s found that the average award against state and local government was about $1.6 million.[4] More than 40 states that have waived sovereign immunity have also imposed a cap on the amount of damages that can be recovered from the state. Nevada has the lowest cap at $50,000; the highest caps for an individual are $1 million in Georgia, and $5 million per occurrence in Indiana. Representative larger states include Texas ($250,000 per person and $500,000 per occurrence), Illinois ($100,000), and Pennsylvania ($250,000 per person, $1,000,000 per occurrence).[5] If California adopted a cap on state tort liability the Department of Transportation estimates it will save $10 million or 18.9 percent of the average $53 million it pays annually in tort claims.[6]

Deep pockets

The state is the ultimate "deep pocket," with the resources to pay essentially any judgment. Under the legal doctrine known as joint and several liability, if a jury finds that a defendant is liable for any portion of the damages due to a plaintiff, that defendant can be liable for 100 percent of the damages if another defendant is unable to pay.[7] Joint and several liability was the rule in California until 18 years ago when Californians passed Proposition 51, the California Fair Responsibility Act of 1986.[8] Popularly known as the "Deep Pocket Initiative," Proposition 51 apportions non-economic damages, such as for pain and suffering, among multiple defendants according to their proportional share of liability. California retained joint and several liability for economic damages only.

Frequently, the person found to be the most liable for an accident is "judgment proof," with little or no insurance or assets. Plaintiffs frequently pursue state or local governments, which may be minimally at fault, to receive a full recovery, usually with a "contingency fee" agreement, where their attorneys receive 30 to 40 percent of the award.[9] The classic case is an uninsured drunk driver who causes an accident, but the government operating the road is found 1 percent or 2 percent liable for some technical issue (such as a warning sign being slightly further from a curve than provided by guidelines), resulting in the taxpayers paying all of the drunk driver's liability. California does not require juries to be instructed on this unintended effect of finding government, or any defendant, partially liable. Plaintiffs' attorneys are aware of this result and attempt to use it to their advantage. According to Richard Wehe, Assistant Chief Counsel at the California Department of Transportation, (Caltrans), "I can tell you that in many, many settlement conferences or mediations I am confronted with plaintiff's lawyer's statements that, 'I only need to establish that the state is 1 percent at fault and I can recover all of my economic damages'".[10]

Instructing juries of the effect of joint and several liability could not only reduce governmental liability, it would help improve the image of California's business climate. Next to governments, business is considered another very deep pocket. A recent survey found that the median personal injury award in California was 54 percent higher than the national median award. According to Linda Okun, executive director of Citizens Against Lawsuit Abuse in Los Angeles, the legal system in California is hostile to small and large businesses.[11] To the extent that tort claims are economically excessive, they act like a tax on individuals and firms. The cost of excessive tort litigation can be substantial, with intermediate estimates equivalent to a 2 percent tax on consumption, a 3 percent tax on wages, or a 5 percent tax on capital income. As with any tax, the economic burden of the "tort tax" is ultimately borne by individuals through higher prices, reduced wages, or decreased investment returns.[12]

Jury instructions to clarify the effect of joint and several liability would help contain judgments and protect the taxpayers from unfair judgments. State and local governments would only be responsible for their own liability.[13] The Department of Transportation (DOT) estimates it would save $3 million or 5.6 percent a year in reduced litigation expenses and liability from this change alone.[14]

Design immunity

Under the Torts Claims Act, a governmental entity cannot be liable if it constructed an improvement pursuant to approved plans and standards ("design immunity").[15] This is frequently a technical, engineering decision. A public entity claiming design immunity must establish three elements: a causal relationship between the plan or design and the accident; discretionary approval of the plan or design prior to construction; and substantial evidence supporting the reasonableness of the plan or design.[16] The purpose of design immunity is "to prevent a jury from simply reweighing the same factors considered by the governmental entity which approved the design".[17]

Under specific circumstances, the government can lose this design immunity defense. The plaintiff must establish that: the plan or design has become dangerous because of a change in physical conditions; the public entity had actual or constructive notice of the resulting dangerous condition; and the public entity had a reasonable opportunity to obtain the funds and carry out the necessary remedial work to bring the property back into conformity with a reasonable design or plan, or the public entity, unable to remedy the condition due to practical impossibility or lack of funds, had not reasonably attempted to provide adequate warnings.[18]

Historically, judges made these determinations as a question of law rather than a question of fact, which is determined by the jury. Court decisions in 2001 and 2003 have held that the loss of immunity must be decided by a jury if requested by a plaintiff.[19] This means that dozens of cases that were formerly decided by judges before trials now require a full jury trial to determine design immunity. DOT, which deals most often with design immunity issues, estimates that its trial costs have increased between $1 and $2 million annually since these rulings, with a total additional liability of $8 million to $10 million. The costs to local government may be ten times that amount, though spread over hundreds of agencies.[20] Another judicial interpretation in 1995 created considerable new liability for government by denying the application of the design immunity defense during construction, even when the construction is done pursuant to an approved plan.[21] The Department of Transportation estimates that this change adds at least $2 million a year, or 3.8 percent more, in new defense and liability costs.

Recommendations

The Governor should work with the Legislature to:

A. **Amend the California Tort Claims Act to limit the state's liability to $1 million for an individual and $5 million per occurrence.**

B. **Amend the Code of Civil Procedure to allow juries to be instructed on the effect of finding any party, including the state, partially liable.**

C. **Amend the design immunity statute, Government Code Section 830.6, to clarify that the judge, not the jury, should determine the applicability of the statute.**

Fiscal Impact

The total amount of tort damages paid is not kept on a state-wide basis. Therefore, it is not possible to determine the fiscal impact of the recommendations. The fiscal impact will be directly related to the number of tort claims for future years.

Endnotes

[1] Sovereign immunity is a doctrine that the sovereign or government cannot be sued without its consent. See "Lectric Law Library's Lexicon on Sovereign Immunity http://www.lectlaw.com/def2/s103.htm (last visited April 30, 2004).

[2] Gov. C. Sections 810 and 815.

[3] Item 9670 of the Governor's proposed budget contains $1,361,000 to pay judgments and settlements in tort claims; however, this is a small fraction of the total amount paid by the state, according to Jim Schiavenza, Chief of the Tort and Condemnation Section, Office of the Attorney General, who estimates $70 million in Judgments. In Fiscal Year 2001–2002, the Department of Transportation paid $60.5 million in Tort awards, and it is estimated it will pay $40 million in this fiscal year, averaging $53 million over the past five years, according to information provided by Martin Cromwell, office manager, Department of Transportation, May 21, 2004.

[4] Clark Kelso and Kari C. Kelso, "An Analysis of Punitive Damages in California Courts," 1991–2000. Table 12.

[5] American Association of State Highway and Transportation Officials, "Comparison of Tort Claims Liability by State," 2002, provided by George Cory, Department of Transportation.

[6] Interview with Richard Wehe, assistant chief counsel for torts, Department of Transportation, Sacramento (May 20, 2004).

[7] Civ. C. Section 1430 et seq.

[8] Civ. C. Section 1431.2.

[9] Interview with Richard Wehe, assistant chief counsel for tort law, Department of Transportation, Sacramento (May 19, 2004).

[10] E-mail from Richard Wehe, assistant chief counsel for tort law, Department of Transportation (May 21, 2004).

[11] Citizens Against Lawsuit Abuse, http://www.losangelescala.org/newl91.htm (last visited May 7, 2004).

[12] Council of Economic Advisers, "Who Pays for Tort Liability Claims? An Economic Analysis of the U.S. Tort Liability System," April 2002, p. 1. http://www.whitehouse.gov/cea/tortliabilitysystem_apr02.pdf (last visited May 7, 2004).

[13] Interview with George Cory, counsel for Department of Transportation (May 20, 2004).

[14] Interview with Richard Wehe, assistant chief counsel for torts, Department of Transportation (May 20, 2004).

[15] Gov. C. Section 830.6.

[16] Grenier v. City of Irwindale (1997) 57 Cal.App.4th 931, 939; Higgins v. State of California (1997) 54 Cal.App.4th 177, 185; Hefner v. County of Sacramento (1988) 197 Cal.App.3d 1007, 1013–1014.

[17] Cameron v. State of California (1972) 7 Cal.3d 318, 326.

[18] Baldwin v. State of California (1972) 6 Cal.3d 424, 427.

[19] Cornette v. Department of Transportation (2001) 26 Cal4th 63, Hernandez v. Department of Transportation (2003) 114 Cal.App.4th 376.

[20] Interview with Richard Wehe, assistant chief counsel for torts, Department of Transportation (May 20, 2004).

[21] Wing v. State of California (1995) 37 Cal.App.4th 1772.

GG 38

Reduce Litigation Costs by Improving the Claims Adjustment Process

Summary
The Victim Compensation and Government Claims Board (Board) rejects most tort claims without first having the claims subjected to a claims-adjustment process to determine if the claims can be settled without litigation. Claimants whose tort claims are rejected must then file a lawsuit to seek a remedy. At that point, the cost to reach a settlement greatly increases because attorneys are used instead of claim adjusters.

Background
Claims against California agencies, departments and commissions are primarily administered by two state entities: the Victim Compensation and Government Claims Board's Government Claims Program, and the Department of General Service's Office of Risk and Insurance Management (ORIM).[1] Some state departments have the authority to settle claims filed against them, ranging from $1,000 to $5,000. Claimants who cannot reach a settlement with these departments and want to pursue their issue must file a claim with the Board.

People alleging legal liability on the part of the state must first file a tort claim with the Board before suing the state.[2] The filing of the tort claim gives the state notice of potential future litigation.[3]

During Fiscal Year 1999–2000 through FY 2002–2003, the Board received on average slightly more than 10,000 claims per year.[4] In FY 2002–2003, 10,197 claims were filed, and 1,577 were tort claims. The Board determines if the claim meets the legal requirements established under Government Code Section 910 and 910.2. It rejects claims that it finds are more appropriately resolved in court.[5] For example, the Board rejected 97.2 percent or 3,862 of the 3,971 personal injury and personal property tort claims filed during FY 2000–2001 through 2002–2003.[6]

The other state entity responsible for handling claims against the state, ORIM, adjusts all motor vehicle liability claims for the state through the Vehicle Liability Self-Insurance Program. ORIM also adjusts some general liability claims for the Department of Social Services Foster Care Liability Insurance Program and the Department of General Services. Unlike the Board, however, ORIM subjects all claims to a claims-adjustment process with an eye toward negotiating a settlement or denying the claim. Of the thousands of claims handled over the years, only 148 went to litigation.

Exhibit 1 shows ORIM's claim statistics for the FY 2000–2001 through 2002–2003.[7]

Exhibit 1
Claims Closed and Average Cost Paid per Claim

Program	**FY 2000–2001**	**FY 2001–2002**	**FY 2002–2003**
Motor Vehicle Liability			
Claims opened	2,464	2,658	2,509
Claims closed	2,414	2,609	2,690
Average cost paid per claim	$6,205	$3,964	$5,046
Foster Care Liability			
Claims opened	47	55	19
Claims closed	74	85	60
Average cost paid per claim	$21,169	$6,206	$7,367
Dept of General Services			
Claims opened	171	69	51
Claims closed	164	103	59
Average cost paid per claim	$2,658	$9,307	$4,966

Source: Office of Risk and Insurance Management's Annual Report, Fiscal Year 2002–2003

During FY 2002–2003, ORIM and the Office of the Attorney General together developed and implemented a litigation management plan. The goal was to ensure effective teamwork between the two offices to manage litigated claims from inception to resolution.

The Attorney General's Office has indicated that it has a very good working relationship with ORIM and supports having tort claims referred to ORIM in an effort to settle the claims and avoid litigation. Property damage and personal injury claims seeking to recover a finite amount of money would be the best claims for ORIM staff to try to settle. In many cases that would save money because of the hourly rate difference between a risk adjuster and a staff attorney.[8]

Exhibit 2 shows the average hourly rate for legal services charged by the Attorney General's Office to settle the cases prior to trial.[9]

Exhibit 2
Average Hourly Rate of Attorneys to Settle Lawsuits

Client	Hours	Legal Cost	Average Hourly Rate
Judicial Council	1,159	$110,688	$95.50
Alcohol Beverage Control	1,145	$107,440	$93.83
Dept of Mental Health	1,604	$156,568	$97.61
DSS	278	$15,992	$57.53
DMV	2,358	$208,451	$88.40
Total	6,544	$599,139	$91.56

Source: Statistical information, California Attorney General's Office

If a risk analyst had settled the tort claims using the same number of hours shown in Exhibit 2, the cost to settle the claims would have been $235,584, or a savings to the client departments of $363,555.

Using a risk analyst to settle claims rather than an attorney would generate greater savings because the hourly rate for an attorney and paralegal is $132 and $91, respectively.

Recommendation

A. **The Victims Compensation and Government Claims Board, or its successor, should refer tort claims to the Office of Risk and Insurance Management for claim adjustment services.**

B. **The Secretary of the State and Consumer Services Agency, or its successor, should require the Office of Risk and Insurance Management to provide claims adjustment services to tort claims referred by the Victims Compensation and Government Claims Board.**

Fiscal Impacts

Having the ORIM settle tort claims filed against the state would reduce expenses because the hourly rate of a risk analyst is less than the hourly rate of a staff attorney or paralegal at the Attorney General's Office. For every 100 hours worked by a risk analyst, the client department could anticipate saving between $5,500 and $9,600. Each department will have a savings from using the lower level staff, however; at this time the fiscal impact to all state departments cannot be determined because the amount of hours that each risk analyst will use for this additional workload is unknown.

Endnotes

1. *California Victim Compensation and Government Claims Board, "Government Claims," http://www.boc.ca.gov/GovClms.htm. (last visited June 10, 2004); and California Department of General Services, Office of Risk and Insurance Management, http://www.orim.dgs.ca.gov/About+ORIM/default.htm (last visited June 10, 2004).*
2. *California Gov. C. Sections 900–965.9.*
3. *California Victim Compensation and Government Claims Board, "Executive Officer's Report to the Board April 23, 2004" (Sacramento, California, April 23, 2004), p. 11, http://www.boc.ca.gov/BDMeetingDocs/20040423EOReport.pdf (last visited June 11, 2004).*
4. *California Victim Compensation and Government Claims Board, "State of California Victim Compensation and Government Claims Board Annual Report, July 1, 2002–June 30, 2003" (Sacramento, California), pp. 32-33, www.boc.ca.gov/PubsGeneral/ANNUALREPORTFY02-03.pdf (last visited June 11, 2004).*
5. *Victim Compensation and Government Claims Board, "Government Claims," http://www.boc.ca.gov/GovClms.htm (last visited June 11, 2004).*
6. *E-mail from California Victim Compensation and Government Claims Board, "Schedule of Tort Claims for Personal Injury and Personal Property: FY 00–01 thru 02–03," to California Performance Review, Spring 2004.*
7. *California Department of General Services, "Office of Risk & Insurance Management, Annual Report, 2002–2003" Fiscal Year, http://www.documents.dgs.ca.gov/orim/Annual%20Reports/02-03.pdf (last visited June 11, 2004), p. 16.*
8. *Interview with Jim Schiavenza, attorney, California Department of Justice, Sacramento, California (May 14, 2004).*
9. *Letter from Louis Verdugo, Jr., senior assistant attorney general, California Department of Justice, to Dr. Catherine Campisi, director, California Department of Rehabilitation, April 25, 2002.*

GG 39

Implement Travel Advance and Expense Reimbursement Automation Statewide

Summary

The California Automated Travel Expense Reimbursement System (CalATERS) developed by the State Controller's Office is available to state agencies to automate travel claims processing. Not all state agencies are taking advantage of the significant savings and administrative streamlining afforded by the system. All state agencies should implement and use CalATERS.

Background

State employees often must travel to fulfill their official duties on behalf of the state. These duties include emergency services, attending seminars and professional conferences, and providing training to local government and the public on state programs. Based on California Department of Personnel Administration Travel Rules, policy memos, and current bargaining unit agreements, the state reimburses employees for all necessary and actual expenses they incur when they travel on official state business.[1]

The current travel claims process is inefficient

Most agencies process travel claims manually. State employees complete paper travel claim forms and submit actual receipts. Supervisors review and approve the claims. Accounting staff then verify the eligibility of expenses and accuracy of claims. Approved claims are sent to the State Controller's Office for reimbursement to employees. This process is time consuming and has a 30 percent error rate.[2] The manual process does not lend itself to tracking travel expenses for budgeting and cost control. Agencies that do not have an automated mechanism to track travel expenses often find it difficult to get accurate information about travel expenses by entity, type of travel, or type of spending. These numbers are helpful for individual agencies and the state as a whole to budget and control expenses.

CalATERS online travel expense claim system saves time

Some state agencies are using CalATERS application, an online automated travel expense claim system developed by the State Controller's Office.[3] CalATERS development was largely funded through contributions from 146 departments that have entered agreements with the State Controller's Office.[4] Currently, agency and departmental use of CalATERS is voluntary, with departments entering into interagency agreements with the State Controller's Office.[5] Departments pay a per transaction fee for each travel advance request and travel claim processed through CalATERS to cover ongoing operational expenses. The fee is currently $6 per claim, but the amount may be adjusted downward as more departments use the system.[6]

The benefits of using CalATERS include allowing state employees to submit travel claims from anywhere at anytime, improved accuracy through automated and centralized audits of travel rules and departmental policies. The system also provides automatic expense calculation, electronic routing and tracking of forms, automated travel advance recovery, and timely employee reimbursement through direct deposit or mailed warrants. The system reduces processing time from two weeks to five days for a typical expense claim.[7]

The state will benefit from the enterprise-wide implementation of CalATERS by streamlined processing, standardized business practices, improved management information, reduced errors, and accurate and automated reporting of taxable reimbursements. The system makes automated reporting available to agencies to track travel expenses for budgeting. The system does not eliminate paper entirely because state employees still must submit paper receipts that are stored by the state agencies.

The state's recent budget problems have impacted the ability of departments to implement CalATERS. Though savings may be realized once fully implemented, departments have experienced budget cuts and travel restrictions, slowing departmental implementation of CalATERS. The State Controller's Office has the capability to provide technical assistance and training to state agencies to implement the system. The meet and confer requirement with the state labor bargaining units has been completed. This enterprise-wide technology application can be fully implemented in Fiscal Year 2004–2005 to produce significant savings in costs to process travel claims and longer term savings in staff.

CalATERS online travel expense claim system saves money
Although most state departments do not use CalATERS, the system can greatly reduce costs to process travel claims. The State Controller's Office estimates that CalATERS costs about 50 percent less than manually processing travel expense claims, even with implementation and use costs described in this paper. For example, based on experience of agencies that have begun implementation of CalATERS, an expense claim costs about $29 to process manually versus about $16 per transaction using CalATERS.[8]

According to the State Controller's Office, if implemented by all state agencies, the efficiencies from the CalATERS system would generate a total savings of approximately $9.3 million annually. After full implementation and considering all aspects of savings, it is anticipated that $2.2 million of annual personnel costs can be saved.

Of the total $9.3 million annual savings, an estimated 60 percent, or $5.6 million, are administrative savings caused by a reduction in time spent by employees who travel and prepare claims and their supervisors who approve them. These efficiencies free employees to perform their work, but are difficult to capture.

The remaining 40 percent of savings or $3.7 million comes from reductions in processing costs to process claims. These savings are assumed to come mainly from reductions in personnel costs through attrition, avoiding hiring new staff, or avoidance of overtime costs. Like any other automated system there are annual maintenance costs. CalATERS annual maintenance cost is estimated at $1.5 million, thus reducing the savings to be captured from $3.7 million to $2.2 million.

Since most savings would come from attrition of personnel, the first 12 months of estimated savings were phased in over two years. After that it is expected to have the $2.2 million saved annually. Personnel reductions were estimated assuming that 75 percent of personnel processing claims are Office Technicians, and that 25 percent are Staff Services Analysts, Range C. At full implementation, this results in a reduction of 30 Office Technicians and 10 Staff Services Analysts for processing claims.

Recommendations

A. **The Department of Finance, or its successor, should issue a Management Memo directing state agencies and departments to use the CalATERS.**

B. **The Department of Finance, or its successor, should work with the State Controller's Office to develop a methodology that will assign support costs for CalATERS to agencies based on the number of travel claims submitted, and which will reflect the savings agencies can realize from the system.**

Fiscal Impact

Implementation of these recommendations is expected to achieve net savings of approximately $7 million over the next five years.

General Fund

(dollars in thousands)

Fiscal Year	Savings	Costs	Net Savings (Costs)	Change in PYs
2004–05	$0	$0	$0	0
2005–06	$925	$750	$175	(10)
2006–07	$1,850	$750	$1,100	(20)
2007–08	$1,850	$750	$1,100	(20)
2008–09	$1,850	$750	$1,100	(20)

Note: The dollars and PYs for each year in the above charts reflect the total change for that year from 2003–04 expenditures, revenues and PYs.

Other Funds
(dollars in thousands)

Fiscal Year	Savings	Costs	Net Savings (Costs)	Change in PYs
2004–05	$0	$0	$0	0
2005–06	$925	$750	$175	(10)
2006–07	$1,850	$750	$1,100	(20)
2007–08	$1,850	$750	$1,100	(20)
2008–09	$1,850	$750	$1,100	(20)

Note: The dollars and PYs for each year in the above charts reflect the total change for that year from 2003–04 expenditures, revenues and PYs.

Endnotes

1 *Department of Personnel Administration, "Short-Term Travel Reimbursement for All Excluded and Represented Employees," http://www.dpa.ca.gov/jobinfo/statetravel.shtm (last visited June 22, 2004).*

2 *John Harrigan, State Controller's Office, "California Automated Travel Expense Reimbursement System" presentation to California Performance Review, Sacramento, California, June 10, 2004.*

3 *California State Controller's Office, "California, Automated Travel Expense Reimbursement System," http://www.calaters.ca.gov/k_participating_depts/HTML/participating.htm (last visited June 1, 2004).*

4 *Interview with Natalie Clohossey, project manager, CalATERS, State Controller's Office, Sacramento, California (June 21, 2004).*

5 *Interview with Natalie Clohossey (May 26, 2004).*

6 *Interview with Natalie Clohossey (June 22, 2004).*

7 *John Harrigan, State Controller's Office, "California Automated Travel Expense Reimbursement System" presentation to California Performance Review, Sacramento, California, June 10, 2004.*

8 *Interview with Natalie Clohossey (June 10, 2004).*

GG 40

Reduce State Travel Costs by Booking Fares Online

Summary
Most state agencies contract with travel agencies to purchase airline tickets for state employees traveling on state business. For each airline transaction processed, the travel agency is allowed to charge up to $25.00. Lower airfares can be found on the Internet without using travel agents. The Governor should direct the Department of General Services to revise its travel policies to require state employees to shop online for the lowest fares, to limit the use of travel agents except for certain transactions, and to take advantage of existing private sector corporate travel opportunities.

Background
Contracts with airlines
The Department of General Services (DGS) administers contracts with commercial air carriers that provide air transportation to state employees. The two major commercial air carriers the state has contracted are Southwest Airlines and United Airlines. Except under limited circumstances, state employees are required to obtain service from the contract airlines when traveling on state business between specific cities.[1]

Each state agency can enter into a contract with a travel agency that has been authorized by the state to provide travel services to state employees. Most state agencies use travel agencies to help make travel arrangements for their employees. Travel agencies use the airlines that have contracted with the state to ensure that contracted airfares are provided to employees. Travel agencies also provide a paperless itinerary via electronic mail and a hard copy ticket, upon request. The travel agencies provide other accounting and billing services for state agencies.

How airlines and commercial rental companies are reimbursed
Most state agencies use DGS's Travel Payment System contract with American Express (AMEX). AMEX offers centrally billed accounts for airlines, rail and car rental via the Business Travel Account, as well as individual government travel charge cards for state employees, but does not provide online travel services for employees. AMEX does not charge annual or transaction fees for the services.[2] There are no startup fees to contract with and establish an account between state agencies and travel agencies. Instead, travel agencies are allowed to charge a ticketing fee based on the total airfare for each transaction processed.

Ticketing fees are negotiated between state agencies and travel agencies. Larger departments can typically negotiate lower fees because of high travel volume. For larger departments, the ticketing fee can be as low as 8 percent of the total cost of the airfare. If an airline reservation is canceled or rescheduled more than 24 hours after making the initial reservation, another transaction fee is charged for rescheduling or canceling reservations and for the return of unused tickets. Management Memo, MM 02-14, issued by DGS in June 2002, limits the ticketing fee that can be charged to any state agency for domestic travel to $25.00.[3]

State travel policies

State travel policies direct state employees to use the least expensive method of transportation. This is reiterated throughout the State Administrative Manual and the related Management Memos that set policy.[4] These policies contain specific directives to use the most economical, most efficient airfare and to take advantage of discounts whenever possible.

Although existing policies require the use of the most economical and efficient air travel, state employees typically use the agency-designated travel agent and contracted airfares. The contracted fares often exceed the lowest available fare from the Internet, but state agencies do not routinely research for lower airfares because it is simpler to use the contracted agents and fares.

Online airfare costs less

In the 2003 calendar year, there were a total of 179,420 round trips taken by state and university employees between Burbank, Los Angeles, Ontario and Sacramento. Of the 179,420 round trips, 56,673 were between Burbank and Sacramento.[5] The current Southwest Airlines contract base rate is $86 for each leg of the Sacramento-Burbank route, totaling $172.00.[6] In addition to the base rate, the cost of round trip travel includes security fees of $10.00 and passenger facility charges of $5.00 bringing the total to $187.00.[7] If an 8 percent ticketing fee (approximately $15.00) had been negotiated, the total cost of round trip travel for each passenger would be about $202.00. It is likely, however, that some of these trips cost more than $202.00 because not all state agencies have negotiated an 8 percent ticketing fee. Some of these agencies may have paid a ticketing fee as high as $25.00.

If each of the 56,673 trips between Burbank and Sacramento cost $202.00, the cost to the state would have been about $11.4 million. By comparison, if air travel had been booked online with Southwest Airlines at the current Fun Fare rate, each round trip would have cost the state $144.70 per trip for a total of about $8.2 million.[8] The savings that could have been realized if these trips were booked online through Southwest is about $3.2 million or about 28 percent.

The second highest number of trips taken (49,090) was between Ontario and Sacramento. Using the same assumptions as above, the total cost was about $202.00 per trip, or about $9.8 million.[9] Using Southwest Airlines' current online Fun Fare rate, the cost would have been $7.1 million. The savings that could have been realized if these trips were booked online through Southwest is about $2.7 million or about 28 percent.

Another example where savings could be realized is on flights between Sacramento and Santa Ana. The current contract rate is $151.00 one way, plus fees and charges for a total of about $317.00 per round trip.[10] While some state agencies have obtained less costly fares through other carriers, most state agencies are using the contract carrier and rates. Additional savings could be realized if online fares were used. For example, the cost of booking a round trip between Sacramento and Santa Ana is about $141.70 if booked online through Southwest Airlines at the current Fun Fare rate.[11] The savings would be about $175.00 per trip or about 55 percent.

Online airfares are easy to access

Accessing Southwest and United airlines online is quick and easy. The websites for these two carriers are well designed and enable even those with minimal computer skills to find the lowest airfares for the required dates of travel.[12] State employees can use these online tools easily and plan ahead for travel.

Fare benefits and restrictions

The contracts between the state and the commercial air carriers guarantee state employees “last seat availability” which means state employees are able to fly without restrictions and are guaranteed a seat on any flight that is booked. Additional benefits ensure the fare is available for either one-way or round trip travel; no advance purchase is required; and the fare is refundable and changeable.

Fun Fares have some restrictions including one-way fares; limited seating; a 14-day advance purchase requirement; tickets must be purchased within one day of reservation; and fares are not refundable, but stay in the agencies’ travel account and can be used at a later date. While using Fun Fares may not be appropriate for all state travel, it could be used for a large percentage of travel and significant savings could be realized.

Corporate travel accounts

As early as July 2001, it was anticipated that some type of electronic access would be necessary to streamline the state’s travel program. Clause 7 of the standard agreement between DGS and Southwest Airlines and United Airlines requires the state to put more business processes on an electronic medium. The clause also requires the contractor and the state to discuss options and make reasonable best efforts to enable the state to access contracted fares via an electronic medium.

Both Southwest Airlines and United Airlines have programs for business travelers that are simple to use. Southwest Airlines’ program is called SWABIZ. It is a free online tool that allows business travelers to plan, book and purchase ticketless travel on Southwest Airlines. It is a simple and efficient method to obtain low fares. SWABIZ also provides travel managers a useful mechanism for tracking and reporting business travel.[13]

United Airlines' program is called United Universal Air Travel Plan (UATP). It is a corporate central billing program that provides companies with a method to purchase airline tickets on United and over 180 airlines, as well as Amtrak® tickets and Verizon Airfone® calls.[14]

Recommendations

A. **The Department of General Services, or its successor, should immediately establish new travel policies to ensure the following:**
   - **All state agencies with employees who need to travel on state business should be required to plan all travel early to get the best possible airfare.**
   - **All state agencies whose employees need to travel on state business should shop online for the lowest online airfares offered by the commercial air carriers under contract with the state (currently Southwest Airlines and United Airlines).**
   - **State agencies should limit the use of travel agents for booking state travel except for complex travel arrangements or travel on short notice.**

B. **The Department of General Services, or its successor, should immediately take advantage of Southwest Airlines' SWABIZ and United Airlines' United Universal Air Travel Plan (UATP) programs offered by Southwest Airlines and United Airlines, respectively.**

Fiscal Impact

In calendar year 2002, a total of $69 million was expended statewide on airfare for state and university employees. Adding a minimum 8 percent transaction fee increased the total amount expended by another $5.5 million for a total of $74.5 million. In the 2003 calendar year, state and university employees spent approximately $57 million on airfare.[15] Adding the minimum 8 percent transaction fee to the total airfare amount increased the total cost of airfare to almost $62 million.

It is estimated that about 80 percent of all travel arrangements could be made online and 20 percent would still require the use of travel agents. Eighty percent of the total amount expended in the 2003 calendar year is about $49.6 million. Of that amount, it is estimated that about 30 percent, or $14.9 million annually, could be saved by taking advantage of lower online airfares and eliminating the costs for using travel agents.

General Fund and Other Funds
(dollars in thousands)

Fiscal Year	General Fund Savings (Costs)	Other Fund Savings (Costs)	Total Savings (Costs)	Change in PYs
2004–05	$7,450	$7,450	$14,900	0
2005–06	$7,450	$7,450	$14,900	0
2006–07	$7,450	$7,450	$14,900	0
2007–08	$7,450	$7,450	$14,900	0
2008–09	$7,450	$7,450	$14,900	0

Note: The dollars and PYs for each year in the above chart reflect the total change for that year from 2003–04 expenditures, revenues and PYs.

Endnotes

1 *Department of General Services, "State Administrative Manual" (Sacramento, California), section 4117.1; and Memorandum MM 03-17 from William J. Jefferds, director, Department of General Services (September 22, 2003). Section 4117.1, Airlines, "State employees are required to obtain service from the contract airline(s) when traveling between specific city-pairs. Exceptions are: (1) space or a scheduled flight is not available to accomplish the purpose of the travel, or available service would require overnight lodging; or (2) a non-contract carrier offers a lower fare available to the general public, the use of which will result in a lower total trip cost to the state." Management Memo MM 03-17, "In the event that a lower fare is found, you are encouraged to obtain that fare if it is in the best interest of the state."*

2 *Department of General Services, "State Administrative Manual" (Sacramento, California), section 4117.3; and Memorandum MM 04-12 from Ron Joseph, interim director, Department of General Services (May 20, 2004). Management Memo MM 04-12 extended the State of California Travel Agency Agreement.*

3 *Department of General Services,"State Administrative Manual" (Sacramento, California), section 4117.3; Memorandum MM 02-14 from Clothilde V. Hewlett, interim director, Department of General Services (June 7, 2002); Memorandum MM 03-11 from J. Clark Kelso, interim director, Department of General Services (June 30, 2003); Memorandum MM 04-12 from Ron Joseph; and interview with Donna Carey, administrator, Statewide Travel Program, Department of General Services, Sacramento, California (June 21, 2004).*

4 *Department of General Services, "State Administrative Manual" (Sacramento, California), section 0700; Department of General Services, "State Administrative Manual" (Sacramento, California), section 0730; Department of General Services, "State Administrative Manual" (Sacramento, California), section 0741; and Department of General Services, "State Administrative Manual," Section 4117.1. Section 0700, General Policy, "Use the most economical method of transportation." Section 0730, Transportation, "Travel should be done in the most efficient and least costly manner;" Section 0741, Commercial Air Travel, "Employees will travel by the least costly class. Take advantage of discounts whenever possible."*

[5] *Interview with Donna Carey, administrator, Statewide Travel Program, Department of General Services, Sacramento, California (June 16, 17 and 18, 2004).*

[6] *Memorandum MM 03-13 from J. Clark Kelso, interim director, Department of General Services (June 24, 2003).*

[7] *Interview with Donna Carey, administrator, Statewide Travel Program, Department of General Services, Sacramento, California (June 21, 2004).*

[8] *Southwest Airlines, "Plan Trip," http://www.southwest.com/cgi-bin/buildItinerary2?hps=b1 (last visited June 21, 2004). Trip variables included date of departure and return of July 8, 2004, Sacramento to Burbank and return to Sacramento.*

[9] *Southwest Airlines, "Plan Trip," http://www.southwest.com/cgi-bin/buildItinerary2?hps=b1 (last visited June 21, 2004). Trip variables included date of departure and return of July 8, 2004, Sacramento to Ontario and return to Sacramento, July 8, 2004.*

[10] *Memorandum MM 03-13 from J. Clark Kelso. Management Memo MM 03-13 lists the Official Contracted Airfares by California City Pairs.*

[11] *Southwest Airlines, "Plan Trip," http://www.southwest.com/cgi-bin/buildItinerary2?hps=b1 (last visited June 21, 2004). Trip variables included date of departure and return of July 8, 2004, Sacramento to Orange County and return to Sacramento.*

[12] *Southwest Airlines, "Plan Trip," http://www.southwest.com/cgi-bin/buildItinerary2?hps=b1 (last visited June 21, 2004); and United Airlines, "Planning Travel," http://www.united.com/page/middlepage/0,6823,1009,00.html (last visited June 21, 2004).*

[13] *Southwest Airlines, "SWABIZ," http://www.swabiz.com/about_swabiz.html (last visited June 21, 2004).*

[14] *United Airlines, "United Universal Air Travel Plan," http://www.united.com/page/article/0,6722,2962,00.html (last visited June 21, 2004).*

[15] *Interview with Donna Carey, administrator, Statewide Travel Program, Department of General Services, Sacramento, California (June 18, 2004).*

GG 41

Amend the Administrative Procedure Act to do More with Less

Summary

The Administrative Procedure Act (APA) requires state agencies to adopt regulations in accordance with its provisions.[1] In the past 25 years, the APA has been amended several times and now includes numerous layers of housekeeping details that increase costs and delays, while adding little value to the resulting regulations. To ensure that the rulemaking process is efficient and useful to the public, the APA should be amended to add flexibility and streamline the process.

Background

The APA was first adopted in the 1940s and re-created in 1979 when the Office of Administrative Law (OAL) was established to address the problem of overregulation.[2] The APA requires that a rulemaking agency begin the formal regulatory process by publishing a Notice of Proposed Action. The notice contains the text of the proposed regulatory action, along with an Initial Statement of Reasons which is required to contain at least 21 statements, including four separate statements on fiscal impacts, a statement on housing, a statement on alternatives, a statement on reports and several housekeeping statements.[3] In comparison, the APA as originally adopted in 1979 contained only six statements.[4]

The notice begins a one-year period during which the agency must complete the rulemaking process. Within that time the agency must accept comments from the public and hold a hearing if one is requested. If the proposed regulatory action is significantly changed after the notice is published, the agency must publish a second notice for 15 days.[5] All comments received during the comment periods must be summarized and responded to in the Final Statement of Reasons.[6]

The Final Statement of Reasons contains updates of all the findings, certifications and statements originally published in the Initial Statement of Reasons along with the reasons for taking the regulatory action. Once all the documents are complete, the agency submits the file to OAL for review. OAL has 30 working days to review the documents and file the regulations with the Secretary of State or to disapprove the regulations. If OAL disapproves the regulations, the agency has 120 days to amend the regulations to address the deficiencies and resubmit the file.[7] Although there is an abbreviated procedure for adopting emergency regulations, the entire APA process must be completed ultimately.[8]

According to a report by Bain and Company, despite California's continuing efforts to improve and control the regulatory process, "(T)he cost of doing business in California is 30 percent above the western state average, 6 percentage points of this gap stems from state regulations alone, with regulatory costs 105 percent higher than other western states." The high cost of doing business in California and the "unparalleled degree of regulatory roadblocks" is causing companies to move jobs out of California.[9]

Alternative procedures

The APA generally permits only the one way described above to adopt regulations. This process begins with the agency drafting its proposed regulations and publishing it. The public must comment only on that draft. The public's opportunity to suggest other ideas is limited. To encourage more extensive public participation in the process, the federal APA and many states have developed alternative procedures.

The federal Negotiated Rulemaking Act, for example, permits rulemaking agencies to develop proposed rules by a committee of representatives from all interests that will be affected by the rule, including the rulemaking agency, the regulated entities, public-interest groups and concerned individuals.[10] Committee meetings can be assisted by a neutral facilitator who helps members reach consensus on all issues involved in a proposed rule. All committee meetings are open to the public. The sponsoring agency can use that consensus, or the information gathered at the meetings, to draft the proposed rules and initiate the normal rulemaking procedure required by the federal APA.

Direct final regulations allow trivial or transitory regulations to be adopted without following the usual APA process. The agency must publish its intent to adopt the direct final regulations. The notice must contain information about how the public can comment on the regulations. If the agency receives "significant adverse comments," it must withdraw the regulation and pursue the normal APA process.[11]

Rulemaking documents

Since 1979, the statements required in the various rulemaking documents have been added in a haphazard fashion. In the original APA, the Notice of Proposed Action and the Statement of Purpose required only essential and non-duplicative information.[12] The past 25 years of tinkering has resulted in several layers of housekeeping details that are duplicative and of little use to either the public or the rulemaking agency.[13] As one agency contact said: "A lot of 'hoops' and not a lot of substance, frankly."[14]

The Notice of Proposed Action should be simplified to include only essential information and to reduce duplicative statements. It should contain those items required by the original APA.[15] Similarly, the Initial and Final Statements of Reasons should be simplified to return to the 1979 requirement of a general statement of the reasons for proposing the regulation.

Timing issues

Much of the inefficiency of the APA stems from the unrealistic and arbitrary time limits placed on various actions.

The APA requires that regulations adopted by the emergency procedure may stay in effect only 120 days.[16] Within that time, the agency must complete the rulemaking process. This time limit does not reflect current budget and staffing cuts. The majority of emergency regulations must be readopted at least once before the process is complete.[17] This requires submission of a new emergency rulemaking file, which uses valuable staff time and resources.[18] One hundred eighty days is a more reasonable effective period for emergency regulations and would not unduly impact the rights of the affected public.

Agencies must complete the regulatory adoption process within one year after publishing the Notice of Proposed Action.[19] This can result in an agency submitting a rulemaking file that it realizes is defective to "stop the clock." OAL must then review the defective file and disapprove it, giving the agency a written explanation of the reasons for the disapproval.[20] The agency then has 120 days to correct and resubmit the file.[21] This results in extra work for both OAL and the agency. The APA can be amended to permit an agency to request additional time in which to complete the process. If an agency had additional time it would be more likely to submit a complete rulemaking file.

Regulations become effective 30 days after they are filed with the Secretary of State unless the agency requests, and the Director of OAL approves, a different date.[22] This requires extra effort by the agency staff and a review of extra material by OAL. This is unnecessary.[23]

As adopted in 1979, the APA required an agency to accept comment for at least 30 days.[24] This was later extended to 45 days.[25] The federal APA and many states require only 30 days. Thirty days would give adequate notice to the affected public and would shorten the time necessary for regulatory adoptions.

Necessity review

The Office of Administrative Law is required to review all proposed regulations for "necessity."[26] OAL's regulations interpreting and implementing this requirement provide that the necessity of "each provision" be established in the Final Statement of Reasons.[27] The statute does not, on its face, require that the necessity of each provision be separately established. Rather, the statute would seem to envision that only the overall necessity for the regulation needs to be established. If public comments raise questions about the necessity of a particular provision, those questions can be answered in the response to the comments.[28]

Minor changes

OAL's review of proposed regulations includes a review for format and other editorial issues. Several agency regulation coordinators have cited a recurring problem:

> Some OAL reviewers are really 'picky' and should be able to make simple corrections on their own authority. Example; one reviewer insisted that a semi-colon be used, instead of a comma, in the NOTES section following a regulation. For this, staff had to correct the document, and resend it. This OAL reviewer would not make the correction without a letter from the [agency] that the change was OK for her to make. It was faster for us to make the change and send it, than prepare a letter of instructions. Making minor format changes should be at the pleasure of the OAL reviewer, and not involve so much government red tape.[29]

This hyper-technical interpretation of the APA is not necessary to ensure quality regulations. The APA should authorize OAL to make editorial or format changes at its own discretion when it does not change meaning or content. After several years of budget cuts, rulemaking agencies and the OAL have fewer people to deal with an increasing volume of regulations. It is vital to streamline the regulatory process to use the remaining resources more efficiently.

Recommendations

A. **The Governor should work with the Legislature to amend the Administrative Procedure Act (APA) to streamline the process.**

1. The APA should expressly permit and encourage negotiated rulemaking by adopting a process similar to the federal Negotiated Rulemaking Act, Title 5 United States Code Section 651 et seq.
2. The APA should expressly permit direct final regulations
3. Rulemaking documents should be simplified and returned to the original 1979 requirements. Specifically, the Notice of Proposed Action should only contain the following:
   - A statement of the time, place, and nature of proceedings for adoption, amendment, or repeal of the regulations
   - Reference to the authority under which the regulation is proposed and a reference to the particular code sections or other provisions of law that are being implemented, interpreted, or made specific
   - An informative digest containing a concise and clear summary of existing laws and regulations, if any, related directly to the proposed action and the effect of the proposed action and such other matters as are prescribed by statute applicable to the specific state agency or to any specific regulation or class of regulations

- An estimate, prepared as prescribed by the Department of Finance, of the cost or savings to any state agency, the cost to any local agency or school district that is required to be reimbursed under Section 2231 of the Revenue and Taxation Code, other nondiscretionary cost or savings imposed on local agencies and the cost or savings in federal funding to the state
- And the name and telephone number of the agency officer to whom inquiries concerning the proposed administrative action may be directed.

Similarly, the Initial and Final Statements of Reasons should only contain a general statement of the reasons for proposing the regulation and any necessary update of those reasons; and OAL review staff should be given the authority to make editing changes for format or similar issues that do not change the meaning of the regulations, without formal authorization from the rulemaking agency.

B. The Office of Administrative Law should amend Title 1 Cal. Code of Regulations, Section 10 to clarify that the "necessity" for a regulation can be shown by establishing only the overall necessity for the provision rather than requiring the necessity of "each provision" to be established.

Fiscal Impact

The fiscal impact depends on future actions by rulemaking agencies and cannot be estimated. These recommendations are designed to achieve a more positive business climate. They are cost avoidance measures that will result in productivity savings as the current employees are able to work more efficiently and productively. As a result of these recommendations, the rulemaking process will be streamlined by reducing and simplifying the information to be reported to OAL. Costs will be avoided in that less paperwork will need to be prepared by the state agencies and, therefore, less will need to be reviewed by OAL.

Endnotes

1 *Government Code Section 11340 et seq.*

2 *Government Code Section 11340 et seq.*

3 *Government Code Section 11345.5.*

4 *Statutes of 1979, Chapter 567.*

5 *Government Code Sections 11346.4, 11346.5 and 11346.8.*

6 *Government Code Section 11346.9.*

7 *Government Code Section 11346.9, 11349.1, 11349.3 and 11349.4.*

8 *Government Code Section 11346.1*

9 *Bain & Company, "California Competitiveness Project," pp.4–5, February 2004, http://www.cbrt.org/PDF/CCP%20Exec%20Summary.pdf (Last visited May 20, 2004.)*

[10] *Title 5 United States Code section 651 et seq.*

[11] *Ronald M. Levin, "Direct Final Rulemaking," 64 Geo. Wash. L. Rev. 1 (1995.)*

[12] *The Statement of Purpose is now called the Statement of Reasons.*

[13] *California Law Revision Commission, "Rulemaking Under the California Administrative Procedure Act: Proposals for Reform," by Michael Asimow, Professor of Law, UCLA Law School, September 16, 1996. (Consultant's Report).*

[14] *Confidential email from an agency contact person, dated March 24, 2004.*

[15] *Statutes of 1979, Chapter 567.*

[16] *Gov. C. section 11346.1.*

[17] *Debra Cornez, Interim Director of the Office of Administrative Law, email May 26, 2004. Since January 1, 2003, there have been 143 emergency regulatory actions, and 80 requests to readopt, or 55 percent. The main reason for the necessity to readopt was the inability to complete the rulemaking procedures within 120 days.*

[18] *E-mail from Maureen Miyamura, Regulations Analyst, Department of Social Services (March 18, 2004).*

[19] *Government Code Section 11346.4(b).*

[20] *Government Code Section 11349.3.*

[21] *Government Code Section 11349.4.*

[22] *Government Code Section 11343.4.*

[23] *California Law Revision Commission, "Rulemaking Under the California Administrative Procedure Act: Proposals for Reform," by Michael Asimow, Professor of Law, UCLA Law School, September 16, 1996. (Consultant's Report).*

[24] *Government Code Section 11346.4, as adopted by Statutes of 1979, Chapter 567.*

[25] *Government Code Section 11346.4.*

[26] *Government Code Section 11349. Necessity is shown when the record of the rulemaking proceeding demonstrates by substantial evidence the need for a regulation to effectuate the purpose of the statute, court decision, or other provision of law that the regulation implements, interprets, or makes specific, taking into account the totality of the record.*

[27] *Title 1 California Code of Regulations, section 10.*

[28] *California Law Revision Commission, "Rulemaking Under the California Administrative Procedure Act: Proposals for Reform," by Michael Asimow, Professor of Law, UCLA Law School, September 16, 1996. (Consultant's Report).*

[29] *Confidential e-mail from a regulation coordinator, dated March 24, 2004.*

GG 42

Improve Management of the State Vehicle Fleet

Summary

The Department of General Services' Office of Fleet Administration (OFA) is unable to identify the state agencies that own more than 25 percent of the state fleet.[1] The Office also has no procedures to address claims of vehicle misuse. By improving reporting and record keeping, the state may be able to reduce unnecessary purchases of new and replacement vehicles and reduce the misuse of state vehicles.

Background

California estimates it owns between 70,000 and 80,000 pieces of mobile equipment, approximately 90 percent of which are passenger vehicles.[2] OFA manages the fleet through a semi-centralized state program. Only 11 percent of the fleet is under the direct control of OFA, with responsibility for the remaining 89 percent residing with other state agencies.[3] OFA is responsible for adopting and promulgating rules and regulations, which prescribe the proper use of all state-owned vehicles, the records to be kept, and the reports to be made by state agencies relating to that use. Each state agency, however, is responsible for compliance with those rules and regulations and for the maintenance of the vehicles under its control.[4]

OFA is unable to determine the exact number and type of vehicles owned by the state. Three state agencies with varied responsibilities for fleet record keeping each estimate the size of the fleet differently. The Office of Risk Management estimates about 72,000 the Department of Motor Vehicles estimates about 78,000,[5] and OFA estimates about 70,000.[6]

Because state agencies have not accurately reported their vehicle inventories, OFA has had to categorize 17,978 of the 70,000 vehicles in their inventory records as "unknown."[7] That is, they cannot identify the agency responsible for 26 percent of the state fleet. The estimated value of these vehicles is more than $117 million given that the standard state sedan in 2003 was a Chevrolet Cavalier with a used value of $6,525.[8]

Reports

Each state agency is required to submit a report to OFA at the beginning of each fiscal year providing information on all vehicles under its control.[9] Many state agencies do not comply with this requirement and there are no sanctions for those that fail to do so.[10] This makes accurate inventory control impossible and makes it difficult to know when to buy new or replacement vehicles.[11]

Misuse of state vehicles

Alleged misuse of state vehicles is reported to OFA.
Common complaints of misuse include:

- Employees driving state-owned vehicles to and from home
- Employees using state-owned vehicles for non-business purposes
- Driving aggressively, speeding, and misuse of the carpool lanes; and
- Unnecessary use of certain types of vehicles (e.g., large sedans, 4x4s, SUVs).[12]

OFA forwards all complaints to the state agency responsible for the vehicle, when that agency can be determined, for follow-up.[13]

No records of reports of abuse are maintained and no centralized records are maintained to determine the validity of reports or any actions taken by the agency. As such, there is no quantitative or qualitative data about misuse of these vehicles. This makes identification of any trends of misuse impossible.

Recent asset management efforts

On May 11, 2004, the Governor issued Executive Order S-10-04, calling for improved management of the state's portfolio of real assets.

Recommendations

A. **The Department of Motor Vehicles, or its successor, should conduct an inventory of all state-owned vehicles by January 1, 2005 and maintain the inventory on an ongoing basis, providing quarterly reports to the Department of General Services (DGS).**

   This should be limited to all state vehicles requiring registration. This will also capture inventory for the state university systems and constitutional offices, which can then use the information to improve their fleet management as they see fit.

B. **The Department of General Services (DGS), or its successor, should adopt procedures for tracking public complaints, motor vehicle violations, accident reports, fuel card misuse and home storage permits by January 1, 2005. DGS should also be required to conduct random audits of state agencies' records on follow-up of misuse issues.**

   This will ensure that the state has the ability to accurately monitor and track the misuse of state vehicles and to establish policies and procedures to make appropriate interventions when patterns of abuse are identified.

Fiscal Impact

No additional funds will be needed to inventory state-owned vehicles. OFA has reported that it would require three additional positions to implement a tracking and follow-up system for misuse and related complaints.[14] As a result of this proposal, there may be some, as yet undetermined, savings to the state due to improved management of the state's fleet of vehicles and potential reduction in vehicle misuse. If only 20 vehicles were eliminated from purchase each year, all costs associated with this proposal should be fully covered.

Endnotes

1 *E-mail from Richard Battersby, assistant chief, Garage Operations, Office of Fleet Administration, Department of General Services, "03–04 Vehicle Inventory PIE CHART.xls," to California Performance Review (March 24, 2004).*

2 *Interviews with Richard Battersby, Sacramento, California, March 24, 2004; Jan Dietz, Administrative Manager, Office of Risk and Insurance Management, Department of General Services, West Sacramento, California (March 30, 2004); Richard Wright, Information Technology Manager, Department of Motor Vehicles, Sacramento, California (March 13, 2004); and e-mail from Richard Battersby, to California Performance Review (May 18, 2004).*

3 *California Gov. C. Section 19993.2(c).*

4 *California Gov. C Section 19993.4.*

5 *Interviews with Richard Battersby, Jan Dietz, and Richard Wright.*

6 *Interview with Richard Battersby. This figure was reached by reviewing the Office of Risk and Insurance Management, Department of General Services' self-reported billing records and the Department of Motor Vehicles' exempt plate vehicle registration records.*

7 *E-mail from Richard Battersby, "03–04 Vehicle Inventory PIE CHART.xls," to California Performance Review (March 24, 2004).*

8 *E-mail from Richard Battersby, to California Performance Review (May 24, 2004); and price garnered from "Kelley Blue Book," http://www.kbb.com/ (last visited June 9, 2004).*

9 *Office of Fleet Administration (OFA), Department of General Services, "OFA State Fleet Handbook, STD. 59 (REV. 7/2000)," pp 2, 9.*

10 *Interview with Richard Battersby.*

11 *E-mail from Richard Shedd, Office of Fleet Administration, Department of General Services, to California Performance Review (May 5, 2004).*

12 *E-mail from Richard Battersby, to California Performance Review (May 17, 2004).*

13 *E-mail from Richard Shedd, to California Performance Review (May 3, 2004).*

14 *E-mail from Richard Battersby, to California Performance Review (May 17, 2004).*

GG 43

Reduce State Video Production Costs

Summary

In Fiscal Year 2003–2004, state entities contracted with private vendors for $237,000 worth of video production services. These services might have been obtained at a lower cost using state resources.

Background

The following state departments have video production capabilities, including equipment, facilities and staff located in a central office or field office:[1]

- California Highway Patrol
- Department of Consumer Affairs
- Department of Corrections
- Department of Developmental Services
- Department of Education
- Department of Mental Health
- Department of Motor Vehicles
- Department of Transportation
- Department of Water Resources
- Employment Development Department
- Office of Emergency Services

These departments produce public service announcements (PSAs), current events notices, newsletters and training videos. They often collaborate. For example, The Employment Development Department's (EDD) central office produced a PSA for the Governor's January 6, 2004 State of the State Address. The Department of Transportation (DOT) then put the PSA on the Internet.[2] EDD also has reimbursable accounts to provide video production services to other agencies.[3]

State agencies that have video production services often charge other agencies much less than the private sector. For example, the Department of Water Resources (DWR) charges only about 30 percent of what private sector vendors charge. [4]

Some of the savings are even greater. For example, the Board of Equalization (BOE) contracted with EDD in June of 2003 for a 60-minute training video. EDD charged BOE $30,000, or $500 per minute of finished product.[5] Video production in the private sector can range from $1,000 to $3,000 per minute of finished product.[6] As a result, BOE saved between $30,000 and $150,000. Also, in 2002, DOT produced a video entitled *Scaling New Heights* at a cost of $10,628. It estimates private sector production cost would have been $30,000.[7]

Five state departments contracted with private sector vendors for video production services during Fiscal Year 2003–2004.[8] These departments indicated they either did not know the state provided video production services, or found state agencies with video production capabilities to be unresponsive, difficult to use, or took too much time.[9]

Recommendation

The Department of Finance, or its successor, should issue a Management Memo to all departments to provide information on the video production services, locations and contacts provided by other state departments and to direct all departments to compare state costs when soliciting video services.

Fiscal Impact

The state will realize savings if departments solicit and use cost-effective video services available from other state departments, instead of contracting only with private vendors. The level of savings is unknown as it will be dependent upon the responsiveness of the departments providing the services and the extent to which they can accommodate the needs of the requesting department. For example, departments may have restricted timeframes or the need for unique services such as videos in foreign languages that may necessitate the continued use of outside vendors.

Endnotes

[1] *"Department of Finance, 2004–05 Governor's Budget," (Sacramento, California, January 9, 2004), pp. BTH 23, 36, 41, 54, 66, 73, 90, DOT 1, E 11, GG 4, HHS 63, 104, 117, LJE 25, LWD 3, R 100, SCS 20, 78, YAC 14, 64, 104, 115, 116, 131, 157.*

[2] *Interview with Loree Levy, Director of Public Affairs Branch, Employment Development Department, Sacramento, California (March 5, 2004).*

[3] *Department of General Services, State Contract Registration and Procurement System, "Contract number M387124," Board of Equalization, (June 3, 2003).*

[4] *Interview with Teresa Chaney, Chief, Graphic Services Branch, Department of Water Resources, Sacramento, California (March 5, 2004).*

[5] *Department of General Services, State Contract Registration and Procurement System, "Contract number M387124."*

[6] *Interview with Bill Romanelli, APCO Worldwide Inc., Sacramento, California (March 09, 2004); and Interview with Chris Cochran, principal, Chris Cochran Productions, Sacramento, California (March 09, 2004); and Interview with Leo McKellray, Bouchard Marketing Inc., Sacramento, California (March 09, 2004); and Interview with Mark Allen, Oneworld Communications Inc., Sacramento, California (March 09, 2004); and Interview with Pat Costanza, TMD Group Inc., Sacramento, California (March 09, 2004).*

[7] *Interview with Bimla Rhinehart, Acting Deputy, External Affairs, Department of Transportation, Sacramento, California (March 5, 2004).*

[8] *Department of General Services, California State Contract Registration and Procurement System, "Contract number 03SA580122, " Secretary of State, (March 2, 2004); and Department of General Services, State Contract Registration and Procurement System,"Contract number 150-03-001," Energy Resources Conservation and Development Commission, (November 6, 2003); and Department of General Services, California State Contract Registration and Procurement System, "Contract number 03-0153C," Department of Pesticide Regulation, (February 15, 2004); and Department of General Services, California State Contract Registration and Procurement System," "Contract number 03-T2694," Department of Toxic Substances Control, (March 1, 2004); and Department of General Services, California*

State Contract Registration and Procurement System," "Contract number 02F-4285," Department of Community Services and Development, (April 1, 2002).

9 *Interview with Bryan Hobson, Chief of Administration, California Children and Families Commission, Sacramento, California (May 13, 2004); and Interview with Katrina Dolenga, Staff Services Manager, California State Summer School for the Arts, Sacramento, California (May 14, 2004); and Interview with Susan Garfield, staff services manager, Media and Public Information Department, Energy Commission, Sacramento, California (May 13, 2004); and Interview with Susan McCarthy, Department of Pesticide Regulation, Sacramento, California (May 14, 2004); and Interview with Wendy Wohl, Deputy Director, Department of Community Services and Development, Sacramento, California (May 13, 2004).*

GG 44

Ensure Interagency Business Transactions are Re-engineered and Moved to the Internet

Summary
California government has not substantially improved its interagency paper-based business transactions for decades. Paper forms, paper processes and the associated tasks of document management must be changed. State agencies should re-engineer interagency paper-based forms and processes, moving them to electronic web-based software applications. These applications must be cost-effective, accessible from a main business center and inventoried to reduce unnecessary duplication.

Background
There are hundreds of state agencies that make up California government, each of which need services provided by one or more other state agencies, departments, and commissions. The agency requesting the service generally completes a paper form or other paper documentation that is mailed to the agency that provides the service. This is a slow and expensive process.

Examples of the forms used for these interagency business transactions are easy to find:

- Forms associated with accounting, contracting and administration.[1]
- Forms associated with state employee personnel transactions.[2]
- Forms submitted to the Department of Finance (DOF) for the purpose of establishing or changing departments' or agencies' annual budget.[3]

Slow manual processes
Many of the paper forms must be ordered from the Department of General Services (DGS) and shipped statewide to the various departments. The completed forms must be mailed to an agency's headquarters office (usually Sacramento), adding time to the process and additional cost. If errors are significant, the process must start over at the point of origin. When complete, the forms are routed internally for final headquarters' signatures.

When received in the headquarters office, information contained on the forms is extracted manually and keyed by employees into a central database where it is used for future reporting purposes. At steps along this path, hard copies are made and filed, costing staff time and increased supply and storage costs. The completed forms are then routed by mail or courier to the "action" department, which duplicates many of the above steps within its own organization. This manual, paper-based process is inefficient and should be replaced with an electronic, web-based process.

Eighty-three percent of participants in a survey of nuclear research say electronic document management technology has provided significant value. The biggest productivity returns have occurred in accelerated document retrieval, faster filing and reduced staffing requirements. The biggest savings come from reduced printing, distribution and storage costs. Eighty-six percent of the participants say it has improved employee productivity. Using document management software, the average participant reduced document retrieval time by 52 percent. [4]

Many departments have created standard forms in an electronic format. These forms are typically created using Adobe Acrobat™ but still must be printed, processed and filed traditionally.[5] While this is an improvement over the paper format, further efficiencies using modern electronic document management systems and software would result in:

- **A 75 percent reduction in time spent locating and retrieving documents;**
- **A 75 percent reduction in time spent filing ;**
- **A 50 percent reduction in copying costs;**
- **A 75 percent reduction in off-site storage costs;**
- **A 75 percent reduction in on-site storage costs;**
- **A 50 percent reduction in overnight shipping expenses; and**
- **A 50 percent reduction in filing supply expenses.** [6]

Additionally, many departments have implemented electronic software payroll systems, procurement and facility maintenance applications. The cost effectiveness of these applications is unclear because they have not been analyzed for return on investment (ROI), which is the net benefit of a project after the costs have been determined. California state government requires no formal analysis for ROI.[7] Lastly, these electronic applications are not accessible through one central business site. These electronic software applications are, therefore, not readily accessible to other departments, thus encouraging expensive needless duplication.

In the next three to five years, 71,000 state employees could retire.[8] Both current and new personnel resources will need to be efficiently reallocated. As personnel resources are limited or realigned, providing the state workforce with modern document management tools will be a key to productivity. Listing these tools on a central registry would reduce duplication.

Document management is the first step towards establishing a knowledge base. A McKinsey study suggested that at least 40 percent of new project time is spent re-creating knowledge already possessed by the company. Administrative and information workers spend 30 percent of their time looking for information to complete their tasks. Information and knowledge management enables a smart, connected organization. [9]

Creating a web-based document management system could streamline the current paper-based process. For example, using current technologies, a state employee requiring a service from another department could access California's homepage.[10] The employee would select "Government" and a new selection would be available on that web page titled "Inter-Departmental Business Center" (IDBC). [11] A login procedure would allow the employee to access services, forms, links to frequently asked questions and online training manuals such as the Department of Finance's Budget Analyst's Guide.[12] The routing of all transactions would be electronic, and approval signatures on required forms would be electronic whenever appropriate. [13]

Security Issues have been addressed

Many state documents require levels of security to protect names, addresses and social security numbers. In addition, the general business of the state, although subject to the Public Records Act, may still require distribution controls. This has been a significant obstacle in the past, but with today's software technology, signature and permission controls are well developed for routine transactions. Legal documents, documents related to proprietary projects and documents related to health care that require advanced security may be protected (at additional cost) by more robust "rights" management software.[14]

Overcoming data contamination and "ownership" issues

Effective electronic document management requires data routing to be completely electronic. Short of attaining this, severe inefficiencies will remain. For example, the Department of General Services (DGS) uses an electronic database application called the Activity Based Management System (ABMS). This application is used to track purchasing, projects and employee records. At the same time, DGS has developed effective web-based applications that allow its external customers to provide certain real estate related information electronically. These web-based applications do not link directly to the ABMS because of data contamination or data "ownership" issues; hence the data is re-keyed at DGS. There is no technical reason why they should not be linked and to eliminate this redundancy.[15]

Economic considerations

To shift to electronic transactions for all state business processes across state agencies would be a massive undertaking. Accomplished incrementally, however, department by department, process by process, electronic form and content management becomes more manageable. A department may elect to automate its document management as its budget allows.

Some private and public enterprises are adapting quickly. They use many commercial off-the-shelf software products (COTS).[16] They are powerful tools and an application may cost as little as $175,000.[17] A major factor in controlling the expense is to set clear goals detailing the application design and then maintaining adherence to the project scope.

In a recent Open Archive Inc. white paper, authors Sandy Schiele and Betsy Delfosse note impressive statistics and savings. BAE Systems conducted a study that discovered that 80 percent of employees waste an average of half an hour per day retrieving information, while

60 percent are spending an hour or more duplicating the work of others. More statistics supporting the need for document management include:

- **Ninety percent of corporate memory exists on paper;**
- **Ninety percent of all the pages that get handled each day in the average office are merely shuffled;**
- **The average document gets copied 19 times;**
- **Companies spend $20 in labor to file a document, $120 in labor to find a misfiled document, and $220 in labor to reproduce a lost document;**
- **Seven and a half percent of all documents get lost;**
- **Three percent of the remainder get misfiled; and**
- **Professionals spend 5–15 percent of their time reading information, but up to 50 percent looking for it.** [18]

As an alternative to COTS, California could develop its own software applications. The advantage to in-house applications is the control or elimination of annual COTS costs for server and user licenses. In-house software development, however, is becoming less viable as software companies create more targeted applications and the costs for COTS become more competitive. Because state departments vary greatly in size and subsequent application use, the one-time cost of development and any future upgrades or maintenance should be prorated across all the departments that use the system whether developed in-house or purchased from the marketplace.

The value of conversion

E-document management is not new technology; it is simply proven technology that has not yet been widely engineered into California state government for agency to agency business transactions. A notable exception, however, is the California Public Employees' Retirement System (CalPERS) which used COTS software to successfully convert over 51 million documents in just over a year.[19] While no specific dollar savings are available, any business process that is reduced, as this one was, from days to minutes would have a positive economic benefit if the resources freed are well allocated. In another COTS software example, Scott County, one of the fastest growing counties in Minnesota will reap an $865,000 ROI by year-end 2003.[20] This was accomplished by transferring many of the county's operations to electronic document management.

Companies across the world are moving rapidly toward more use of electronic document management.[21] One of the largest commercial real estate organizations in the United States, Shorenstein Company, implemented a COTS real estate application "in only 12 weeks, which included scanning 8,400 property and (lease) documents (approximately 175,000 pages) into the system."[22]

The DGS' Real Estate Services Division manages 2,059 leases, which occupy a total of 21 million square feet.[23] In 12 weeks, a significant part of the state's lease portfolio could be properly recorded, reducing storage costs and processing time. On average, the investment could be returned in 3.75 months.[24]

Re-engineering state business processes through electronic document management is a key to improving efficiency. These business transactions could be completely re-engineered and once automated, used by all departments from a central business site similar to Pennsylvania's ImaginePA.[25] Further, new applications should be analyzed for ROI and listed on a central registry for other departments to review or build upon.[26]

Recommendations

A. **The Governor should issue an Executive Order that requires the Department of General Services, or its successor, to design and maintain the "Inter-Departmental Business Center" (IDBC) Internet web selection on the California homepage. Inter-departmental business exchanges should be conducted from this site.**

B. **The Governor should work with the Legislature to secure an appropriation for Integrated Document Management (IDM) project(s) on an annual basis. The funds should be used for contracted IDM services to improve agency-agency electronic business exchange and not to perform studies. The funding for the appropriation should come from the budgets of future users of the services on a prorated basis.**

C. **A pilot department should be selected by the Department of General Services, or its successor, to transfer a business process to interagency electronic document management. Real estate leasing is a good candidate because it would be a project of moderate and manageable scope.**

Fiscal Impact

The McKinsey study noted earlier suggests administrative and information workers "spend 30 percent of their time looking for information to complete their tasks." There are about 12,300 state positions devoted to document handling.[28] If one in four positions (25 percent) could be saved or reallocated, a potential savings of 3,074 personnel years (PYs) is possible.

An investment in IDM might cost $750,000 to implement.[28] The investment would be returned, through salary savings, approximately six months from when the application is operable. A percentage maintenance and management fee of between 14 to 20 percent would be charged per year. This paper assumes a 20 percent fee, and a 10 percent reduction in PYs through efficiencies phased in over two years.

General Fund
(dollars in thousands)

Fiscal Year	Savings	Costs	Net Savings (Costs)	Change in PYs
2004–05	$0	$375	($375)	0
2005–06	$7,459	$75	$7,384	(76.5)
2006–07	$14,927	$75	$14,852	(153)
2007–08	$14,927	$75	$14,852	(153)
2008–09	$14,927	$75	$14,852	(153)

Note: The dollars and PYs for each year in the above chart reflect the total change for that year from 2003–04 expenditures, revenues and PYs.

Other Funds
(dollars in thousands)

Fiscal Year	Savings	Costs	Net Savings (Costs)	Change in PYs
2004–05	$0	$375	($375)	0
2005–06	$7,459	$75	$7,384	(76.5)
2006–07	$14,927	$75	$14,852	(153)
2007–08	$14,927	$75	$14,852	(153)
2008–09	$14,927	$75	$14,852	(153)

Note: The dollars and PYs for each year in the above chart reflect the total change for that year from 2003–04 expenditures, revenues and PYs.

Endnotes

1 *Department of General Services, Office of State Publishing http://www.osp.dgs.ca.gov/StandardForms/Paper+Standard+Forms.htm (last visited June 1, 2004).*

2 *Katrina Hollingsworth and Elizabeth R. Rainear, State Personnel Board staff, personnel forms from California State Personnel Board and Excel Spreadsheet provided April 19, 2004. More than 87 forms are involved.*

3 *Department of Finance, budget forms—http://www.dof.ca.gov/fisa/bag/bagtoc.htm. More than 17 forms are used (last visited May 5, 2004).*

4 *"Return on Investment" Sandy Schiele and Betsy Delfosse, http://www.openarchive.com/ http://www.openarchive.com/articles_home.htm (last visited May 5, 2004).*

5 *http://hr.dgs.ca.gov/TrainingPerformanceEnhancement/default.htm (last visited May 5, 2004).*

6 *"Return on Investment" Sandy Schiele and Betsy Delfosse, http://www.openarchive.com/ http://www.openarchive.com/articles_home.htm (last visited May 5, 2004).*

7 *Interview with Bernard Soriano, CPR team leader—Information Technology Team (May 14, 2004) (see endnote 26).*

8 *Alexa H. Bluth, "Bee Capitol Bureau, Paul Minor Interview" "Sacramento Bee" (April 24, 2004).*

9 *E-mail from Brent Bollard, president, Auer-Precision, Visual Vault, Microsoft Corporation, McKinsey study data summarized in "Partner Guide for Microsoft Communication and Collaboration Solutions, 2004" (April 7, 2004.)*

10 *State of California, http://www.ca.gov/state/portal/myca_homepage.jsp (last visited May 5, 2004).*

11 *State of California, "Government," http://www.ca.gov/state/portal/myca_homepage.jsp (last visited May 5, 2004).*

12 *California Department of Finance, http://www.dof.ca.gov/fisa/bag/bagtoc.htm (last visited May 5, 2004).*

13 *Model Law on Electronic Signatures, http://www.uncitral.org/english/texts/electcom/ml-elecsig-e.pdf (last visited May 5, 2004).*

14 *E-mail from Brent Bollard, president, Auer-Precision-Visual Vault (April 12, 2004).*

15 *Interview with Jamie Mangrum, chief, Department of General Services, Office of Technology Resources (April 16, 2004).*

16 *Commercial Off The Shelf, software companies (COTS) such as VisualVault™, MasterControl™ Stellent™ OpenText™, LaserFiche™ (last visited April 28, 2004).*

17 *E-mail from Brent Bollard, president, Auer-Precision, Visual Vault (April 7, 2004).*

18 *"Return on Investment Sells Document Management to Executives: An Open Archive Paper" by Sandy Schiele and Betsy Delfosse, original data from Coopers & Lybrand (Source: Immersion Technologies, Inc). http://www.openarchive.com/, http://www.openarchive.com/articles_home.htm (last visited May 5, 2004).*

19 *Britt Baysinger January/February 2003—vice president of Business Advantage Consulting (www.business-advantage-consulting.com) http://www.edocmagazine.com/enter "search" using "Calpers" (last visited May 5, 2004).*

20 *Nov. 3, 2003 Meta Group case study, http://www.aiim.org/article_pr.asp?ID=27344 (last visited May 5, 2004).*

21 *Open Text Corporation, http://www.opentext.com/customers/ (last visited May 5, 2004). Airbus SAS, 3M, Merrill Lynch, New York City Transit as example.*

22 *Stellent Corporation, http://www.stellent.com/stellent3/idcplg?IdcService=SS_GET_PAGE&ssDocName=P88004983. then click www.stellent.com/shorensteincs (last visited May 5, 2004).*

23 *Department of General Services, http://dgsnet.dgs.ca.gov/DGSFastFacts0903TD_OPSC.doc (last visited May 5, 2004).*

24 *E-mail from Jack Johnson, vice president of hosted solutions, Stellent Inc. (April 23, 2004).*

25 *ImaginePA—A central location for Accounting, Budgeting, Payroll, Human Resources and Procurement, http://www.imaginepa.state.pa.us/imaginepa/cwp/view.asp?a=6&Q=82694&PM=1&imaginepaNav=|2022| (last visited May 5, 2004).*

26 *Interview with Roy McBrayer, CPR-IT team. The restructured Department of Information Technology (DOIT) attempted unsuccessfully to create a registry. Primary difficulties were continually changing project scope (May 17, 2004).*

27 *E-mail Excel spreadsheet from Candice Bevill, State Controllers Office (April 28, 2004).*

28 *E-mail from Jack Johnson, vice president of hosted solutions, Stellent Inc. (April 23, 2004).*

GG 45

State Digital Records Vanishing

Summary

Public access to California state government information erodes as thousands of digital documents vanish each year. As a result, the state is losing important historical documents. The State Library must identify and implement processes to collect and protect state government's digital records.[1]

Background

Each day, California state government loses alarming numbers of computer-generated digital documents. State agencies and departments routinely delete files from computer servers.[2] Before the mid-1990s and the digital revolution, most traditionally printed state documents were printed by the Office of State Publishing and sent for storage to the State Archives and Library. Today, traditional printing is being rapidly replaced with digital "desktop" printing to websites, CDs and small-scale reproduction offices. This digital publishing bypasses the State Publisher and therefore the State Archives and Library. According to Janet Coles, California State Library senior librarian, less than five percent of the actual number of publications issued by the state is collected in depository libraries.[3] Also, digital storage media decay, and hardware and software become obsolete, further jeopardizing the safe collection of state records.[4]

These losses deny taxpayers the ability to use government information already collected, compiled, and paid for with tax dollars. Efforts to gather information that was previously available but was either lost or deleted are expensive.[5] In New Jersey, the Division of Elections eliminated the web page that gave the previous year's election lists and results. Much of the information was permanently lost. New Jersey Public Utilities created a new web page and eliminated virtually all of the documents that had existed on the earlier page.[6] In New York, all the data from a 1960s land use study were lost because researchers used custom software that no longer existed when the computer tapes were turned over to the state archives.[7]

Federal government information is not immune to this problem. The original raw data from the 1960 decennial census was stored on a then state-of-the-art computer. When the Census Bureau turned the data over to the National Archives in the mid-1970s, the computers were long obsolete. Much of the data was lost. Also lost were data from the Viking mission to Mars and pre-1979 computer images of Earth taken from space.[8]

In California, many of the web pages of the Wilson Administration were lost—including all of Governor Wilson's executive orders—during the change to the Davis Administration in 1999.[9] When the Department of Information Technology was eliminated in June 2002, the department's web pages and all of its contents also were eliminated "with no regard to future information needs," according to Janet Coles, State Library senior librarian. Coles said that all of Secretary of State Bill Jones' press releases were lost during a change of administrations in 2003. A significant loss occurred in 1998 when the California Commission for the Establishment of Academic Content and Performance Standards expired through a sunset provision. The commission's website was eliminated and all of its proceedings and minutes were lost.[10]

To address the problem, the State Library has gathered a panel of librarians, archivists, and representatives from the Office of State Publishing, data centers, state universities and state agencies to study the problem and develop recommendations. The panel began meeting in March 2004 and plans to have a report on the problem and recommendations completed by June 30, 2004. John Jewell, chief of California State Library Services, stated that he does not know how much time will elapse between the release of the report and the implementation of its recommendations.[11]

Recommendation

The Governor should issue an Executive Order requiring all state agencies to alert the State Library of publication of digital documents, websites or other products that may be candidates for permanent public access through the State Library.

As part of the Executive Order, the State Library should be required to immediately implement an electronic submission process to help state agencies alert the library to vital digital publications, bulletins, documents and other key public records, until the state implements a permanent solution.

Fiscal Impact

The California State Library can implement the CPR recommendation within existing resources.[12]

Endnotes

1 *Dorothy Warner,"Why Do We Need to Keep This in Print? It's on the Web … : A Review of Electronic Archiving Issues and Problems," "Progressive Librarian," (Issue No. 19-20, Spring 2002) http://libr.org/PL/19-20_Warner.html (last visited May 5, 2004).*

2 *John Jewell, chief of California State Library Services, "Preserving Our Digital Legacy (State Electronic Documents)," talking points (Sacramento, California, 2004).*

3 *Janet Coles, senior librarian, California State Library, notes from a proposal to study the issue of vanishing digital records, (Sacramento, California, 2004).*

4 *Michael S. James, "Fading Bits of History; As Computer Records Replace Paper, Some See Weakness in Record of Our Times," ABCNews.com. (July 12, 2001), http://abcnews.go.com/sections/scitech/DailyNews/preservation010708.html (last visited on May 5, 2004).*

[5] *Dorothy Warner, "Why Do We Need to Keep This in Print? It's on the Web … : A Review of Electronic Archiving Issues and Problems," "Progressive Librarian," http://libr.org/PL/19-20_Warner.html.*

[6] *Dorothy Warner, "Why Do We Need to Keep This in Print? It's on the Web … : A Review of Electronic Archiving Issues and Problems," "Progressive Librarian," http://libr.org/PL/19-20_Warner.html.*

[7] *State Documents Interest Group of the Documents Association of New Jersey, "Staying Digital: Recommendations on Preserving New Jersey Government Information in the Digital Age" (New Jersey, 2001) p. 3, http://andromeda.rutgers.edu/~govdocs/stayingdigital.pdf (last visited May 30, 2004).*

[8] *State Documents Interest Group of the Documents Association of New Jersey, "Staying Digital: Recommendations on Preserving New Jersey Government Information in the Digital Age" (New Jersey, 2001) p. 3, http://andromeda.rutgers.edu/~govdocs/stayingdigital.pdf (last visited May 30, 2004).*

[9] *Interview with John Jewell, chief of California State Library Services, Sacramento, California (April 26, 2004).*

[10] *Interview with Janet Coles, senior librarian, California State Library, Sacramento, California (June 1, 2004).*

[11] *Interview with John Jewell, chief of California State Library Services, Sacramento, California (April 26, 2004).*

[12] *Interview with John Jewell, chief of California State Library Services, Sacramento, California (June 2, 2004).*

GG 46

Exempt Federally-Funded Programs from Hiring Freezes/Budget Reductions

Summary

Various federally funded programs have been adversely affected by statewide budget reductions and hiring freeze provisions, which resulted in either the state's loss of or inability to expend federal funds. When fewer federal funds are expended, certain state costs, such as fixed overhead costs, have been absorbed by other funds, including the General Fund.

Background

As a result of Executive Order S-3-03 and requirements of the Budget Act, the Department of Finance (DOF) is required to ensure that specific budget reductions and/or hiring freezes are implemented by state departments.[1] DOF is typically allowed flexibility in preparing the instructions to state departments and may exclude federal funds/federally funded programs from these proposals.[2]

Since 2001, various reductions and freeze proposals have been issued that have adversely affected federally funded programs. As a result, millions of dollars of federal fund spending authority has been taken from state agencies.[3] Federal fund reductions pursuant to Section 4.10 of the Budget Act of 2003 totaled $95,189,478.[4] In the Budget Act of 2002, Section 31.60 also reduced federal fund availability. Because Section 31.70 allowed some departments to request this funding to be restored, the actual net reduction is unknown.[5]

The hiring freeze imposed on federally funded programs has limited departments' ability to fully expend available funds and has already resulted in some departments losing future federal funding.[6] The U.S. Center for Disease Control and Prevention expressed concerns with Department of Health Services' (DHS) vacancies in a December 2002 letter. DHS sent DOF an exemption request to fill five federally funded positions, four of which DOF denied. According to DHS, the federal government reduced DHS' grant from the National Cancer Prevention and Control Grant from $10.6 million to $8.4 million for Fiscal Year 2003–2004, partly as a result of the positions left vacant. There are no plans for it to return to the $10.6 million level in FY 2004–2005 or subsequent fiscal years.

In September 2002, the U.S. Department of Agriculture (USDA) notified California Department of Education's (CDE) Nutrition Services Division of its concerns with vacancies in a unit responsible for conducting reviews. USDA warned the Nutrition Services Division that it may withhold some or all of the federal funds allocated if it found serious deficiencies in the administration of the program. Subsequently, the division sent a blanket freeze exemption request to DOF to fill vacancies, re-establish 12 division positions eliminated during

FY 2002–2003, and exempting the division where a shortage of staff had contributed to "findings."[7] As of April 2004, CDE had not yet received approval to reinstate any of the lost positions or fill current vacancies. According to CDE, the department risks losing 30 percent (or $6 million) of its current $20 million in federal funding.[8]

Although some departments, such as the Employment Development Department (EDD), have only incurred position reductions (without a funding cut) as a result of budget reductions, it has still led to inflexibility in administering EDD's federally funded programs. According to the EDD, these position reductions have also adversely affected customer service.[9]

At the California Department of Food and Agriculture (CDFA), hiring freezes and reductions have adversely affected various federal programs.[10] Delays of up to six weeks for the hiring of seasonal, agricultural positions during the exotic Newcastle disease outbreak delayed CDFA's efforts to determine the extent of the spread of the disease. According to CDFA, the staffing shortages caused by the loss of positions are preventing it from seeking grants for emergency disease management, surveillance, and outreach because the department does not have the staff to write contracts, provide oversight or perform work. In the department's chemistry lab, the freeze prevented the hiring of six chemists for both the USDA pesticide Data Program Labs and the USDA Microbiology Data Program Lab. The department eventually lost the positions. CDFA also anticipates additional federal funding reductions if the Medfly preventive release program is cut during FY 2003–2004. This program currently costs $8.1 million annually, with federal matching funds. Prior to the inception of this program, California had amassed costs of over $250 million in eradication costs. CDFA is also facing a similar situation with pest detection surveys, also a federal-match program.

As less federal funds are expended, a smaller share of fixed overhead expenditures are being absorbed by federally funded programs and a greater share of fixed overhead expenses must be absorbed by non-federal funds, including the General Fund. This issue is significant because approximately $70 million in overhead expenditures are anticipated to be paid by federally funded programs in FY 2003-2004.[11]

Recommendation

The Department of Finance, or its successor, should exempt all federally funded programs from future hiring freezes and budget reductions in order to maximize the receipt and use of federal funds.

Fiscal Impact

As past reduction proposals and/or hiring freezes have varied each fiscal year, it is not possible to identify the fiscal impact the state would receive if the above recommendation were implemented.

Endnotes

1 California Office of the Governor, Executive Order S-3-03 (Sacramento, California, November 13, 2003). The executive order prohibited departments from filling vacancies or promoting staff.

2 Interview with Tom Dithridge, Program Budget manager at the Department of Finance, Sacramento, California (March 15, 2004).

3 Interview with Tom Dithridge.

4 Department of Finance, "Federal Funds Spreadsheet," March 14, 2004. (Computer printout.)

5 Interview with Tom Dithridge.

6 California State Auditor, Bureau of State Audits, "Federal Funds, The State of California takes advantage of available federal grants, but Budget Constraints and other issues keep it from Maximizing this Resource, Report 2002-123.2," (Sacramento, California, August 2003).

7 California State Auditor, Bureau of State Audits, "Federal Funds, The State of California takes advantage of available federal grants, but Budget Constraints and other issues keep it from Maximizing this Resource, Report 2002-123.2."

8 Interview with Phyllis Bramson-Paul, chief, Nutrition Division, Department of Education, Sacramento, California (April 13, 2004).

9 Interview with Richard Ashley, Budget manager, Employment Development Department Budget, Sacramento, California (March 19, 2004); and interview with Ken Marks, Budget chief, Employment Development Department, Sacramento, California (April 13, 2004).

10 Interview with Kim Myrman, deputy secretary, Department of Food and Agriculture, Sacramento, California (April 14, 2004).

11 Department of Finance, "Governor's Budget 2004–2005" (Sacramento, California, January 9, 2004), schedule 9.

General Government
Fiscal Impact Table
(Dollars Displayed in Thousands)

		2004-05		2005-06		2006-07		2007-08		2008-09		
Issue Number	Issue Description	Savings(Costs)/Revenue General Fund	Other Funds	Savings(Costs)/Revenue General Fund	Other Funds	Savings(Costs)/Revenue General Fund	Other Funds	Savings(Costs)/Revenue General Fund	Other Funds	Savings(Costs)/Revenue General Fund	Other Funds	5-Year Cum. Total All Funds
GG 01	Raise State Revenue Through Tax Amnesty	$228,800	$15,300	$10,000	$0	$65,000	$0	$80,000	$0	CBE	CBE	$399,100
GG 02	Additional Tax Collection and Audit Staff will Generate Additional Tax Revenue	$0	$0	$0	$0	$51,800	$11,900	$51,800	$11,900	$51,800	$11,900	$191,100
GG 03	Consolidate and Upgrade Cashiering for State Taxing Agencies	$0	$0	$0	$0	$0	$0	$9,544	$6,362	$11,672	$7,781	$35,359
GG 04	Use Contracts Information System to Increase Debt Collection Through Offsets	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE
GG 05	Adopt a Multi-State Lottery Game	$0	$0	$0	$43,710	$0	$43,710	$0	$43,710	$0	$43,710	$174,840
GG 06	Increase Lottery Sales and Funding to Public Education	$0	$0	$0	$90,900	$0	$239,800	$0	$346,800	$0	$346,800	$1,024,300
GG 07	Maximize Federal Grant Funds	$0	$0	$0	$1,300,000	$0	$1,950,000	$0	$2,350,000	$0	$2,600,000	$8,200,000
GG 08	Putting Californians First - Creating a Customer Service Framework	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
GG 09	Establish a California Information Center	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE
GG 10	Fix It (the California Portal) and They Will Come	($1,100)	($1,100)	$0	$0	$0	$0	$0	$0	$0	$0	($2,200)
GG 11	Reduce Costs and Improve Customer Service Through Use of Internet Forms	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE

General Government Fiscal Impact Table

(Dollars Displayed in Thousands)

Issue Number	Issue Description	2004-05 Savings(Costs)/Revenue General Fund	2004-05 Savings(Costs)/Revenue Other Funds	2005-06 Savings(Costs)/Revenue General Fund	2005-06 Savings(Costs)/Revenue Other Funds	2006-07 Savings(Costs)/Revenue General Fund	2006-07 Savings(Costs)/Revenue Other Funds	2007-08 Savings(Costs)/Revenue General Fund	2007-08 Savings(Costs)/Revenue Other Funds	2008-09 Savings(Costs)/Revenue General Fund	2008-09 Savings(Costs)/Revenue Other Funds	5-Year Cum. Total All Funds
GG 12	Pay for California Drivers' License Renewals Online	$0	($425)	$0	$382	$0	$382	$0	$382	$0	$382	$1,103
GG 13	Implement Improved Processes for Collecting Department of Motor Vehicles Fees	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE
GG 14	Putting a Neighborly Face on Government	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE
GG 15	Making High Quality Customer Service a High Priority for All Employees in State Service	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE
GG 16	Plain Language Makes Government More Accessible	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
GG 17	Tax Relief on Manufacturing Equipment	$0	$0	$208,000	$0	$10,400	$0	$45,600	$0	$79,200	$0	$343,200
GG 18	Increase the Amount of Money Recovered by the State Compensation Insurance Fund	$0	$28,593	$0	$72,136	$0	$72,136	$0	$72,136	$0	$72,136	$317,137
GG 19	Centralize for Efficiency the Assessment of Commercial Aircraft	$0	$0	($614)	$0	($519)	$0	($519)	$0	($519)	$0	($2,171)
GG 20	Reduce the Administrative Burden on Small Businesses in California by Allowing Self-Certification	$475	$475	$950	$950	$950	$950	$950	$950	$950	$950	$8,550

General Government
Fiscal Impact Table
(Dollars Displayed in Thousands)

Issue Number	Issue Description	2004-05 Savings(Costs)/Revenue General Fund	2004-05 Other Funds	2005-06 Savings(Costs)/Revenue General Fund	2005-06 Other Funds	2006-07 Savings(Costs)/Revenue General Fund	2006-07 Other Funds	2007-08 Savings(Costs)/Revenue General Fund	2007-08 Other Funds	2008-09 Savings(Costs)/Revenue General Fund	2008-09 Other Funds	5-Year Cum. Total All Funds
GG 21	Reduce Paperwork by Recognizing Small Business Program Certification Performed by Other Governmental Entities	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE
GG 22	Create a One-Stop Business License Center for California Businesses	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE
GG 23	Reduce Administrative Overhead Costs for Local Workforce Investment Areas	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
GG 24	Establish Competitive Sourcing Guidelines for State Departments	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE
GG 25	Establish Parameters for Redirecting of Special Funds	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE
GG 26	Establish Principles of Governance to Improve the Partnership Between State and Local Government	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE
GG 27	Create a Formal Mechanism for Improving State-Local Government Relations in California	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
GG 28	Improve Local Government Finance by Increasing Predictability of Revenues	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0

General Government Fiscal Impact Table

(Dollars Displayed in Thousands)

		2004-05		2005-06		2006-07		2007-08		2008-09		
		Savings(Costs)/Revenue		Savings(Costs)/Revenue		Savings(Costs)/Revenue		Savings(Costs)/Revenue		Savings(Costs)/Revenue		5-Year
Issue Number	Issue Description	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds	Cum. Total All Funds
GG 29	Improve State and Local Performance Measurements	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE
GG 30	Require Native American Tribes under the Tribal-State Compact to Enter into Agreements with Local Governments to Address the Impacts of the Tribal Casinos on Local Communities	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE
GG 31	Eliminate the Exemption from the Educational Revenue Augmentation Fund for Multi-County Enterprise Special Districts	$35,000	$0	$35,000	$0	$35,000	$0	$35,000	$0	$35,000	$0	$175,000
GG 32	Reform the State Mandates Process to Make Reimbursement More Cost-Efficient, Predictable and Fair	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE
GG 33	Eliminate General Fund Support for the California Science Center	$0	$0	$9,578	$0	$9,578	$0	$9,578	$0	$9,578	$0	$38,312
GG 34	Simplify and Consolidate Court-Ordered Fines	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE
GG 35	Revise the Homeowners and Renters Assistance Program and Strengthen the Property Tax Postponement Program	$0	$0	$22,690	$0	$22,690	$0	$22,690	$0	$22,690	$0	$90,760

General Government
Fiscal Impact Table
(Dollars Displayed in Thousands)

		2004-05		2005-06		2006-07		2007-08		2008-09		
		Savings(Costs)/Revenue		Savings(Costs)/Revenue		Savings(Costs)/Revenue		Savings(Costs)/Revenue		Savings(Costs)/Revenue		5-Year
Issue Number	Issue Description	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds	Cum. Total All Funds
GG 36	Implement Biennial Vehicle Registration for Efficiency and Lowered Costs	$0	$0	$0	$0	$1,259,000	$0	$0	$0	$0	$0	$1,259,000
GG 37	Limit State's Liability to Actual Fault	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE
GG 38	Reduce Litigation Costs by Improving the Claims Adjustment Process	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE
GG 39	Implement Travel Advance and Expense Reimbursement Automation Statewide	$0	$0	$175	$175	$1,100	$1,100	$1,100	$1,100	$1,100	$1,100	$6,950
GG 40	Reduce State Travel Costs by Booking Fares Online	$7,450	$7,450	$7,450	$7,450	$7,450	$7,450	$7,450	$7,450	$7,450	$7,450	$74,500
GG 41	Amend the Administrative Procedure Act to do More with Less	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE
GG 42	Improve Management of the State Vehicle Fleet	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE
GG 43	Reduce State Video Production Costs	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE
GG 44	Ensure Interagency Business Transactions are Re-engineered and Moved to the Internet	($375)	($375)	$7,384	$7,384	$14,852	$14,852	$14,852	$14,852	$14,852	$14,852	$103,130
GG 46	State Digital Records Vanishing	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
GG 47	Exempt Federally-Funded Programs from Hiring Freezes/Budget Reductions	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE	CBE

General Government
Fiscal Impact Table
(Dollars Displayed in Thousands)

	2004-05		2005-06		2006-07		2007-08		2008-09		
	Savings(Costs)/Revenue		Savings(Costs)/Revenue		Savings(Costs)/Revenue		Savings(Costs)/Revenue		Savings(Costs)/Revenue		5-Year
Issue Number Issue Description	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds	Cum. Total All Funds
General Government Total	**$270,250**	**$49,918**	**$300,613**	**$1,523,087**	**$1,477,301**	**$2,342,280**	**$278,045**	**$2,855,642**	**$233,773**	**$3,107,061**	**$12,437,970**

The amounts shown for each year in the above chart reflect the total change for that year from Fiscal Year 2003-04

CBE - Cannot Be Estimated