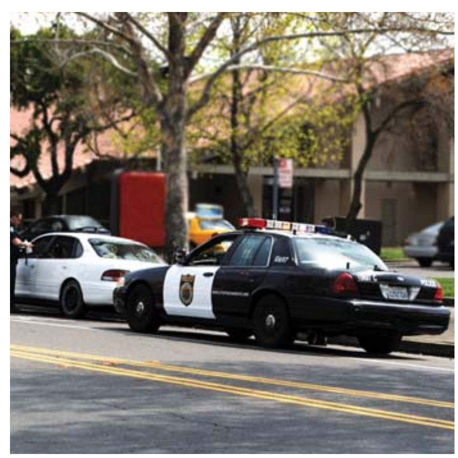
GOVERNMENT COST SAVINGS REPORT

How state and local government can increase efficiency and become more effective.



CalTax℠

April 2012

A RESEARCH STUDY PREPARED BY THE CALIFORNIA TAXPAYERS ASSOCIATION

About the California Taxpayers Association

Founded in 1926, the California Taxpayers Association is the state's largest and oldest organization representing taxpayers. Established as a non-partisan, non-profit association, CalTax has a dual mission to guard against unnecessary taxation and to promote government efficiency. CalTax conducts research and advocacy on significant tax and spending issues in the legislative, executive, and judicial branches of government. For more information on CalTax go to www.caltax.org

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Forward

Where public finances are concerned, California all too often brushes over issues of efficiency and how we can make our government operate more effectively. Year after year, many of the best minds in state government offer up ideas on how to improve and preserve our state's core services. Unfortunately, many of these audits, studies, and recommendations go untapped, and wind up sitting on a dusty shelf.

By reviewing past reports from the State Controller's Office, the Bureau of State Audits, the Legislative Analyst's Office, the Little Hoover Commission, the California Performance Review, local city audits, and local grand juries, the California Taxpayers Association identified many examples where public officials can be asking for better results.

CalTax has a dual mission to guard against unnecessary taxation and to promote government efficiency. In 1928, we published one of our first research studies, looking at how government procedures and mismanagement led to the structural collapse of the St. Francis Dam – one of the greatest infrastructure failures in our country. For more than 85 years, CalTax has been dedicated to finding ways for our state to increase efficiency and promote policies that will improve the programs and services delivered.

In this report, we hope policymakers will find tangible ideas that can be molded into legislative solutions. California's discussion about public finances ought to focus on the issue of how to spend the public's money wisely. By asking the questions "How are we doing? How can we do it better?" and by reviewing the tangible reforms in this report, policymakers can improve government.

Teresa Casazza

Teresa Casazza, President

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Executive Summary

The California Taxpayers Association has identified **more than $7.3 billion** that state and local government could save or obtain from revenue enhancements if proactive steps are taken to address inefficiencies and reform existing programs. Of this amount, CalTax identified **$4.01 billion in annual savings** and **$104 million in one-time savings**, as well as **$3.19 billion in potential revenue enhancements**. This report identifies recommendations that are tangible, pragmatic solutions and can be adopted to reduce costs, increase savings, or enhance the state's revenue.

In December 2011, CalTax set out to identify areas where state and local government can reduce costs, better utilize existing resources, or reprioritize spending to maximize efficiency. CalTax staff reviewed reports published in the past decade by the Legislative Analyst's Office, the Bureau of State Audits, the Little Hoover Commission, the California Performance Review, county auditors, county grand juries, and non-partisan think tanks.

The objectives of this study: 1) Identify areas of government that need reform and can provide a cost savings or better utilization of existing services; 2) Provide tangible solutions to improve government and promote efficiency; 3) Recommend solutions that are non-partisan; and 4) Recommend solutions that realistically may be adopted within the current political context.

By understanding the performance, functions and operations of government, policymakers can increase efficiency at the state and local levels. When efficiency is improved, additional revenue becomes available, allowing policymakers to provide quality services that can preserve important programs for Californians without raising taxes or creating barriers that make it more difficult for employers and innovators to thrive.

Although this report is based on extensive research into past government audits, performance reviews and other reports, it is not exhaustive. There undoubtedly are many other areas of potential savings or revenue enhancements that can be identified, and we urge policy makers to continually look for ways to improve efficiency.

On the following pages are reforms in seven policy areas that CalTax reviewed, and the cost savings associated with each proposal.

CHAPTER ONE: PURCHASING & ASSET MANAGEMENT

Proposal	Jurisdiction	Change Needed	Fiscal Impact	Page
Improve Management of Surplus Property	Department of General Services	Improve management and oversight of surplus property owned by the state.	$158.8 million in annual savings	14
Allow State Parks to Increase Efficiency	Department of Parks and Recreation	Authorize parks to reorganize park operations and develop a system-wide combined user fee.	$10 million in annual savings; Additional revenue of $20 million annually.	15
Reduce State Leasing Costs	Department of General Services	Reduce state leasing costs by reevaluating existing leases; develop standards for evaluating lease needs.	Significant annual savings	16
Develop Public-Private Partnerships to Manage Public Parks and Recreational Areas	Local Parks and Recreation Departments	Utilize public-private partnerships to help manage local parks and recreational areas.	Some annual savings	17
Move Caltrans Bid Procurement Process Online	Department of Transportation	Utilize an electronic bidding process to obtain project bids.	Initial startup costs, long-term savings	17
Increase Competitiveness of Construction Project Bidding	State and Local Government	Modify existing contracting laws to increase flexibility for how project labor agreements are used.	Some annual savings	18
Reduce Parking Enforcement Costs Through Privatization	Local Government	Utilize private parking enforcement contractors to enforce and collect local parking fines.	Hundreds of thousands of dollars in annual savings	19

TOTAL FISCAL IMPACT: More than $168.8 million in annual savings; $20 million annually in additional revenue.

CHAPTER TWO: GENERAL GOVERNMENT

Proposal	Jurisdiction	Change Needed	Fiscal Impact	Page
Eliminate Unnecessary State Mandates	State of California	Review existing mandates and eliminate costly or unnecessary mandates.	$91 million in one-time savings, significant long-term savings.	21
Consolidate Local Public Safety Services	Local Government	Consolidate police and fire services into a single public safety department.	$80,000 to $80 million in annual savings	22
Require Entity Holding a Meeting to Pay the Cost of Publishing and Posting the Meeting Agenda	State of California/Local Government	Require local government to develop policies on implementing Proposition 59 of 2004.	$23 million in annual savings	23
Reorganize Mailrooms and Printing Functions	State of California	Consolidate and outsource inbound and outbound mailroom and printing facilities.	$7 million in annual savings	23
Increase Use of Network Printing	State of California	Analyze current printing practices, and increase use of network printing.	$1.5 million in annual savings	24

TOTAL FISCAL IMPACT: More than $31.58 million in annual savings; $91 million in one-time savings.

CHAPTER THREE: HUMAN RESOURCES

Proposal	Jurisdiction	Change Needed	Fiscal Impact	Page
Develop Long-Term Strategy for Other Post-Employment Benefits	State of California	Require fund reserves for retired state employees' other post-employment benefits to reduce future short- and long-term costs.	$600 million in annual savings	26
Downsize Department of Transportation Workforce	Department of Transportation	Downsize Caltrans Capital Outlay Support staff by 1,500 employees.	$200 million in annual savings	26
Recoup Cash Advances Paid to Public Employees	State and Local Government	Require state and local governmental entities to reclaim outstanding travel advances paid to public employees.	$13 million in one-time savings	27
Revise Policies to Reduce Overtime Compensation	State of California	Provide preference to employees who have logged the least amount of overtime.	Significant annual savings	28
Mandate Alternative Work Week for Certain State Agencies	State of California	Mandate that certain state agencies switch to a four-day work week, where possible.	$4.8 million in annual savings	29
Modify Job Classifications for Safety Officers	State of California	Revise state job classifications regarding who should be considered a public safety officer.	Considerable annual savings	29
Adjust City Official Salaries to Reflect Workforce Wages	Local Government	Reevaluate and reduce employee compensation to accurately reflect market conditions and workforce wages.	Some annual savings	30

TOTAL FISCAL IMPACT: More than $804.8 million in annual savings; $13 million in one-time savings.

CHAPTER FOUR: REVENUE ENHANCEMENTS

Proposal	Jurisdiction	Change Needed	Fiscal Impact	Page
Reform Payment Options to Reduce Accounts Receivable	Board of Equalization, Employment Development Department, Franchise Tax Board	Increase flexibility to encourage taxpayers to resolve outstanding tax debts.	$2.3 billion in one-time revenue; Additional long-term revenue.	32
Allow Private Investment in Alternative Drilling	State of California	Allow private entities to invest in onshore extended reach drilling.	Between $275 million to $665 million in new revenue annually, averaged over a 30-year production life.	33
Improve Excise Tax Compliance for Tobacco-Related Products	Board of Equalization	Reduce excise tax evasion for tobacco-related products.	$212 million in annual revenue	34
Increase Lottery Sales and Education Funding	California State Lottery	Increase the percentage of state lottery revenue used for prizes, by reducing administrative and operational expenditures.	$195 million in annual revenue	35
Sell Advertisements on Dynamic Messaging Highway Signs	Department of Transportation	Direct Caltrans to work with the Federal Highway Administration to sell advertisements on dynamic messaging highway signs.	$150 million in annual revenue	36
Allow School Districts to Place Ads on School Buses	Department of Education	Authorize local school districts to sell advertising space on school buses.	$31 million in annual revenue	36
Place Advertisements on State Websites	State of California	Authorize state agencies to utilize Internet advertising to generate revenue for certain state websites.	Additional revenue expected	37
Create HIV/AIDS Electronic Reporting Database	California Department of Public Health – Office of AIDS	Create an electronic database to increase competitiveness for federal loans and grants to support HIV/AIDS testing and prevention programs.	More than $10 million annually in additional federal funds	38

TOTAL FISCAL IMPACT: More than $3.17 billion in additional one-time and annual revenue.

CHAPTER FIVE: EDUCATION

Proposal	Jurisdiction	Change Needed	Fiscal Impact	Page
Provide Flexibility to Schools to Determine Classroom Sizes	Department of Education	Allow school districts flexibility to determine how many students should be in a classroom for grades K-3.	$1 billion in annual savings	39
Reform the Community College Fee Waiver Program	California Community Colleges	Reform the California Community College Board of Governors' fee waiver program.	$700 million in annual savings	40
Eliminate Non-Essential Education Mandates	Department of Education	Eliminate certain non-essential programs mandated by state government.	$39 million in annual savings	42
Reduce Non-Instructional Education Costs	Local School Districts	Increase flexibility of local school districts to contract out for various services.	Significant annual savings	43
Modify Existing Policies on Teacher Layoffs	Local School Districts	Eliminate policies requiring newest teachers to be the first to be laid off.	Significant annual savings	44
TOTAL FISCAL IMPACT: More than $1.73 billion in annual savings.				

CHAPTER SIX: JUSTICE, CORRECTIONS AND THE COURTS

Proposal	Jurisdiction	Change Needed	Fiscal Impact	Page
Utilize Electronic Court Reporting Technologies	Judicial Branch	Statutory change eliminating requirement that certified shorthand reporters be used to create and transcribe official court proceedings. Instead, allow video and/or audio recordings of court hearings.	$111 million in annual savings	47
Increase Use of Public-Private Partnerships in State's Corrections System	Department of Corrections and Rehabilitation	Develop public-private partnership with private prison providers to enhance existing correctional capacity.	$111 million in annual savings	48
Establish Competitive Bidding Process for Court Security	Judicial Branch	Adopt state statutes that allow trial courts to enact competitive contracts with various law enforcement (both public and private) to reduce trial court security costs.	$100 million in annual savings	49
Reform Oversight of Medically Incapacitated Inmates	Department of Corrections and Rehabilitation	Revise state guidelines for how terminally ill and medically incapacitated inmates are incarcerated.	$46 million in annual savings	49
TOTAL FISCAL IMPACT: More than $368 million in annual savings.				

CHAPTER SEVEN: HEALTH AND HUMAN SERVICES

Proposal	Jurisdiction	Change Needed	Fiscal Impact	Page
Reform In-Home Supportive Services	Department of Social Services	Reform In-Home Supportive Services to improve patient care for Californians who rely on the program most.	$768 million in annual savings	51
Reform Proposition 99's Anti-Smoking Programs	Department of Health Care Services	Amend Proposition 99 to narrow the scope of what may be funded with tobacco tax revenue, to ensure that funds are spent effectively.	$70 million in annual savings	53
Improve Oversight of Foster Care Program	Department of Social Services	Require foster care providers to identify and document children's treatment needs to justify the level of placement they receive.	$60 million in annual savings	54

Total Fiscal Impact: More than $898 million in annual savings.

Chapter One: Purchasing and Asset Management

In many senses, California is a small nation. The state spans more than 700 miles in length, and has diverse geography, from Mount Whitney to Death Valley. With a population of more than 37 million residents, 23 million registered motorists, 1.4 million acres of state parks, 50,000 miles of state highway and freeway lanes, and more than 400 public airports, California needs state and local governments that can constantly innovate how services are delivered, and can manage the public property used to deliver those services.

By improving management of key assets and changing procurement strategies, California can improve how public property is utilized and maintained, so that Californians can continue to enjoy access to this property. California's state parks represent one area where efficiencies should be evaluated. While the state repeatedly has announced possible state park closures or reduction in services, operational management strategies may improve the parks and allow the state to avoid closures. Procurement is an area where reforms will improve how property is acquired and maintained.

PURCHASING AND ASSET MANAGEMENT

Proposal	Jurisdiction	Change Needed	Fiscal Impact
Improve Management of Surplus Property	Department of General Services	Improve management and oversight of surplus property owned by the state.	$158.8 million in annual savings
Allow State Parks to Increase Efficiency	Department of Parks and Recreation	Authorize parks to reorganize park operations and develop a system-wide combined user fee.	$10 million in annual savings; Additional revenue of $20 million annually.
Reduce State Leasing Costs	Department of General Services	Reduce state leasing costs by reevaluating existing leases; develop standards for evaluating lease needs.	Significant annual savings
Develop Public-Private Partnerships to Manage Public Parks and Recreational Areas	Local Parks and Recreation Departments	Utilize public-private partnerships to help manage local parks and recreational areas.	Some annual savings
Move Caltrans Bid Procurement Process Online	Department of Transportation	Utilize an electronic bidding process to obtain project bids.	Initial startup costs, long-term savings
Increase Competitiveness of Construction Project Bidding	State and Local Government	Modify existing contracting laws to increase flexibility for how project labor agreements are used.	Some annual savings
Reduce Parking Enforcement Costs Through Privatization	Local Governments	Utilize private parking enforcement contractors to enforce and collect local parking fines.	Hundreds of thousands of dollars in annual savings

TOTAL FISCAL IMPACT: More than $168.8 million in annual savings; $20 million annually in additional revenue.

Improve Management of Surplus Property – $158.8 Million in Annual Savings

The Statewide Property Inventory (SPI) lists 2,942 real properties, 6,896,338 acres, and 44,549,659 square feet of office space and 185,528,277 square feet of "other" structural property owned by the state.[1]

In 2011, the Department of General Services' annual report to the state Legislature on surplus real property listed 27 state-owned surplus properties pending disposition. Fourteen of these properties have an attached dollar value to them, totaling $158,856,000. Three additional properties were identified as excess, but still pending surplus authorization.[2] The state currently uses revenue generated from the sale of surplus property to retire state bond debt. Once the principal and interest on such bonds are paid, the additional revenue is deposited into the Special Fund for Economic Uncertainties.

The Bureau of State Audits found that the four largest state land owners failed to develop procedural guidelines for identifying excess property, and noted that these practices likely are common among state departments. BSA's audit found the following practices in effect:

"… the four largest state land owners failed to develop procedural guidelines for identifying excess property …"

- The Department of Fish and Game has a general reluctance to declare property as "excess" or "surplus," because when such properties are sold, the revenue is not returned to the department. Further, even if the department identifies a property as excess, the department may continue to manage the property for conservation purposes.

- The Department of Parks and Recreation is uncertain if its districts are properly evaluating excess property. From 2006 to 2009, only two properties were declared to be surplus, resulting in the transfer of one property to a county and the other being sold for market value. Since the land originally was purchased with state-issued bonds, and the department will not obtain any funds from the sale, the department has no incentive to sell the property.

- The Department of General Services has had trouble selling surplus property due to the state's California Environmental Quality Act (CEQA) requirements. The auditor has recommended exempting the department from CEQA requirements when selling surplus state-owned property.

The California Performance Review (CPR), conducted in 2004, made a number of recommendations to improve management of surplus property. The CPR recommended improvements to the State Property Inventory that would allow property to be properly accounted for, and recommended that the determination of what property is surplus be set by specific guidelines. The CPR also suggested that the state maximize the value of surplus land, when it chooses to sell surplus property, by utilizing limited liability companies, public-private partnerships, nonprofit corporations, real estate investment trusts and online auctions. Amending state law to require the use of binding arbitration to resolve disputes regarding state surplus property would cut down on local governments devaluing land to discourage sales and prevent new developments.

Recommendation: The state Legislature should improve oversight of surplus property by requiring agencies to develop property-retention standards and monitoring guidelines, and should analyze property-retention decisions.[3] Further, the Legislature should empower state agencies with the authority to declare state assets surplus and direct their sale, and require the sale of state property to be at fair market value.[4] By selling surplus property, the state will obtain additional cost-savings, because it no longer will be responsible for regular maintenance of the property, or legal liabilities. Further, when surplus property is sold, the state allows private entities to develop the property for commercial, industrial, residential or agricultural uses, thus broadening the tax base for state and local governments. Increased oversight of surplus property would improve management of state property and result in significant cost savings, totaling millions of dollars annually. **If surplus properties identified in the Department of General Services' 2011 Annual Report were sold at market value, the state would receive $158.8 million.**

Allow State Parks to Increase Efficiency – $20 Million Annually in Additional Revenue and $10 Million in Annual Savings

The state can change the way it operates state parks in order to save millions of dollars a year. The Legislative Analyst's Office recommends using a private enterprise to operate parks to reduce costs and increase efficiency.[5] Privately operated parks are utilized in other states, and in Canada. These parks can reorganize staff faster than state-run parks, allowing them to better meet the demands and needs of each park, and to better serve the public.

The LAO also recommends a reduction in the role of peace officers at state parks. Currently, peace officers perform a number of duties that other state park employees also perform. Because peace officer compensation is higher than that of non-safety park employees, the use of peace officers for non-safety-related tasks greatly increases the cost of park operations. The LAO has noted that a reduction of peace officers within the state park system would result in savings of millions of dollars annually.

Some parks may be eligible to be transferred from state control to local governments or non-governmental entities. Where appropriate, this change maintains the use and purpose of a park, while eliminating cost pressure on the state budget.[6]

The state parks also can improve how fees are collected, and may be able to increase revenue through various changes. The current process for collecting parking and entrance fees is inconsistent. One possible solution may be to charge a combined entrance and parking fee upon entering a park. These user fees could help maintain parks and pay for park access in a way that does not affect park attendance, according to the LAO.

Some parks have not imposed user charges because of concerns that fees would not impact the funding a park receives. The LAO has recommended allowing parks to keep a percentage of the fees collected to use in their own districts. This would increase revenue by tens of millions of dollars.

"The state can change the way it operates state parks in order to save millions of dollars a year."

Another way to increase revenue is to expand concessions at the parks. State parks could increase revenue by $10 million by expanding the park system's concessions program and entering into new agreements for concessions services.[7]

The LAO reported in March 2012 that if operational changes were made to California's state parks, fewer parks would be impacted by budget reductions. The LAO concluded: "In light of the planned park closures, we attempted to find a balance between the need to achieve budgetary savings or increase park revenues and the goal of preserving public access to the parks. While we recognize that some parks may need to be closed in the short run, we recommend a number of proposals that we believe would reduce the magnitude of the number of parks proposed for closure in long run."[8]

Recommendation: If the state reforms existing operations and management practices, the park system will avoid closures and will increase the amount of revenue received. The Legislature should direct the Department of State Parks to: 1) enter into private partnerships to reorganize park operations (saving low-tens of millions of dollars annually); 2) reduce unnecessary use of peace officers (saving millions of dollars annually); 3) increase uniformity between parks' entrance and parking fees (generating tens of millions of dollars annually); and 4) expand concessionaire agreements at state parks (generating up to $10 million annually).[9] **Modifying existing state park operations would result in an estimated savings of more than $10 million annually and additional revenues of more than $20 million annually.**

Reduce State Leasing Costs – Significant Annual Savings

State requirements for leasing private property add unnecessary costs to the price of rent because of various restrictions and regulations. As of 2010, the total minimum lease payments over the life of various state leases are estimated to total $9.1 billion for as long as the leases are in effect.[10]

The Department of General Services works with property owners, managers and investors to identify leasing space available for the state. The state's leases account for 16 million square feet of office space and about 4.6 million square feet of storage and other space. Annual rent for the state's leases is more than $372 million.[11]

In 2009, the Bureau of State Audits (BSA) highlighted one example of how DGS should increase oversight and review of state leases. The state auditor found that DGS and the Department of Corrections and Rehabilitation misspent $580,000 in state funds by continuing a lease for 5,900 square feet of office space that went unoccupied for four years.

"We are concerned that General Services does not consider it wasteful to spend state funds on vacant space over a four-year period."

- Bureau of State Audits

The state auditor concluded that the problem stemmed from a lack of communication. BSA said the Department of Corrections did not adequately describe the facilities it needed for office space, which led to delays in the processing of the department's lease request. Further, BSA noted that the department did not respond to DGS information requests in a timely manner, thus causing further delays. BSA estimated that if the Department of Corrections had responded within a reasonable timeframe, it could have moved into the new space by early 2008. DGS also was faulted. The auditor reported that DGS did not manage its project responsibilities well when reviewing the request for additional space, that the lease negotiations were not timely, and that the process of the lease was conducted inefficiently.

The auditor's report speaks to a larger problem at DGS – under-occupied or unoccupied space for which rent is still being paid by the state. The state auditor concluded: "We are concerned that General Services does not consider it wasteful to spend state funds on vacant space over a four-year period."[12]

Recommendation: The governor and/or Legislature should direct all state entities to evaluate existing leases to determine if the leased property is unoccupied or under-occupied. In a 2009 audit, the state auditor recommended several guidelines to ensure that state leases are cost-effective:[13]

- "Establish reasonable completion timelines for new leases, lease amendments, lease renewals, lease extensions, and lease reconfigurations of existing space or for any combination of these leasing activities."
- "Strengthen [DGS's] oversight role to prevent state agencies from unnecessarily using leased space when state-owned space is available."
- "Establish reasonable time frames, such as 30 days, for [DGS] employees to initiate processing state agency space requests and to confirm with the agency its space needs and program requirements before approval of the request."
- "Create guidelines for General Services' leasing representatives when they encounter uncooperative lessors."
- "Develop a procedure to evaluate all costs incurred in the processing of a request, including any rent paid on unoccupied space, to ensure that [DGS] makes cost-effective decisions when

considering the feasibility of a space request." Other options for reducing state leasing costs include expanding public employee telecommuting options, allowing local governments to issue fire code compliance on state-leased property, allowing local governments to ensure that leases comply with the Americans with Disabilities Act, repealing provisions requiring state leases to exceed seismic safety requirements, and developing performance standards to measure lease costs per employee.[14] **Adopting these changes would significantly increase efficiency, likely saving the state several million to several hundred million dollars annually.**

Develop Public-Private Partnerships to Manage Public Parks and Recreational Areas – Some Annual Savings

Local governments can increase cost savings by fully or partially privatizing management and operations of recreational facilities. Privatization of recreational facilities has been found to increase local government savings by 19 percent to 52 percent, while privatization of park landscaping and maintenance can increase savings by 10 percent to 28 percent.[15]

Perhaps the greatest testament to the benefits of public-private partnership on management of park and recreation facilities is the Central Park Conservancy in New York City. After watching Central Park decay for years, a group of civic leaders and philanthropists united to restore the city's park. The conservancy has many individual supporters, and business supporters from the financial services and media industries, and since 1980, the conservancy has raised more than $450 million in private funds for the park.[16]

"Privatization of recreational facilities has been found to increase local government savings by 19 percent to 52 percent ..."

According to the conservancy's website: "Conservancy crews care for 250 acres of lawns, 24,000 trees, 150 acres of lakes and streams and 130 acres of woodlands; install hundreds of thousands of plantings annually, including bulbs, shrubs, flowers and trees; maintain 9,000 benches, 26 ball fields and 21 playgrounds; preserve 55 sculptures and monuments, as well as 36 bridges; remove graffiti within 24 hours; collect over 5 million pounds of trash a year; and provide horticultural support to City parks."[17]

The conservancy maintains that 90 percent of Central Park's maintenance operations staff is employed by the conservancy and 85 percent of the park's overall budget is funded through the conservancy's fundraising and investments. While the conservancy plays a major role in the park, the New York City Department of Parks and Recreation retains ultimate policy control and has the final discretion over user permits and events held at the park.

Recommendation: To increase savings and ensure that public assets are properly maintained and receive adequate capital investments, local governments should consider contracting out facility operations and management of park and recreation services. **This change may result in savings of 10 percent to 28 percent of park and recreation costs for local government.**[18]

Move Caltrans Bid Procurement Process Online – Some Annual Savings

The California Department of Transportation (Caltrans) opened almost 250 bid projects for transportation construction projects between July 2011 and February 2012 using an antiquated bid procurement system.[19] This system requires construction companies to turn in hard copies of bid documents at the Caltrans headquarters in Sacramento. This system can be moved online to lower the program's cost, increase efficiency, increase bidding competitiveness and make the bidding process open to more construction companies.

Caltrans sends bid books to prospective bidders who request them.[20] A typical "bid book" is 20 to 30 pages in length, depending on the size of the project. The book contains information on the project, as well as places for companies to provide relevant information about their bid. These include itemized price listings, paperwork for specific company preferences and subcontractor information.

When a bid book is requested by a company, it is delivered to the company overnight; free of charge to any company that requests it. Requesting a book only means a company is considering bidding on the project. The submitted bid books are filled out by hand, and then delivered via courier by construction companies within a specific timeframe.

Sending out bid books to prospective bidders is a costly process that can be performed more efficiently if moved online. Modernizing the process would eliminate overnight postage fees, printing costs and labor costs for assembling the bid books and then manually processing the submissions. Only a fraction of the bid books issued actually end up being submitted, meaning many of the books are never used. The state can save money, time and resources if it simply makes the forms available online and no longer issues physical bids by mail. The state already has moved its bid advertising online by making plans and specs available on the Internet as part of its e-Advertising Program.[21]

"Requiring the delivery of hard copies to Caltrans bidders also increases construction companies' cost of bidding, which may discourage potential bidders."

Requiring the delivery of hard copies to Caltrans bidders also increases construction companies' cost of bidding, which may discourage potential bidders. For example, there usually are biweekly bids held at the Caltrans main office. Mailing a bid to the department may place companies at a disadvantage during negotiations with subcontractors, because negotiations that result in lower costs are done on the date of the bid. Construction companies that send representatives to the Caltrans bid proceedings incur travel costs, including hotel, gas and car rental charges.

Caltrans has taken steps to modernize its bidding process by posting opening results online and using teleconferencing to broadcast bid openings. Moving more of the bidding process online and requiring companies to use online bidding would further increase efficiency at Caltrans by eliminating the large workforce it takes to administer and open physical copies of bids.

The state of Michigan switched to an all online bidding process in 2007, and estimates that it has saved 10,000 pieces of paper per bid opening, shortened the processing time and significantly reduced errors.[22] In 2002, prior to this switch, Michigan rejected 34 low bids due to error, and had to spend $370,000 to correct these. After the electronic bidding process was introduced, the state had no low bid rejections out of 1,106 projects. The state also realized an estimated savings of $100,000 a year in reduced accounting costs from using the electronic bidding system.[23]

Recommendation: The Legislature should require all Caltrans projects to seek bids exclusively online. Moving the entire bid process online will greatly improve efficiency, save money on printing and mailing, increase the number of bidders and contribute to lower winning bids by increasing the competitiveness of bidding. **This change will have initial startup costs, but result in additional long-term state savings.**

Increase Competitiveness of Construction Project Bidding – Some Annual Savings

Project Labor Agreements (PLA) are collectively bargained contracts that establish the conditions of a construction project. These conditions are established before a contract is bid upon. Contractors have no role in the negotiations of a PLA on a project, and the terms of the agreement apply both to union and non-union contractors. The two most common guidelines of a PLA are the guidelines for labor dispute resolutions and who can be hired under what particular conditions. The intention of a PLA is to make construction projects more efficient by decreasing or eliminating project delays, lowering costs through efficiency, and setting pre-determined wages and benefits.

While prohibiting work stoppages and predetermining wages and benefits may increase efficiency, these benefits do not occur when PLAs are imposed on the competitive bidding process used for public construction projects in California. A study by the National University System Institute for Policy Research found that California school construction projects involving a PLA cost 13 percent to 15 percent more than school construction projects without a PLA.[24] Such a difference amounts to $29 to $32 more per square foot of construction.

The increase in cost can be attributed to the impact that PLAs have on the competitive bidding process. PLA agreements can significantly lower the number of eligible contractors who may be willing to bid on a project. The Bureau of Labor Statistics reports that only 14 percent of construction workers are union members.[25] Since PLA agreements often require contractors to use union-represented construction workers, a vast majority of potential contractors are removed from this process. The smaller pool means there is less competitive bidding, which decreases the incentive for contractors to cut costs when entering a bid. Since PLA agreements predetermine wages and benefits, the advantage of competitive bidding is nullified.[26]

The PLA no-strike clauses that are supposed to lead to cost savings through efficiency are unnecessary and cause no decrease in cost.[27] A 2009 study found that work delays or cost overruns on federal projects over $25 million could not have been avoided by a PLA during the period PLAs were banned by the federal government.

Recommendation: The bidding process for public construction projects must be as competitive as possible for the state to maximize public works funding. PLAs reduce the number of prospective bidders by as much as 80 percent, and decrease efficiency by fixing contract costs at terms that competitive bidding otherwise would determine. Government should reform PLAs by making fewer contract terms fixed, and restrict their use by lowering the number of contracts to which they can be attached. **Reducing the use of PLAs will result in significant cost savings, up to $32 per square foot on public construction projects.**

Reduce Parking Enforcement Costs Through Privatization – Significant Annual Savings, Hundreds of Thousands of Dollars Annually

A number of local governments have benefited from increased savings through privatization of parking enforcement, which includes issuing and processing parking citations, vehicle removal, towing, and management of parking patrol staff.

Privatizing parking enforcement can lead to increased revenue, because private industry tends to invest in cost-effective technological improvements that can make enforcement more effective and efficient.

A comparison of parking enforcement costs found that enforcing parking ordinances is more costly when local governments conduct the enforcement in-house. For example, the cities of Anaheim, West Hollywood and Montgomery County, Maryland all contract out parking enforcement and reported lower costs than when local governments conduct their own enforcement. Anaheim reported enforcement costs of $15.20 per hour, West Hollywood had costs of $19.23 per hour, and Montgomery County reported costs of $22.52 per hour. The City of Los Angeles, which conducts parking enforcement in-house, reported costs of $35.95 per hour.[28]

Some concerns have been raised that privatizing parking enforcement may lead to negative side-effects, such as overly aggressive enforcement practices. However, city officials can develop broad policy guidelines for contactors to follow in terms of best practices.

Recommendation: Local governments should consider privatizing parking enforcement, if they determine that a cost savings would occur. Policy guidelines should instruct contractors how to operate effectively, and how to avoid infringing on motorists' rights. This change could result in significant savings, potentially up to several hundred thousand dollars annually for local governments.

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Chapter Two: General Government

How California operates internally on a day-to-day basis lays the groundwork for whether government is effective and efficient. State and local officials, as well as department directors and other employees in management, must constantly review management practices to ensure that no government service becomes vulnerable to the pitfalls of operational inefficiencies.

With increased efficiency and streamlined procedures, the state would better serve the public. State and local government should consider consolidating certain functions in areas such as public safety, printing and mailing. Through improved efficiency, the state not only can stretch tax dollars, but also can continue its commitment to a cleaner environment. Modernizing departments to reduce the use of energy and resources puts the state on a positive path to improving governmental operations.

Eliminate Unnecessary State Mandates – Significant Annual Savings; $91 Million in One-Time Savings

The California Constitution states that local agencies and school districts are authorized to file reimbursement claims when a statute or an executive order imposes a state-mandated program.[29] The Commission on State Mandates is the agency that reviews these claims. According to the Bureau of State Audits, the state's current liability for these mandates is more than $5 billion.[30]

In a 2009 report, the state auditor determined that an estimated $57 million in incorrect reduction claims had to be reviewed by the Commission on State Mandates.[31] The auditor questioned the necessity of many of the state mandates, noting that the commission continually had to reduce the amount of reimbursements that were being claimed by the local agencies. As of May 2011, more than

GENERAL GOVERNMENT

Proposal	Jurisdiction	Change Needed	Fiscal Impact
Eliminate Unnecessary State Mandates	State of California	Review existing mandates and eliminate costly or unnecessary mandates.	$91 million in one-time savings, significant long-term savings.
Consolidate Local Public Safety Services	Local Government	Consolidate police and fire services into a single public safety department.	$80,000 to $80 million in annual savings
Require Entity Holding a Meeting to Pay the Cost of Publishing and Posting the Meeting Agenda	State of California/Local Government	Require local government to develop policies on implementing Proposition 59 of 2004.	$23 million in annual savings
Reorganize Mailrooms and Printing Functions	State of California	Consolidate and outsource inbound and outbound mailroom and printing facilities.	$7 million in annual savings
Increase Use of Network Printing	State of California	Analyze current printing practices, and increase use of network printing.	$1.5 million in annual savings
TOTAL FISCAL IMPACT: More than $31.58 million in annual savings; $91 million in one-time savings.			

$91 million in reduction claims were waiting to be heard and determined.[32]

A 2010 Legislative Analyst's Office report recommended criteria that should be considered when evaluating a mandate. The LAO advises that a mandate be eliminated if it "does not serve a fundamental state interest," or if the "mandate's intended purpose is better served by existing state law or policies."[33] (For a discussion of the LAO's findings on education mandates, see the chapter on education in this report.)

Recommendation: The Legislature and/or governor should eliminate unnecessary state mandates. The governor should issue an executive order directing the Department of Finance to review all state mandates and recommend which mandates to suspend, alter or eliminate. **Eliminating unnecessary state mandates could result in significant long-term savings; if just the incorrect reduction claims were eliminated, the state would see a one-time savings of more than $91 million.**

Consolidate Local Public Safety Services – $80,000 to $80 Million in Annual Savings

A number of local governments in the United States have adopted reforms to fully or partially consolidate local public safety departments to improve efficiency.

In 2011, Chicago Mayor Rahm Emanuel announced that the city would consolidate its police and fire department headquarters. Chicago was able to save $82 million by restructuring its public safety departments and merging similar bureaus and units, such as the city's bomb squad and anti-terrorism personnel. Savings also came from merging special units, such as helicopter and marine operations.

A number of cities in Michigan have operated full or partially consolidated police and fire departments for more than 50 years. Analyzing the performance of the services provided by the consolidated departments, the Citizens Research Council of Michigan concluded: "Faced with demands for higher levels of police and fires services, shorter work weeks, and rapidly increasing salaries for all public safety personnel, full or partial police-fire consolidation is a proven alternative means of organizing public safety services from which many Michigan cities can benefit."[34] The report also noted that "public safety officers can be successfully trained to perform police patrol, fire fighting, and fire prevention tasks."[35] The council stated that fire stations need only as many personnel as it takes to drive and operate a fire response vehicle to the scene of a fire.

"Partial or full consolidation can increase the effective utilization of on-duty personnel, improve response times and efficiency."

Partial or full consolidation can increase the effective utilization of on-duty personnel, improve response times and efficiency. Consolidation of public safety has the potential to establish a single chain of command that improves department communication. While a fully integrated public safety department requires additional training, such a department can provide increased coverage and better response to crimes and fire prevention.

Recommendation: Local governments should consider fully or partially consolidating public safety functions. Local governments already have taken some steps toward consolidation of certain functions, such as dispatching, but additional efforts can be taken to increase savings and effectiveness. For the town of Grosse Pointe, Michigan, with a population of just 5,000, fully consolidating police and fire services resulted in approximately $88,000 in annual savings.[36] Partial consolidation of police and fire department services in Chicago in 2011 resulted in approximately $80 million in savings annually. **Consolidation of public**

safety services in California could save local governments anywhere from $80,000 to more than $80 million in annual savings, depending on the size of the city's public safety operations.

Require Entity Holding a Meeting to Pay the Cost of Publishing and Posting the Meeting Agenda – $23 Million in Annual Savings

Local governments file claims with the state totaling approximately $23 million annually for costs incurred from publishing and posting meeting agendas for the public prior to a public meeting.

While the foundation of California's laws on open meetings does not impose a cost or mandate on local government, procedural laws enacted after adoption of the open meetings law – the Ralph M. Brown Act – have created certain mandates. Government Code Section 54954.2 mandates that all state and local government agendas be provided to the public at least 72 hours prior to the meeting. As part of this mandate, the state is required to pay for any costs incurred by local government, as stated in Government Code Section 54954.4.

Such mandates can be quite costly for state government. In fiscal year 2011-12, the Legislative Analyst's Office estimated that the amount due and payable to non-education local government entities amounted to $63 million, while approximate annual costs are in the range of $17 million for non-education local governments and $6 million for K-14 school districts.

The analyst found a number of costly claims. In Santa Barbara County, the state paid $78,044 for 384 meetings held in 2005-06, which amounted to a flat rate of $134 per meeting at that time. For another 41 meetings, described by the county as having lengthier agendas, the county claimed 30 minutes of staff time for each agenda item, at a cost of $44.60 per hour.

In 2004, voters approved Proposition 59 – the Sunshine Review Act – which added to the state constitution a requirement that local government meetings be open to the public. Because Proposition 59 was a voter-approved measure, as opposed to a law passed by the Legislature and governor, it does not create a reimbursable mandate for local government.

Recommendation: California's Legislature should amend existing statutes to state that open meeting agendas should be posted in a matter of "best practices" for implementing Proposition 59. In addition, each local government should be required to formulate policies on how to comply with Proposition 59, and should announce those implementation plans at a regularly scheduled meeting. **This change will eliminate existing state mandates on local government without creating an additional state mandate, and will result in a cost savings for the state of approximately $23 million annually, while still providing the public with important information about local government meetings.**[37]

Reorganize Mailrooms and Printing Functions – $7 Million in Annual Savings

California can reduce equipment and supply costs significantly through consolidation and outsourcing. Savings can be achieved by reducing postage costs, consolidating mail deliveries and eliminating unnecessary mailing, which will allow for reductions in labor and maintenance. Any costs incurred by making changes to inbound and outbound mailing and printing can be mitigated through labor cost changes. The state of Florida estimated that consolidation of its mailrooms and printing facilities would save $7 million annually.[38] California's state workforce and operations are much larger, and the state should be able to save even more through reorganization and efficiency improvements.

Recommendation: The state can realize cost savings if it consolidates and outsources inbound and outbound mailrooms and printing facilities. Modifying existing practices will reduce postage costs, make mailing more efficient, and reduce labor costs. **This change will result in an estimated cost savings of a minimum of $7 million per year.**

Increase the Use of Network Printing – $1.5 million in Annual Savings

State agencies in California can significantly improve efficiency by reducing the number of printers and copiers leased for use by state employees. This can be achieved by centralizing more office work spaces around a shared network and copier. According to the Department of General Services, California state agencies are encouraged to use network printing, but have no formal requirements, nor any incentive to do so. State employees still use personal printers, and this considerably increases the state's leasing costs. Florida estimated that a reduction in leasing costs for personal printers and copiers would save that state $1.5 million annually. Consolidating printing and copying, and reducing the use of personal printers, also yields environmental benefits by reducing energy consumption.

Recommendation: The Legislature should require all state agencies to perform a cost-benefit analysis of printing procedures, and determine where money can be saved by reducing the number of printers, fax machines and copiers. Unless personal printers can be justified, their use should be restricted though a mandated statute. **Requiring state agencies to increase use of network printing and copying could save the state an estimated $1.5 million annually.**

Chapter Three: Human Resources

A well-trained and educated workforce is vital, and helps California offer quality services to the people. Decision makers in government must analyze their department needs and adopt internal policies and controls to assist public employees in helping make government operate more efficiently and effectively.

Media reports often highlight cases of questionable spending, mismanagement or fraudulent activities by government workers. Recently, major problems have been uncovered in the cities of Bell, Montebello and Vernon. By preventing such problems, governments will save considerable amounts of money, and will increase taxpayers' confidence in their public institutions.

To fine-tune government operations, California's state and local governments must adopt overarching policies to draw out the strengths and best qualities of their workers. It is said that Californians have an inherent knack for being highly innovative and creative. If we can begin to hone in on these talents, California's public employees will be empowered to improve the workings of government.

HUMAN RESOURCES

Proposal	Jurisdiction	Change Needed	Fiscal Impact
Develop Long-Term Strategy for Other Post-Employment Benefits	State of California	Require fund reserves for retired state employees' other post-employment benefits to reduce future short- and long-term costs.	$600 million in annual savings
Downsize Department of Transportation Workforce	Department of Transportation	Downsize Caltrans Capital Outlay Support staff by 1,500 employees.	$200 million in annual savings
Recoup Cash Advances Paid to Public Employees	State and Local Government	Require state and local governmental entities to reclaim outstanding travel advances paid to public employees.	$13 million in one-time savings
Revise Policies to Reduce Overtime Compensation	State of California	Provide preference to employees who have logged the least amount of overtime.	Significant annual savings
Mandate Alternative Work Week for Certain State Agencies	State of California	Mandate that certain state agencies switch to a four-day work week, where possible.	$4.8 million in annual savings
Modify Job Classifications for Safety Officers	State of California	Revise state job classifications regarding who should be considered a public safety officer.	Considerable annual savings
Adjust City Official Salaries to Reflect Workforce Wages	Local Government	Reevaluate and reduce employee compensation to accurately reflect market conditions and workforce wages.	Some annual savings
TOTAL FISCAL IMPACT: More than $804.8 million in annual savings; $13 million in one-time savings.			

Develop Long-Term Strategy for Other Post-Employment Benefits – $600 Million in Annual Savings

California's costs related to medical and dental coverage for retired state employees – often called "other post-employment benefits," or OPEB – continue to escalate, and it is unlikely if the existing "pay as you go" model of financing these costs is sufficient to fund increasing liabilities.

In addition to medical and dental coverage, OPEB includes vision, life insurance and other benefits.

The "pay as you go" model keeps short-term costs down, since medical and dental insurance premiums are paid only when due, but this approach results in the largest annual OPEB expenditures, and greatly increases the state's OPEB liability, because the state is not budgeting for any reserves.

The Pew Charitable Trusts' Center on the States reported that while most states use a "pay-as-you-go" model of financing OPEB liabilities, this results in unfunded OPEB liabilities. Pew warned that when OPEB liabilities go underfunded, states risk damaging their credit ratings.

Other states have taken alternative approaches to fund OPEB liabilities, including setting up irrevocable trusts that cannot be used for other purposes. Another option, rather than fully funding outstanding liabilities, is to partially fund outstanding liabilities. For example, in 2008, Massachusetts cut its OPEB liability from $13.3 billion to $7.6 billion by partially funding its liabilities. The state was able to earn interest on the money it invested into reserves for long-term payments.[39]

Recommendation: California must develop a long-term strategy for managing other post-employment benefits. There are two clear options for addressing OPEB liabilities – build a reserve to fund future benefits, while earning interest on the reserves, or reduce future OPEB costs. The state auditor has noted that if California had partially funded OPEB liabilities in 2008-09, the state would have saved $630 million.[40] Until a long-term strategy is developed, partial funding of OPEB liabilities may be the best available course of action. **This change of approach would result in a cost savings of more than $600 million annually.**

Downsize Department of Transportation Workforce – $200 Million in Annual Savings

The Department of Transportation (Caltrans) has approximately 20,000 employees – making it the fourth largest state agency in California.[41] Of those employees, 10,359 were employed in the department's Capital Outlay Support (COS) program as of 2010.[42]

The COS program provides environmental reviews, design and engineering expertise, land acquisition, and management that is needed to complete highway projects. The legislative analyst has determined that 90 percent of COS needs are met by state employees, while 10 percent are met through private contracts.[43] In contrast, the California chapter of the American Council of Engineering Companies says that other state transportation departments use private engineering firms to complete up to 60 percent of their workloads.[44]

"... the LAO found that there is little correlation between staffing levels and the size of the capital programs."

COS program funding is intended to be based on project needs. While workloads have been declining since 2007-08, subsequent state budgets have continually allocated increased funds each year. As stated above, the purpose of the COS program is to provide support for construction needs. In theory, the budgeting needs of COS should fluctuate as projects start or are completed.

A review of COS staffing by the LAO found that there is little correlation between staffing levels and the size of the capital programs. Further, Caltrans was unable to provide LAO with a reasonable methodology for how it allocates staff based on needs. LAO staff estimated that as a general rule of thumb, capital outlay support costs for a project should amount to 30 percent to 32 percent of the total project cost. For example, for a $1 million program, capital outlay support costs should amount to approximately $300,000, for a total project cost of $1.3 million. On average, LAO found that Caltrans projects had capital outlay support costs that amounted to 40 percent of the total project costs.

The LAO determined that the COS program is overstaffed by a minimum of 1,500 employees.[45]

Recommendation: California's infrastructure needs are continually growing. To meet population demands, California must continue to invest in state highways, roads, mass transit, and other sustainable transportation projects. To ensure that Caltrans has the capital outlay support needed to complete a project, the department should hire only enough employees to meet its workload. By eliminating a minimum of 1,500 employees from the COS program, CalTrans would make further funding available for new or improved infrastructure projects. **This change would result in a cost savings of $200 million annually.**

Recoup Cash Advances Paid to Public Employees – $13 Million in One-Time Savings

Under existing law, state employees can obtain travel advances from their employers to cover the costs of work-related travel expenses if they claim a financial hardship. State Controller John Chiang has reported that many of these advances are left uncollected, leaving the state with millions in loans that are never repaid.

A 2009 audit by the controller found that 11 state agencies had $13.3 million in outstanding travel advances, and the agencies never collected the funds. The audit reviewed the 11 departments' revolving funds (funds, up to 3 percent of the size of a department's budget, that may be used for additional operational expenses) and found that of the $13.3 million identified by the departments, $4.1 million had been outstanding for more than 60 days. The controller concluded: "Generally, the prospect of collection diminishes as an account ages. When an agency is unable to collect after three years, the possibility of collection is remote."[46] At the 11 agencies, cash advances for work-related travel that had been outstanding for more than three years amounted to $543,461, the controller found.

"... many of these advances are left uncollected, leaving the state with millions in loans that are never repaid."

Governor Jerry Brown sought to fix the problem in 2011 when he issued an executive order to halt the practice. Governor Brown said: "It's shocking that the state has apparently failed to collect millions of dollars in salary and travel advances owed by state employees. This situation reinforces the worst stereotype of ineffective and inefficient government, and I have ordered state agencies to immediately investigate the backlog of uncollected debts and find every penny owed to taxpayers. State agencies must regain control of this program."

The executive order directed state agencies under the Brown administration to recoup lost funds by ensuring that revolving funds are repaid. The order asked the agencies to ensure that an expense claim is filed and cleared within 30 days, and stated that if advances are not cleared within the 30 days, the funds should be deducted from the employee's next paycheck, as allowed by the applicable bargaining agreement. While the executive order may prevent further outstanding liabilities from accruing at many state agencies, state and local governmental entities not affected by the executive order may not correct the problem.

Recommendation: The Legislature should codify Executive Order B-1-11 by modifying Government Code Section 16400, requiring each state agency to actively reclaim outstanding travel advances. Further, policymakers should, to the greatest extent possible, modify existing practices to require other state entities that are not under the governor's administration – such as the University of California, California State University, California Community Colleges, the Board of Equalization and others – to reclaim outstanding advances. The controller's audit found $13.3 million in uncollected accounts receivable at just 11 state agencies. If these changes were adopted by both state and local governments, California would see significant savings from a reduction of outstanding funds in accounts receivable. **Requiring all state and local government employees to comply with this provision would provide a significant cost savings, far surpassing the $13 million in savings identified by the controller.**

Revise Policies to Reduce Overtime Compensation – Significant Annual Savings

California pays billions of dollars in overtime to state employees. The Bureau of State Audits found that between fiscal years 2003-04 and 2007-08, state employees – excluding employees of the Department of Corrections and Rehabilitation – were paid $2.1 billion in overtime.[47]

The state auditor looked at five state departments – the California Highway Patrol, the Department of Forestry and Fire Protection, the Department of Veterans Affairs, the Department of Developmental Services, and the Department of Mental Health. While the California Highway Patrol paid the most overtime – approximately $448 million during the audit period – the second highest was CalFire, at nearly $425 million.[48] The Department of Mental Health also paid out a large amount of overtime, at approximately $303 million.

The auditor found that the Department of Mental Health paid nurses $31 million in overtime compensation in fiscal year 2007-08. On average, nurses at the department's facility in Napa were paid $78,000 in regular pay and $99,000 in overtime.[49] While the auditor noted that overtime pay for nurses may be reasonable because nurses serve a critical function within the department, there are few oversight policies in place to discourage employee overtime. Bargaining agreements covering the nurses discourage mandatory overtime, but there are no limits on voluntary overtime. The auditor noted that a revision to the department's policy could include ensuring that voluntary overtime hours are distributed evenly to employees, giving preference to employees with the least amount of overtime worked.

"California pays billions of dollars in overtime to state employees."

The auditor did not find any safety issues within the Department of Mental Health, but cited a 2004 study published in Health Affairs that discusses the dangers of health professionals working overtime. According to the study, employees who work substantial amounts of overtime are at increased risk of making medical errors, including errors in administering medication, charting, and transcription.

Recommendation: State and local governments should revise state policies on overtime compensation. The state auditor suggested that, in the case of the Department of Mental Health, an independent consultant should be hired to evaluate current staffing models for mental health hospitals. Since staffing issues appear to be a common problem among the state agencies that the auditor reviewed, the Legislature should consider studying the issue and obtaining broad staffing models that can be adopted by each state agency. **This change could result in significant savings, potentially in the billions of dollars.**

Mandate Alternate Work Week for Certain State Agencies – $4.8 Million in Annual Savings

Additional cost savings can be achieved through use of an alternative work week schedule at certain state agencies. When applied to an entire agency, a four-day work week can save the state money, improve efficiency and improve the environment by reducing carbon emissions and energy usage. Further, with alternative schedules, state agencies would not need as many employees to work overtime.

California currently offers employees the option of working a four-day work week. The work plan – called the Alternate Work Week Schedule (AWWS) – is managed by the Department of Personnel Administration (DPA). The program is a 40-hour work week, performed in four 10-hour days, Monday through Thursday. Another option allowed in the AWWS is the "9/8/80" schedule, in which every other Friday is taken off. Benefits of the alternative plans include improved employee morale and job satisfaction, extended hours of service to the public, decreased short-term absenteeism for medical and personal appointments, and an increase in carpools and public transit use.[50] However, because California's program is on case-by-case bases depending on whether an employee voluntarily adopts such a schedule, potential savings go unrealized.

Utah instituted a statewide four-day work week for all government agencies in 2008, and realized a first-year savings of $4.8 million, of which $4.1 million came from a significant reduction in overtime hours. The experience also supported the reports that a four-day work week improves morale, as 85 percent of state employees surveyed in Utah were "enthusiastic" about the alternate schedule.

A four-day work schedule also reduces energy consumption. When buildings are closed an extra day each week, heating, cooling, cleaning or lighting is not needed. By moving state agencies to a four-day work week, Utah reduced energy consumption 13 percent. Additionally, Utah state employees saved $6 million in gasoline costs because of reduced commutes. Because fewer state employees are traveling to work, problems associated with traffic conditions and road congestion also will decline.

Recommendation: California should mandate that certain state agencies switch to a four-day work week, where possible. The state can reduce energy costs, emissions and overtime – and improve employee morale – while saving a considerable amount of money through increased efficiency. If California implements a four-day work week similar to Utah's, it could expect much larger savings based upon the number of government employees in each state. **Based on Utah's savings, California could save an estimated $4.8 million annually by requiring certain state agencies to switch to a four-day alternative work week.**

Modify Job Classifications for Safety Officers – Considerable Annual Savings

California's state agencies and departments currently offer enhanced benefit packages to certain employees who are in "public safety" classifications. To be classified as a safety employee, an individual must be "actively engaged in protecting the public and be physically fit in order to accomplish this duty."[51]

Under existing law, most public employees are eligible for a retirement benefit based on a standard formula of 2 percent per year of service, once they reach 55 years of age. However, employees with a safety job classification may receive much higher benefits – up to 3 percent per year at age 50 (others are eligible for 2.5 percent or 3 percent at 55). Payroll data from June 2009 shows that 262,000 state employees were under the regular benefits package, while 78,000 employees had been granted a safety job classification.

The California Performance Review's report issued in 2004 suggested re-evaluating the criteria for issuing safety classifications.[52]

Recommendation: The governor should issue an executive order directing all state agencies and departments to evaluate existing job classifications and benefit packages. Agencies and departments should develop criteria for whether a position is a safety position that warrants an enhanced benefits package. **This change will result in considerable savings in future years.**

Adjust City Official Salaries to Reflect Cost of Living – Some Savings

Some local governments offer compensation to employees that exceeds the region's cost of living index, based on the size of the population and responsibilities of the position. The Placer County Grand Jury found in a 2009-10 report that municipalities in the county were paying city and town managers on a scale that is comparable to the salaries of city managers in the Bay Area, despite the fact that the cost of living in the Bay Area is 30 percent higher than in Placer County.[53]

The grand jury found that city budgets in Placer County were, on average, $155 million less than cities in the Bay Area, yet city managers in Placer County are paid more than their counterparts in the Bay Area. When using the cost of living indexes to determine a relative salary comparison, the grand jury found that the salary for Roseville's city manager was similar to the average pay for city managers in the Bay Area.

Recommendation: Local governments should re-evaluate compensation and payroll for city and town managers and other employees. Compensation should be based on factors including market forces, a city or town's population, size of budget, cost of living and number of government employees. **Changing existing compensation policies would result in significant savings.**

Chapter Four: Revenue Enhancements

California has a number of untapped revenue opportunities. With state and local governments facing massive budget problems, alternative revenue sources that do not hinder economic growth may offer a way out reducing critical services.

Addressing areas such as the underground economy and unpaid taxes (also known as the "tax gap") and offering taxpayers more options for complying with state and local tax laws can reduce the amount of uncollected taxes currently identified by the state as accounts receivable. Other revenue sources also would alleviate pressure on the state budget.

Policymakers should seek out innovative strategies that enhance existing revenue. A number of revenue enhancements also would increase private-sector employment in California.

REVENUE ENHANCEMENTS

Proposal	Jurisdiction	Change Needed	Fiscal Impact
Reform Payment Options to Reduce Accounts Receivable	Board of Equalization, Employment Development Department, Franchise Tax Board	Increase flexibility to encourage taxpayers to resolve outstanding tax debts.	$2.3 billion in one-time revenue; Additional long-term revenue.
Allow Private Investment in Alternative Drilling	State of California	Allow private entities to invest in onshore extended reach drilling.	Between $275 million to $665 million in new revenue annually, averaged over a 30-year production life.
Improve Excise Tax Compliance for Tobacco-Related Products	Board of Equalization	Reduce excise tax evasion for tobacco-related products.	$212 million in annual revenue
Increase Lottery Sales and Education Funding	California State Lottery	Increase the percentage of state lottery revenue used for prizes, by reducing administrative and operational expenditures.	$195 million in annual revenue
Sell Advertisements on Dynamic Messaging Highway Signs	Department of Transportation	Direct Caltrans to work with the Federal Highway Administration to sell advertisements on dynamic messaging highway signs.	$150 million in annual revenue
Allow School Districts to Place Ads on School Buses	Department of Education	Authorize local school districts to sell advertising space on school buses.	$31 million in annual revenue
Place Advertisements on State Websites	State of California	Authorize state agencies to utilize Internet advertising to generate revenue for certain state websites.	Additional revenue expected
Create HIV/AIDS Electronic Reporting Database	California Department of Public Health – Office of AIDS	Create an electronic database to increase competitiveness for federal loans and grants to support HIV/AIDS testing and prevention programs.	More than $10 million annually in additional federal funds

TOTAL FISCAL IMPACT: More than $3.17 billion in additional one-time and annual revenue.

Reform Payment Options to Reduce Accounts Receivable – $2.3 Billion in One-Time Revenues; Additional Long-Term Revenues

California's three tax agencies – the Franchise Tax Board, the Board of Equalization and the Employment Development Department – have more than $23.12 billion in accounts receivable, according to the State Controller's Office. Much of this uncollected tax debt illustrates the impact of the recession, as many taxpayers are unable to pay what they owe due to financial hardship.

In 2009, Senate Bill 16 of the fourth extraordinary session required state agencies to submit an annual report to the state controller detailing accounts receivable and discharged accounts. (Accounts receivable cases occur when taxpayers are unable to pay their taxes. Discharged accounts are for cases when a taxpayer cannot be identified or contacted. For example, if a taxpayer leaves the country or state, yet still has outstanding tax liabilities owed to the state, the liability to the state will be "discharged." If that taxpayer re-enters California, the account will be reactivated. A discharged account is different than an account that may be "written off." An account is "written off" if the tax agency believes the outstanding taxes will never be collected, such as when a taxpayer dies without any assets.)

As of June 30, 2010, the three tax agencies reported the following accounts receivable:

- Franchise Tax Board – $12.83 billion.
- Board of Equalization – $7.34 billion.
- Employment Development Dept. – $2.96 billion.

The Controller's Office also found that discharged accounts at the three tax agencies amounted to more than $1.5 billion during the 2009-10 fiscal year:

- Franchise Tax Board – $1.4 billion.
- Board of Equalization – $57 million.
- Employment Development Dept. – $58.38 million.

According to the tax agencies, the primary reasons that taxes go uncollected relate to lack of staff or training within the agencies, an inability to locate those who owe taxes, or an individual's inability to pay, especially in light of the state's unemployment problem. According to the agencies' reports, there are 1,592 employees dedicated to accounts receivable collections – 810 at Franchise Tax Board, 421 at the Board of Equalization and 361 at Employment Development Department. Each agency is able to leverage employer withholding, termination of benefits, warrants, fines, penalties, license suspensions, levies and liens on property to enforce compliance. To collect unpaid taxes, the agencies also can utilize either an installed payment agreement or an offer-in-compromise.

"California's three tax agencies – the Franchise Tax Board, the Board of Equalization and the Employment Development Department – have more than $23.12 billion in accounts receivable ..."

An offer-in-compromise allows taxpayers to pay their outstanding tax liability in an amount that is less than what they owe. If the agency accepts a taxpayer's offer, it will release the taxpayer from any liens or penalties associated with the outstanding tax debt. One issue with the current program is that some taxpayers are unable to participate in an offer-in-comprise because they are unable to transfer funds electronically. Other taxpayers (such as those who operate in the underground economy) may not have a bank account at a financial institution, and therefore are unable to participate in the program.

An installment payment agreement is a tool the tax agencies use to collect payments from taxpayers who cannot afford to pay the full amount of taxes at one time. Once a taxpayer sets up an installment payment plan with the tax agency, he or she must make payments through an electronic funds transfer. Such payment plans can be more expensive to taxpayers, because the agency will add interest and penalties. Board of Equalization Publication 54 states: "While you are making payments on your tax or fee debt through an installment payment agreement, we will continue to charge interest on the unpaid portion of the tax or fee liability. The interest rate on a bank loan or a cash advance on your credit card may be lower than the combination of penalties and interest that we charge on unpaid billings."

"Tax agencies should be permitted to be flexible and proactive in accepting offers ..."

Interest has not always been applied to the BOE's accounts receivable. In 2002, the BOE implemented an eight-month program to receive unpaid liabilities at a lesser amount than what was owed.[54] While the program was not called an "amnesty program," the BOE was authorized to provide relief to taxpayers by canceling all penalties and interest if the underlying tax liability was paid in full. As a result, the BOE received 1,641 applications and a total of $7.3 million. If a similar program were adopted, the state may be able to significantly reduce its accounts receivable.

Recommendation: The Legislature should revamp the offers-in-compromise program. Tax agencies should be permitted to be flexible and proactive in accepting offers, and the state should permit tax agencies to accept cash payments under an offer-in-compromise. When an offer is accepted, the state should be permitted – on a case-by-case basis – to forgive all interest and penalties and remove any liens. **If the state's tax agencies were to resolve at least 10 percent of their accounts receivable, the state potentially could receive $2.3 billion in taxes that already are owed.**

Allow Private Investment in Alternative Drilling – Between $275 Million to $665 Million Annually

California's natural resources hold the potential for bringing energy security, economic growth, and additional revenue to the state. The federal Bureau of Ocean Energy Management estimates that up to 12.6 billion barrels of recoverable oil lie underneath the Pacific Outer Continental Shelf (three miles and farther offshore).[55] The state does not publish official information on recoverable oil underneath state waters (within three miles of shoreline), but the California State Lands Commission estimates that the total reserve potential of undeveloped fields and prospects underneath state waters may range from 500 million to 1.2 billion barrel of oil, and additional "unproven" fields could increase this estimate by 50 percent to 100 percent.[56]

While California continues to prepare for a clean energy future, the state's energy policy can promote a diversified approach to meet today's energy needs by promoting innovative energy practices, such as onshore extended-reach drilling (ERD) to access oil and gas reserves deep below the seabed in state waters.

Onshore ERD is relatively new and successfully adopted approach to reaching untapped oil reserves below the ocean floor. With onshore ERD facilities, a drill rig is located onshore at a site that is approximately 25 acres in size. On the site, workers drill straight down several thousand feet. Once the drill finishes drilling vertically, the drill bit will be turned toward the coast, and will drill horizontally several miles out below the ocean floor. The drill will then access untapped oil and gas reserves deep below the ocean floor (i.e., about a mile underneath state ocean waters), without adding equipment or additional risks to marine environments.

Onshore extended-reach drilling will provide many advantages to California.

- **No Impact on Marine Habitats.** Onshore-ERD drills from a land-based site (as much as a mile inland from the coast) far beneath environmentally sensitive offshore and coastal areas, leaving marine habitats and shoreline estuaries undisturbed, and does not breach or disturb the ocean floor. Furthermore, the onshore locations can be selected in remote areas that are not accessible or visible to the public.

- **Reduced Risk of Marine Spills.** Each barrel of oil produced in California via onshore-ERD equates to one less barrel that must be transported by tanker from other parts of the world.

- **No Ocean Discharge.** Water generated from the production of oil and gas can be treated onsite and discharged underground in compliance with State Water Quality Control Board requirements, with no ocean discharge.

Deployment of onshore ERD to produce the known reserves underneath state waters could generate billions of dollars in additional non-tax revenue for the state through royalties collected on every barrel produced. Thousands of jobs will be generated from the construction and operation of the facilities. Local governments also would benefit from enhanced property tax valuations, more local jobs and additional revenue.

Recommendation: Allow private entities to deploy onshore extended-reach drilling to access the reserves underneath state waters. **By fully tapping into these known but undeveloped state reserves, California could gain a minimum $275 million to $665 million in new revenue annually, averaged over a 30 year production life.**

Improve Excise Tax Compliance for Tobacco-Related Products – $212 Million Annually in Additional Revenue

The California economy loses an estimated $650 million annually due to cigarette and tobacco smuggling.[57] This loss is comprised of the amount lost in excise tax revenue not collected on smuggled cigarettes and tobacco, as well as the net negative impact on California businesses from out-of-state sales. Smuggling has developed as a way to deliver low-cost cigarettes and tobacco to California consumers by avoiding state taxes.

Taxes on tobacco-related products differ slightly based on the type of product. For example, cigarettes are taxed by the state at $0.87 for each package of 20 cigarettes, while taxes on tobacco-related products, such as cigars and chewing tobacco, are 31.73 percent of the wholesale cost.[58]

For cigarettes, the Board of Equalization reports that casual tax evasion results in the loss of tax revenue for 5 percent of all total cigarette consumption, or $57 million in lost tax revenue. Untaxed purchases occur over the Internet, through mail order, in other states and in other countries. Meanwhile, commercial cigarette tax evasion is done primarily through organized criminal activities, and results in an estimated $125 million in lost tax revenue. The total amount of excise tax revenue lost in 2005-06 as a result of cigarette smuggling was an estimated $182 million.

Similarly, for other tobacco products, consumer and retail tobacco excise tax evasion is estimated to result in lost revenue of $94 million annually – $7 million of which is attributable to casual, out-of-state purchases, and $87 million to criminal activities intended to evade taxes.

Recommendation: The Legislature should direct the Board of Equalization to improve compliance and enforcement of state excise taxes on cigarettes and tobacco products. Excise taxes on tobacco generate critical revenue for the state budget and for various cancer research programs sponsored by the state. California should seek to recoup any lost funds attributed to criminal activities. Legislation may be devised to discourage smuggling and increase excise tax enforcement. **If the state strengthens the enforcement of cigarette and tobacco excise tax compliance and reduces criminal tax evasion, California could obtain a net increase of $212 million annually in tax revenue without any tax rate increase.**

Increase Lottery Sales and Education Funding – $750 Million to $1.2 Billion in Additional Revenue Over Five Years

The California State Lottery, created by voters in 1984 with passage of Proposition 37, has never generated substantive revenue for K-12 schools, as many hoped it would. Currently, the state lottery generates $3 billion in ticket sales, pays out about $1.6 billion in prizes, operates on a budget of approximately $400 million, and is able to allocate a little more than $1 billion for education. Lottery funds account for just 1 percent of all education dollars.[59]

"Research by the Milken Institute shows that California's lottery 'has historically underperformed relative to the national average.'"

Proposition 37 established guidelines for how the state directs lottery funds. The measure requires that 50 percent of lottery funds be spent on prizes and 16 percent on operating expenses, and that the remaining funds be directed to school districts, community colleges, the University of California and the California State University system.

Research by the Milken Institute shows that California's lottery "has historically underperformed relative to the national average."[60] In terms of the number of sales, excluding those made at video lottery terminals, California ranks 28th in the nation, with per capita sales at $94.

The percentage of prizes that the California State Lottery awards is comparatively low when compared with other state lotteries. In 2006, the California State Lottery prize payout was 53.9 percent, Arizona was 55.3 percent, New York was 59.4 percent, Colorado was 60.1 percent, Texas was 61.2 percent, and Massachusetts was 71.9 percent.

Despite historic trends, California's lottery obtained a 21 percent increase in instant sales in 2011.[61] This growth may be attributed to program changes that occurred in 2010. AB 142, authored by Assemblywoman Mary Hayashi, helped reform California's lottery by modifying the allocation formula of the system. The changes increased the amount of prizes that could be paid out, with the hope that the changes would increase the overall amount of revenue that could be paid to schools.

Some proposals put forth in recent years have suggested modifying the lottery further by modernizing certain practices and technology. By making changes to the lottery's management system to reduce operating costs and increase sales, the state lottery could increase its current revenue by $750 million to $1.2 billion over the next five years, based on industry estimates. One approach to increasing revenue has been used by Scientific Games International (SGI) through the Cooperative Services Program (CSP).

The CSP, developed in 1985 for the New York state lottery, has been successful in increasing lottery revenue in a number of states. Programs designed by SGI in Georgia, Florida, Pennsylvania, South Carolina and Tennessee all have exceeded California's average weekly sales. Such a program is complex and includes the design, manufacturing and distribution of instant games; no comprehensive CSP-type program has been implemented by a state lottery alone. SGI currently has a contract with the California State Lottery until 2013.

Recommendation: The Legislature should direct the California State Lottery to adopt a CSP or a similar program. When voters approved Proposition 37 in 1984, they hoped that an alternative funding source would be developed to provide needed dollars for public education. The state lottery has had a track record of underperformance. The Legislature should seek to modernize and develop this potential revenue source. **Based on industry estimates, improved management and modernization of California's lottery could generate an additional $750 million to $1.2 billion in lottery revenue over the next five years, or approximately $195 million annually.**

Sell Advertisements on Dynamic Messaging Highway Signs – $150 Million Annually in Additional Revenue

Some states may begin advertising on dynamic messaging highway signs as a new funding source to provide money for infrastructure improvements.

Highways in the Bay Area, most of Southern California and Sacramento have changeable message signs (CMS). These are the signs used to show travel times and road conditions and to inform motorists of any AMBER Alert or national security messages. While current Federal Highway Administration regulations prohibit advertising on such signs, these signs hold the potential for a very lucrative advertising arena that could generate significant revenue for states.

In 2010, California, in partnership with the Florida and Pennsylvania transportation departments, submitted a waiver application to the federal government to implement a demonstration project that would install dynamic messaging signs (DMS) on state highways. Such signs have more advanced visual displays, allowing for LED advertisements. However, the issue was never pursued.

Some groups have raised safety concerns, noting the possibility of driver distraction. However, no conclusive research has shown that digital billboards are distracting or endanger motorists.

Recommendation: California should seek permission from the federal government to launch a pilot program for highway advertising, and should reopen talks with Pennsylvania and Florida to jointly seek a federal waiver. This change could generate much-needed resources to improve California's highway infrastructure. **The California Department of Transportation estimates that highway advertising may generate approximately $150 million annually.** [62]

Allow School Districts to Place Ads on School Buses – $31 Million Annually in Additional Revenue

A number of states have adopted legislation allowing school districts to add advertising to school buses, raising revenue of approximately $500,000 over four years for every 100 buses with advertising.[63]

Arizona, Colorado, New Jersey, New Mexico, Tennessee and Texas all permit school districts to place advertising on the sides of school buses. Lawmakers in Florida, Kentucky, Oklahoma, Utah and Washington are considering permitting districts to place ads on buses.

"Arizona, Colorado, New Jersey, New Mexico, Tennessee and Texas all permit school districts to place advertising on the sides of school buses."

School districts have had to consider which types of advertising may be permissible for student buses. For example, a number of districts have raised concerns about exposing young children to ads involving political messages, religion, alcohol, tobacco or sexually explicit content. In response to these concerns, most of the school districts that allow advertising have banned these types of ads from school buses.

Recommendation: Approximately 3 million California students receive transportation to and from school on more than 25,000 school buses that operate within the state.[64] While school busing has been subject to budget cuts in the 2011-12 budget year, many schools still provide transportation services to students. To ensure that school districts have adequate resources to provide transportation for children, the Legislature should allow districts to place selective advertisements on school buses.

If advertising contracts generate revenue similar to that in New Jersey, California could obtain $31 million annually.[65]

Place Advertisements on State Websites – Additional Revenue Expected

Placement of advertisements on state websites would help provide California with additional revenue. Advertisements could include displays, sponsorships and business listings, and other non-intrusive ads that provide information to website visitors.

Federal regulations bar advertising on government websites that use ".gov" in the web address; however, popular state websites can change their domain names to use a ".com" or ".org" address so they may obtain ad revenue. California already has done this with "VisitCalifornia.com," which focuses on tourism and has some advertising. Legislators should review state websites and ask the question, "What purpose does the '.gov' domain name serve on this website?" In many instances, domain name restrictions inhibit the state's ability to obtain additional revenue.

"Placement of advertisements on state websites would help provide California with additional revenue."

The State of Washington has a pilot program that uses this method to advertise targeted ads on its transportation website.[66] Using specific guidelines, the state barred obscene, indecent, discriminatory, religious, political and other controversial advertisements. The state also excluded other types of questionable content.[67] Other states that sell advertising space on state websites include Oregon,[68] Illinois,[69] Florida[70] and Massachusetts.[71]

The Washington State Department of Transportation (WSDOT) released a report in 2010 detailing the benefits of its Internet advertising program.[72] WSDOT found that display ads could generate between $3 and $7 per 1,000 page views. The department found that website sponsorships can generate between $5,000 and $20,000 per location. A sponsorship is an integrated advertisement that is located in the content of the website. These types of ads usually are sold for set amounts of time. Another option included in WSDOT's report was to include business listings or link ads, similar to a "Yellow Pages" listing. These ads include a name and place of a business with a link to the business' website. These ads generate between $100 and $300 per listing.

In 2005, SB 828 authorized California's Office of State Publishing to accept paid advertisements in materials printed by the state (paid political advertisements are prohibited).[73] The office notes that an advantage of advertising on state publications is that most of the publications are directed to a very specific market.[74] This is an indication of how valuable the space could be to prospective advertising vendors, and this same value may be obtained from online advertising.

Display advertising of the type the state could use on a website accounted for 38 percent of Internet advertising revenue in 2010 – a 14 percent increase from the previous year, for a total of $9.9 billion.[75] Internet display advertising, while second to search-related advertising, is steadily gaining ground as print media becomes digital. Internet advertising has surpassed newspapers as a medium for generating advertising revenue. And, while the market for advertising on television is still larger than advertising online, the Internet's ability to produce revenue is growing at a faster rate than that of cable and broadcast television. The combination of market-specific advertising and the increasing popularity of Internet advertising create an opportunity for a significant revenue source.

Recommendation: The state should utilize space on its popular websites for select advertisements, in order to bring in additional revenue. This can be done by reviewing which websites would be the best fit for targeted advertising, and then acquiring all relevant ".com" or ".org" variations of the current ".gov" addresses of the websites. The state then can begin utilizing available advertisement-ready web space by entering into partnerships with potential advertisers. **By allowing online advertising, California could expect to generate additional revenue.**

Create HIV/AIDS Electronic Reporting Database – More Than $10 Million Annually in Additional Federal Funds

California spends about $1.2 billion annually on medical treatment, education, testing and prevention programs related to HIV/AIDS. The federal government provides grant funding to offset some of these costs, based on the number of Californians living with HIV/AIDS identified by the state's database.

The system tracks more than 80 medical conditions, including tuberculosis, hepatitis, measles, sexually transmitted diseases, HIV and AIDS. Based on data collected from this system, the state allocates public health resources where they are most critically needed. Current law requires medical laboratories to report to the state system utilizing "traceable mail," such as registered mail or a hand-delivered courier service.

California's surveillance system does not sufficiently account for all individuals in California with HIV/AIDS, and as a result, the state has lost out on federal funding worth several million to the low tens of millions of dollars annually.

Recommendation: Create an electronic database to monitor HIV/AIDS cases. By tracking all identifiable cases, California will become more competitive when applying for federal grants, and likely will be able to obtain additional federal funding for state services. **This change may result in additional revenue in the range of tens of millions of dollars annually.**[76]

Chapter Five: Education

California's education policies can form the building blocks for a successful future. How we educate the next generation of leaders and innovators will have a profound impact on California's economy and development in the 21st century.

Policymakers need to review education policies to identify where efficiency can be improved. Education policies such as state mandates on local school districts and expenditures on non-instructional costs ought to be re-evaluated.

Student achievement can be shaped by how we spend tax dollars in the classroom and how we help great teachers educate future generations. By increasing efficiency and developing strategic policies, the state can improve the quality of education for all students.

Provide Flexibility to Schools to Determine Classroom Size – $1 Billion in Annual Savings

California's Class Size Reduction (CSR) program was created in 1996 as part of the state budget act (SB 1777 of 1996), with the goal of increasing educational achievement for students in kindergarten through third grade. However, research by the Department of Education and others has concluded that the program has not significantly improved student success.

The program requires participating school districts to maintain an average class size of no more than 20 students. Before CSR was implemented, the statewide average of class sizes was 28.6 students.

While the program was quickly implemented for grades K-3, some implementation problems occurred in schools that had higher percentages of minority and low-income student populations. Urban school districts found it difficult to acquire additional classrooms to accommodate the smaller classes.[77]

In 2002, at the request of the Department of Education, the American Institutes for Research, RAND, Policy Analysis for California Education (PACE), WestEd, and EdSource published a report that concluded: "It is difficult to conclude whether

EDUCATION

Proposal	Jurisdiction	Change Needed	Fiscal Impact
Provide Flexibility to Schools to Determine Classroom Sizes	Department of Education	Allow school districts flexibility to determine how many students should be in a classroom for grades K-3.	$1 billion in annual savings
Reform the Community College Fee Waiver Program	California Community Colleges	Reform the California Community College Board of Governors' fee waiver program.	$700 million in annual savings
Eliminate Non-Essential Education Mandates	Department of Education	Eliminate certain non-essential programs mandated by state government.	$39 million in annual savings
Reduce Non-Instructional Education Costs	Local School Districts	Increase flexibility of local school districts to contract out for various services.	Significant annual savings
Modify Existing Policies on Teacher Layoffs	Local School Districts	Eliminate policies requiring newest teachers to be the first to be laid off.	Significant annual savings
TOTAL FISCAL IMPACT: More than $1.73 billion in annual savings.			

California's popular program to reduce the size of kindergarten through third-grade classes is responsible for recent increases in achievement test scores by elementary school students in the state."[78]

There still are many questions about the impact of class size reduction. While some improvements have occurred in statewide standardized testing, there is limited evidence to link improved test scores to class size reduction.[79] EdSource has reported that class size reduction does not result in meaningful differences in second- or third-grade test score improvements. Also, it is difficult for researchers to distinguish between the impacts that other education policies have had on test scores, versus the impact from reduced class sizes.

While teachers report having to take less time to manage behavior problems or focus students to be "on task" in smaller classes, teachers in larger classes and smaller classes report spending the same amount of time on language arts and mathematics curriculum. Class size reduction may be very popular with parents and teachers, but empirical studies have not provided any conclusive evidence of the benefits.

Another cost-effective alternative to class-size reduction would be to implement an early-late program where half of students in grades K-3 come or leave one-hour early either before or after school. This will reduce the number of students in a classroom and will allow teachers to focus on reading instruction. Early-late programs are another way of reducing class sizes and improving classroom instruction.

Recommendation: State officials should modify the class size reduction program. As class sizes were reduced, many school districts reported using other education program funding to pay for the associated costs. Facility maintenance, administrative services, teacher development, classroom technology programs, music programs, art programs and libraries all saw fewer dollars as a result of California's class size reduction efforts. While California's class size reduction program remains extremely popular, some modifications should be made to increase flexibility for school districts. The Legislature should modify Education Code Section 52120 to allow schools flexibility in determining the size of classes in grades K-3. The governor's 2012-13 January budget proposal also suggested that the class size reduction program should be modified to allow for more flexibility at the local level. By making the class size reduction program more flexible, the state will give teachers additional resources to help students attain success. **These modifications may result in savings of up to $1 billion annually.**

Reform the Community College Fee Waiver Program – $700 Million in Annual Savings

The California Community Colleges Board of Governors' fee waiver program was enacted to help low-income students by waiving fees for those who meet specified qualifications. The program is funded by Proposition 98, using the general fund to backfill districts for the revenue lost to waivers. The program's cost was $253 million in 2008-09, and the program has continued to grow as additional fees are waived, according to the LAO.[80] The total fees waived now exceed the amount of fees collected.[81]

"If fewer waivers were granted, the California Community College system could afford to lower fees, since the overall number of students paying for courses would increase."

Estimates for the 2011-12 budget year show that $316 million in fees will be collected, and $614 million will be waived. The LAO notes that the 63 percent of fees being waived are attributable both to declining incomes due to the recession, and to the recent increase in enrollment fees. Waivers issued to mitigate higher fees have caused revenue to fall short by $103 million in the 2011-12 budget.[82]

A student may be eligible for a fee waiver if the student or his or her parents receive need-based cash assistance from a program such as CalWORKs; if the family's adjusted gross income is at or below 150 percent of the federal poverty level; or if the cost to attend exceeds the student's federally determined ability to pay.

Although community college fees have increased in recent years, the amount of revenue collected remains virtually flat. Community college fees are set to increase from $36 per unit to $46 per unit starting in the 2012-13 school year. This increase will be offset by the projected increase in fee waivers by $240 million.[83] Since fees started rising in 2008-09 from $20 to the present $46 per unit, the fee waiver program has grown by $602 million.[84] Thus, fee increases do not result in additional revenue for the community college system.

If fewer waivers were granted, the California Community College system could afford to lower fees, since the overall number of students paying for courses would increase. If the community colleges made courses more affordable by lowering fees to $20, and reduced the waiver program to 2008-09 levels, California could expect the cost of the fee waiver program to decrease by an estimated $600 million.

The LAO makes several recommendations to control the rising costs of this $855 million program:

- **Eliminate Erroneous Waiver Grants.** Increased program costs can be attributed to several problems with qualification and verification. Students may be given waivers even if they are not pursuing a certificate or degree, and there is no limit to the number of units students can take or the amount of time students can take pursuing a degree. Students with failing grades may receive waivers for up to two academic years before the waivers are prohibited.

- **Eliminate Fee Waivers for Students on Probation.** The Student Success Task Force recommended that students be disqualified from receiving fee waivers if they are placed on probation for two consecutive terms.[85] Probation is defined as a failure to achieve a 2.0 grade point average or complete at least half the units attempted.

- **Eliminate Fee Waivers for Students Who Fail to Declare a Major.** Rescind fee waivers if students fail to declare a major or "program of study" by the end of their third term, or by the time they earn more than 110 units. The LAO also suggests that there be a minimum threshold of units required before declaring a major. The LAO estimates that these changes would result in savings of $50 million to $100 million per year.

- **Consider a Student's Ability to Pay.** Community colleges can adopt several federal guidelines when determining fee waivers, such as a dependent student's income when he or she applies for a fee waiver. Current policy requires that only parents' income be considered, whereas federal policy requires students' income to be considered as well.

- **Replace Fee Waiver Application Forms With FAFSA Forms.** Students should use only the Free Application for Federal Student Aid (FAFSA) form when applying for a fee waiver. By accepting the FAFSA form rather than requiring a separate fee waiver application, California Community Colleges would grant fee waivers only to students who already are in need of financial assistance. From this change, the LAO estimates: 1) fee waivers would be processed more efficiently, since FAFSAs are reviewed and returned within 72 hours; 2) student aid offices would have more information to determine financial eligibility; and 3) the state would receive $50 million in additional funds from federal Pell grants, because fewer students would receive fee waivers and thus more would qualify for federal student aid.

Recommendation: Reform the community college fee waiver program by adopting academic progress requirements; consider actual student needs before providing a full fee waiver; and use the FAFSA form to determine if students should be eligible for fee waivers. **By eliminating fee waivers for students who fail to declare a major, requiring students to submit a FAFSA application when obtaining a fee waiver, and by modifying eligibility for fee waivers, California could save an estimated $700 million annually.**

Eliminate Non-Essential Education Mandates – $39 Million in Annual Savings

California has more than 50 state statutes that require local school districts and community colleges to operate certain programs or activities. The cost of these mandates amounts to more than $400 million annually.[86] The state constitution requires the state to pay for local programs mandated by state law, under Proposition 4 of 1979.

As school districts are forced to meet the requirements of these mandates, many are left with the task of performing activities that don't always benefit students or improve education. To complicate matters, the state in the past has deferred payments for these mandates; however in 2008, after the state had deferred more than $3 billion in payments, a superior court ruled that such deferrals were unconstitutional.[87]

The Legislature has the ability to review mandates that have become law and determine whether such mandates should remain in law. The Legislature also has the power to suspend mandates on a year-to-year basis, rather than eliminating them outright.

The Legislative Analyst's Office has opined that mandates may not always serve a necessary function. The LAO reported: "Mandated activities do not necessarily serve a more compelling purpose than other policies that are not mandated. Oftentimes, a law becomes a mandate not because it serves an essential function, but because the original legislation did not phrase its requirements very carefully. Further, many mandated activities are of altogether questionable value."

An LAO review of existing state mandates found that the following nine are ineffective:

- **Truancy Programs – $22.78 million.** Districts must send notices to parents when a child is absent or tardy three or more times. When a child is truant three or more times, the district must send a form letter to the parents, request a conference with the parents and classify the student as habitually truant. The state is required to reimburse local school districts for the "form letter" at a cost of $17 per letter. Annual truancy program costs for the state amount to approximately $22.78 million. The federal government requires school districts to develop similar policies as well.

- **Mandatory Expulsion Notification – $6.8 million.** Districts must keep records of all students who have had suspensions or expulsions during the last three years. The district is required to inform teachers of such past student activities. The program costs the state approximately $6.8 million annually.

- **Scoliosis Screening – $3.6 million.** Districts must screen all students in seventh and eighth grades for scoliosis. The state pays for the screening process and training of staff, as needed. Studies have shown that such screenings are costly and do not sufficiently identify students in need of treatment. This mandate is currently suspended.
- **Physical Performance Testing – $2.3 million.** The state mandates that

districts purchase equipment, assess student performance and analyze data and communicate with the state about physical fitness assessments. Data from physical performance testing is not used to improve education practices. Testing requirements are in addition to other state statutes that require two years of physical education in high school and other curriculum standards in middle school. The program costs the state approximately $2.3 million annually.

- **Law Enforcement Notifications – $1.8 million.** Districts must file a report with law enforcement when a student violates sections of the state penal code, and must maintain records on the violation. While this is a state mandate, many districts do this already if the crime is committed on campus, due to liability concerns. This mandate costs the state approximately $1.8 million annually.

- **Chemical Removal – $1.2 million.** Districts must hire consultants to inventory hazardous chemicals in science classrooms and remove those that are outdated but are not yet considered "dangerous," as determined by the Health and Safety Code. State law requires all "dangerous" chemicals to be removed. This mandate, which currently is suspended, costs the state approximately $1.2 million annually.

- **Caregiver Affidavits – $975,000.** Districts must have affidavit procedures in place and must approve qualified affidavits to allow students under the care of another to attend school. Outside of this mandate, schools are allowed to admit students living with a caregiver. When schools increase attendance, the school receives additional funding, and this provides an incentive for schools to admit additional students. This mandate costs the state approximately $975,000 annually.

- **Occasional Student Residency Verification – $348,000.** Districts are required to verify a student's legal residency at various times throughout the school year. This requirement is in addition to an annual residency verification process that schools also must conduct. The district then conducts appeals for students who are identified as not being legal residents. While districts are required to perform annual verifications, random checks may not be efficient. This mandate, which currently is suspended, costs the state approximately $348,000 per year.

- **Community College Campus Safety – $195,000.** Community college public safety divisions are required to develop agreements with local law enforcement agencies to determine who is responsible for investigating violent crimes that occur on campus. Since many campuses already have agreements in place with local law enforcement, this mandate could be replaced with a statute authorizing community colleges to keep existing policies in place, and to update the policies at their discretion. This mandate costs the state approximately $195,000 per year.

Recommendation: By eliminating certain non-essential mandates, the state would give local school districts more flexibility to determine how to use existing resources. While suspending certain mandates instead of eliminating them is an option the Legislature could pursue, the LAO suggests that suspending mandates creates confusion by requiring school districts to cross-reference suspended mandates with state code sections. The governor's 2012-13 January budget proposes to eliminate half of the education mandates and fund the remaining mandates with block grant funding. Schools still may be required to maintain these programs due to other laws, but mandated state reimbursement for these programs no longer would be necessary. **If these mandates were eliminated, when including potential savings from currently suspended mandates that may be reinstated in the future, the state may save up to $39 million annually.**

Reduce Non-Instructional Education Costs – Significant Annual Savings

Existing law limits the ability of school districts and community college districts to obtain low-cost services, because few purchasing alternatives are made accessible to K-14 schools. Because current law does not allow flexibility to schools, non-instructional services such as transportation, construction, maintenance and food services are much more costly.

School districts and community college districts are limited in their ability to contract out for services due to passage of SB 1419, which was authored by Senator Richard Alarcon in 2002. Senator Alarcon said the bill was necessary to ensure that school districts evaluated service contracts before contracting out. The bill was sponsored by the California School Employees Association.

In an analysis of the bill, the Senate Education Committee wrote: "This bill restricts contracting for the purpose of achieving cost savings, outlining those costs to be included or excluded, and specifying a variety of related requirements. Could any school district reasonably meet these requirements? What are the resulting cost implications for districts?" The committee also noted that school districts and community college districts would lose local control, since schools at the time could bargain contracts based on specified conditions, priorities and needs in a given district.

The California School Boards Association opposed the legislation, noting that it would "create significant cost and administrative burdens, and the restrictions on contracting out could require an expansion of school districts' work forces."[88] Other opponents of the bill included the Los Angeles Unified School District and the San Francisco Unified School District.

Recommendation: The Legislature should repeal Sections 45103.1 and 88003.1 of the California Education Code, which limit the ability of local school districts and community college districts to determine how best to provide children with cost-effective non-instructional services. Local school districts and community colleges should be given the flexibility to determine if contracting out improves non-instructional services and provides quality, cost-effective services. **This change could result in significant savings for local school districts and community college districts.**

Modify Existing Policies on Teacher Layoffs – Significant Annual Savings

California's state policy of laying off teachers in order of seniority, beginning with the newest teachers, regardless of ability and effectiveness, is costly for taxpayers and harmful to student achievement.

Education Code Section 44955 requires that the most recently hired teachers must be laid off first.[89] This policy severely impacts effective teaching, and does not take into consideration quality teaching or student achievement. Teachers with seniority generally receive higher compensation than newer teachers. Existing law protects employees from being terminated regardless of performance, and over time, as they receive mandatory raises, their seniority also increases. There is no performance-based firing system in the California

"Thirty-three states currently do not use seniority as the sole basis for mandatory lay-offs ... "

education system, and under the current system, several quality teachers could be laid off at the cost savings of just one bad teacher with seniority. This leads to fewer available teachers and lower quality performance in the classrooms.

The Los Angeles Times reported in 2010 that 190 math and English teachers who were among the top fifth of teachers at raising scores in the state were laid off because of seniority laws.[90] Another 400 teachers who ranked in the top 40 percent of raising scores also were laid off. *The Times* also reported that the Los Angeles Unified School District would have kept 25 percent more teachers during layoffs in 2010 had existing seniority rules not been in place.

The "first in, last out" policy disproportionately harms disadvantaged communities. According to the National School Boards Association Council of School Attorneys, seniority improves a teacher's ability to transfer to another school.[91] On average, schools from disadvantaged communities do not score as well on academic tests, and for this reason they often are difficult to staff. These factors result in a high number of teacher transfers to schools in more affluent areas. This is why schools in disadvantaged communities often are staffed with newly hired teachers. When a school district determines that it must cut costs, and therefore issues mandatory lay-offs, schools in disadvantaged communities must lay off many more teachers than those in wealthier areas. This creates teacher shortages in low-income areas. For example, during the 2010 school year in South Los Angeles, nearly 10 percent of teachers were laid off. Sixteen schools in Los Angeles lost at least 25 percent of their teaching staff, and 15 of these schools were in South or Central Los Angeles.

Seniority-based layoffs are not the best approach for reducing staffing, according to a recent study by the Legislative Analyst's Office.[92] The LAO recommended that schools make employment decisions based on teacher performance, which currently is not a factor when schools make lay-offs. The LAO suggested that other criteria be used as well, such as student performance, teacher quality, classroom management, teacher attendance and truancy, leadership roles, contributions to the school community, degrees and specializations. Thirty-three states currently do not use seniority as the sole basis for mandatory lay-offs, and Arizona, Colorado and Oklahoma require teacher performance to be used as a factor when deciding which teachers are laid off.

Adjusting statewide policies can be difficult. One alternative may be to allow local school districts to modify lay-off policies based on performance and evaluation, rather than seniority. This gives districts flexibility in determining which performance standards best address the needs of their schools.

Recommendation: California's "first in, last out" policy raises the cost of education, lowers teaching performance in the classroom, and harms students who lose great teachers, while keeping underperforming teachers in service. **The state should end seniority-based lay-offs and adopt a performance-based system that improves classroom education and maximizes the use of education funding.**

Chapter Six: Justice, Corrections and the Courts

Outdated operations and management have led to judicial and corrections systems that are inefficient and ripe for improvement. California's Department of Corrections and Rehabilitation is the largest state agency, with approximately 66,000 employees, and oversees the largest corrections population in the country.

Improved efficiencies and management can improve inmate care and help address operational deficiencies. Policymakers should consider public-private partnerships and modernization to improve correctional and judicial functions.

As certain correctional duties are transferred to local governments due to realignment, local governments have a rare opportunity to increase efficiency and improve how inmate populations are housed and cared for.

Utilize Electronic Court Reporting Technologies – $111 Million in Annual Savings

California law requires certified shorthand reporters to be used to create and transcribe official court documents. The court reporters own their transcription equipment and the transcripts they produce. The courts must purchase the transcripts from the court reporters, and this can be costly.

In other state and federal courts – including the U.S. Supreme Court – electronic services such as video and/or audio are used to record testimony, and can be used to monitor statements by court officials.

To test the effective use of electronic court reporting in California, AB 825 (Harris) was signed into law (Chapter 373, Statutes of 1986). During a three-year pilot period from 1991 to 1994,

JUSTICE, CORRECTIONS AND THE COURTS

Proposal	Jurisdiction	Change Needed	Fiscal Impact
Utilize Electronic Court Reporting Technologies	Judicial Branch	Statutory change eliminating requirement that certified shorthand reporters be used to create and transcribe official court proceedings. Instead, allow video and/or audio recordings of court hearings.	$111 million in annual savings
Increase Use of Public-Private Partnerships in State's Corrections System	Department of Corrections and Rehabilitation	Develop public-private partnership with private prison providers to enhance existing correctional capacity.	$111 million in annual savings
Establish Competitive Bidding Process for Court Security	Judicial Branch	Adopt state statutes that allow trial courts to enact competitive contracts with various law enforcement (both public and private) to reduce trial court security costs.	$100 million in annual savings
Reform Oversight of Medically Incapacitated Inmates	Department of Corrections and Rehabilitation	Revise state guidelines for how terminally ill and medically incapacitated inmates are incarcerated.	$46 million in annual savings
TOTAL FISCAL IMPACT: More than $368 million in annual savings.			

electronic court reporting was demonstrated to be a cost-effective tool that resulted in a savings of $28,000 for courtrooms using audio and $42,000 for courtrooms using video.

Further, use of electronic court reporters may improve trial proceedings. The courts often are faced with a short supply of certified shorthand reporters. In 2005, the Judicial Council released its findings from the Reporting of the Record Taskforce, which concluded that the number of court reporters has been dwindling since the mid-1990s and currently cannot meet the courts' needs.

Recommendation: Eliminate state statutes requiring courts to use certified shorthand reporters. Technology can allow the courts to save significant resources and address the shortfall in the number of available court reporters. **The Legislative Analyst's Office estimates that by allowing California's courts to utilize electronic court reporting technology, the state potentially could save $111 million annually.**[93]

Increase Use of Public-Private Partnerships in State's Corrections System – $111 million in Annual Savings

Correction costs may be reduced by expanding the use of public-private partnerships (PPPs). Recent analysis of the state's correction infrastructure has raised concerns regarding prison overcrowding and the quality of care and rehabilitation services provided to inmates.

California currently operates at 137 percent of its prison system's design capacity, which contributes to the state having to spend $47,000 per inmate, per year. This figure puts California's per inmate spending 50 percent higher than the average of other states. California spends almost twice as much on inmates housed in a state facility ($133 per day), as it spends on inmates housed in private, out-of-state prisons ($72 per day).[94]

"... if the state transferred 5,000 low- to medium-security inmates to private facilities, it would save between $111 million and $120 million for the first year of the transfers."

Construction costs for private correctional facilities also are lower, since construction generally is completed faster. For example, most states complete construction on a prison within 12 months to 18 months, on average.[95] In contrast, private construction firms complete such projects in half the time.

PPPs offer improvements in both inmate care and facility quality. Facility quality is measured by a prison's use of technology, as well as design techniques that make monitoring more effective, which reduces the need for extra personnel.[96] Quality of operations is measured by the American Correctional Association (ACA), an independent group that monitors prisons to ensure that they meet federal standards. The ACA uses location visits, examinations and audits to determine if a prison meets accreditation standards.[97] Private prisons often use ACA training standards for their personnel, and these standards are more stringent than most of the state's procedures.[98]

PPPs also offer local communities higher tax revenue and employment opportunities. Private prisons lower unemployment, increase local property taxes (since private prisons pay property taxes, while public prisons do not), and also increase corporate income and payroll taxes.[99]

If California utilized PPPs for even a portion of its corrections system by outsourcing some operations, the state would see significant annual savings. Studies show that if the state transferred 5,000 low- to medium-security inmates to private facilities, it would save between $111 million and $120 million for the first year of the transfers.[100] Due to per-inmate spending and money saved on operational costs, the state would save an estimated $1.7 billion to $1.8 billion after five years. Transferring inmates in small increments would allow private facilities to respond to the demand for prison transfers, and prepare for the influx of prisoners on a yearly basis.

Recommendation: California should utilize PPPs for its correctional system. Partnering with private facilities will lead to significant cost savings, improvements in the quality of inmate care, and relief for overcrowding in the prison system. **This change would result in a savings of at least $111 million annually, if as few as 5,000 inmates were transferred to a private facility.**

Establish Competitive Bidding Process for Court Security – $100 Million in Annual Savings

Trial courts currently must contract with their local sheriff's department for court security. This gives the courts little ability to negotiate, since a county board of supervisors is responsible for negotiating the salaries and benefits for local law enforcement.

In recent years, trial court security costs have more than doubled – from $263 million in 1999-00 to $450 million in 2006-07.[101] The increase is largely attributed to higher salaries for sheriff's deputies. Because the contracting process does not allow trial courts to contract with other law enforcement agencies, such as the California Highway Patrol, or even private security firms, the courts cannot contain their security costs or control budget expenditures.

Recommendation: To provide California's trial courts with greater control over their budgets, the Legislature should amend state statutes to authorize trial courts to gather competitive bids from both public law enforcement and private security services. **The Legislative Analyst's Office expects that after one-time costs for equipment and analysis have been covered, this change would result in an annual savings of $100 million.**[102]

Reform Oversight of Medically Incapacitated Inmates – $46 Million in Annual Savings

The Department of Corrections and Rehabilitation (CDCR) incurs significant costs to provide health care for incapacitated inmates. Health care provided to inmates is either primary health care, which is provided to an inmate at a state institution, or specialty health care, which is provided by contractors.[103] In 2007-08, specialty health care services cost $529 million. The actual costs of the specialty care services can be attributed to a very limited population.

As inmates age, health care costs continue to rise. In fiscal year 2007-08, the CDCR incurred specialty health care costs of $122,300 on average for 72 inmates who died while incarcerated that fiscal year. For one inmate, the state spent $150,000 on health care costs, while health care costs for another inmate cost more than $1 million.[104] Generally, these older inmates are inmates who have been convicted of three serious crimes under California's three strikes law. Adding to the cost, the state must guard and transport inmates to and from health care facilities.

State law currently allows the CDCR to recommend to a court that an inmate be considered for early release if the inmate is not considered a public safety risk and is either terminally ill with an estimated maximum of six months to live or medically incapacitated. Once both the correctional and prison health care officials concur that the inmate should be recommended for release, they forward the information to a judge, who makes the final decision. According to the California Prison Health Care Services receiver, this is a rare process and few inmates are ever released.

Recommendation: To reduce state costs and ensure that correctional funds are used to effectively rehabilitate California's prison population, the state should develop procedures to reduce the cost of overseeing incapacitated inmates. Senate Bill 1399 of 2009 included an analysis noting that 32 inmates who are the best candidates for medical parole cost the state approximately $46 million annually. Of the 32 inmates, 21 were incapacitated and housed in nursing facilities or hospitals and 11 were incapacitated in correctional treatment centers and bed-ridden.[105] **Reforms could result in a savings of approximately $46 million annually.**

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Chapter Seven: Health and Human Services

The state has a responsibility to provide quality services to Californians in need. Unfortunately, inefficiency limits the level of assistance that is offered to these individuals. Programs that offer hope to disadvantaged communities and individuals in need should be reformed to improve services through increased efficiency.

Reducing fraud in health and human services programs will result in improved patient care and better delivery of social services. A number of examples within the state's foster care system highlight cases where children held in state custody were mistreated because of lack of oversight and ineffective policies. Improving such policies in the foster care system, and within other social services, is critical.

Reform In-Home Supportive Services – $768 Million in Annual Savings

In-Home Supportive Services (IHSS) is one of the fastest-growing social service programs, according to the Legislative Analyst's Office.[106] IHSS provides care for 422,933 people, and costs an estimated $5.3 billion per year. The program has grown an estimated 9 percent per year since 2000 and has doubled in the past decade.[107] Unfortunately, inefficiency and fraud plague the system. A 2011 San Diego grand jury report estimates that only 20 percent of those receiving services are considered severely impaired and unable to care for themselves. When IHSS was created, only individuals who were severely impaired were able to receive services.

The consumer-driven aspect of IHSS makes it very vulnerable to fraud. Recipients of the program hire, supervise and manage their caregivers, and sign their time cards. The recipient often is hindered in properly evaluating his or her caregiver because of impairment. Even though the recipient manages the employee-employer relationship, a caseworker manages the payroll. The disconnect between who is paying and who is accounting for hours adds to the amount of fraud within the IHSS program, the San Diego grand jury noted. The problem is exacerbated by the workload of each caseworker. Since caseworkers are responsible for 300 to 350 cases each, it is difficult for them to adequately respond to reports of fraud. Current law makes it

CHAPTER SEVEN: HEALTH AND HUMAN SERVICES

Proposal	Jurisdiction	Change Needed	Fiscal Impact
Reform In-Home Supportive Services	Department of Social Services	Reform In-Home Supportive Services to improve patient care for Californians who rely on the program most.	$768 million in annual savings
Reform Proposition 99's Anti-Smoking Programs	Department of Health Care Services	Amend Proposition 99 to narrow the scope of what may be funded with tobacco tax revenue, to ensure that funds are spent effectively.	$70 million in annual savings
Improve Oversight of Foster Care Program	Department of Social Services	Require foster care providers to identify and document children's treatment needs to justify the level of placement they receive.	$60 million in annual savings

Total Fiscal Impact: More than $898 million in annual savings.

difficult for caseworkers to investigate fraud.

A number of major problems have been identified within IHSS' qualification requirements. The San Diego grand jury found that of the 25,000 recipients in the county, only 5,000 were considered severely impaired without in-home assistance. State law provides IHSS eligibility to individuals with a "functional index" score of 2.0 and above.[108] The LAO has suggested increasing the minimum qualification threshold, noting that a score of 3.0 would allow individuals who need assistance in bathing to obtain IHSS.[109] Such changes could save the state $650 million annually. Reforming IHSS' qualification standards may be one strategy to ensure that more resources are available for individuals with critical needs.

While IHSS typically is funded through a combination of federal, state and local funds, when recipients' relatives are hired as caregivers, IHSS recipients may receive only state and local funds. The San Diego grand jury found that of the 25,000 people receiving IHSS services in the county in 2011, 67 percent were receiving care from family members or friends. Similar findings from the LAO show that about 72 percent of IHSS recipients have a family relative as their primary provider.[110] The grand jury also found that the hiring of relatives posed additional problems in monitoring fraud. Since family members are not required to be registered in the IHSS database, they do not have to meet the minimum requirements necessary to become a trained caregiver. This allows individuals with criminal records to qualify and become eligible IHSS providers.

"IHSS provides care for 422,933 people and costs an estimated $5.3 billion per year. The program has grown an estimated 9 percent per year since 2000 and has doubled in the past decade.

Also, federal funds can be better utilized if management of IHSS is changed from the Department of Social Services to the Department of Health Services. The California Performance Review (CPR) concluded that problems are created because the department responsible for administering IHSS is different than the department that secures federal reimbursements for the program.[111] Millions in federal funds are lost due to inefficiencies resulting from administrative problems. According to the CPR, if IHSS was reorganized into the Department of Health Services, federal reimbursements would increase almost 30 percent and the state would save approximately $32 million in maintenance and operations costs. Delays in receiving federal reimbursements caused by split IHSS responsibilities also result in millions of dollars in investment interest being lost. The CPR noted that in 2003, the inter-agency agreement between the Department of Social Services and the Department of Health Services was delayed eight months. The delay kept the Department of Health Services from requesting a $700 million reimbursement to the general fund. The estimated loss on investment interest was $42 million.

Severely disabled IHSS recipients may receive an "advance pay option," which allows them to receive payment for services before services are actually performed. The LAO has reported that if IHSS recipients were required to hire non-relatives and the advance payment option was eliminated, federal funding would result in general fund savings of $30 million and county savings of $18 million annually. IHSS has nearly doubled in size since that report, so actual savings today would be much greater.

The LAO recommends solving some of the oversight problems by reforming the IHSS time card system.[112] Time cards should be turned in within one month of services being rendered, as opposed to all being turned in at the end of the year. This would lighten the load on caseworkers, ensuring that they are able to evaluate all of their cases appropriately. Secondly, LAO recommends making caregivers indicate exact hours that they work. Under current law, caregivers need only list the number of hours worked. This should be changed to make caregivers indicate the exact time of day and date that the hours were worked. This would give IHSS more substantial evidence to investigate when examining for fraud. LAO estimates that instituting these time card reforms would result in substantial savings by eliminating fraud and empowering caseworkers.

Recommendation: The Legislature should enact legislation to reform the IHSS program:

- Maximize use of federal funds by eliminating the advance pay option, and modify criteria for how relatives are hired as caregivers. This would result in a savings of approximately $48 million.

- Make IHSS more efficient and maximize interest gained from federal reimbursements by transferring IHSS from the Department of Social Services to the Department of Health Services. This would result in a savings of more than $70 million.

- Reduce fraud and improve quality of care by reforming time card requirements. Require that caregivers provide specific times worked on their time cards, and that the time cards are given to IHSS within one month of rendering service. This would result in a significant savings.

- Modify the minimum eligibility threshold for receiving full services. This would result in a savings of approximately $650 million.

By enacting the above reforms, the state could improve efficiency and focus resources on services provided to Californians who rely on IHSS. **These reforms would result in a significant savings for both state and local government of at least $768 million annually.**

Reform Proposition 99's Anti-Smoking Programs – $70 million in Annual Savings

Proposition 99, enacted by voters in 1988, imposed a $0.25 tax on each pack of cigarettes sold in California. The measure specifies that the revenue from the tax shall be allocated into six special fund accounts.[113] The six accounts include funding for anti-smoking education to reduce or prevent tobacco use among children; treatment programs for low-income individuals who cannot afford a hospital visit or physician services because they are not covered by insurance or a federal program; research for tobacco-related illnesses; environmental restoration; state and local parks and recreation facilities; and an unallocated portion to be used for any other purpose related to the other funds.

Since adoption of the 1988 measure, tobacco tax revenue has steadily declined, leaving the programs and services funded by Proposition 99 with inadequate resources. Further voter-approved initiatives, such as Proposition 10 of 1998, helped backfill lost revenue, but the backfill has been insufficient to continue stable funding.

A 2010 analysis of the cigarette tax by the Board of Equalization said that tobacco taxes will continue to decline. The BOE attributed the decline in revenue over the past 30 years to the fact that "many smokers have quit smoking or smoke fewer cigarettes and proportionately smaller shares of the population have started smoking."[114]

The Legislative Analyst's Office has stated that Proposition 99 funds "are used to support dozens of separate state programs and services administered by 12 separate state departments." The analyst concluded that Proposition 99 tobacco tax revenue cannot keep pace with the caseloads of the existing programs.

"... Proposition 99 tobacco tax revenue cannot keep pace with the caseloads of the existing programs."

Recommendation: The legislative analyst has recommended eliminating some of the Proposition 99-funded programs to narrow the scope of programs covered by the measure.[115] Proposition 99 authorizes the Legislature (upon four-fifths approval of each house) to make statutory changes to the initiative, if the changes further the purpose of the initiative. One possible change may be to consolidate the six accounts funded by Proposition 99 by amending Revenue and Taxation Code Section 30121. For example, the two healthcare accounts and the research account could be consolidated into a single account, and the

Public Resources Account and the Unallocated Account could be eliminated, which would leave only two accounts funded by Proposition 99. **This change would result in state government administrative savings of approximately $70 million annually.**[116]

Improve Oversight of Foster Care – $60 Million in Annual Savings

More than 64,000 children are under the care of California's foster care program.[117] The Little Hoover Commission reported: "Children in foster care are routinely denied adequate education, and mental and physical health care. For approximately one out of four children who enter the system each year, foster care is not temporary at all, but a heartless limbo – childhoods squandered by an unaccountable bureaucracy. For a significant number of children, foster care is not healing at all, but inflicts additional trauma on young hearts and minds. In the most severe cases, children are hurt, threatened and even killed while in the State's care. And while county agencies intercede when parents fail, the system is less diligent in policing itself."[118]

The Department of Social Services controls the pay rate of Child Welfare Services, which places children in need of foster care in homes. When placing a child in a foster care program, the state assigns varying priority levels to different locations where a child may be placed. First, a child will be placed in the home of his or her noncustodial parent or family; if that option is unavailable, the child will be placed with a licensed foster home, or a home certified by a foster family agency. If a foster home is unavailable, the department will place the child in a group home or a specialized treatment facility.

Despite a cost difference, Child Welfare Services does not distinguish between a licensed foster home and a home certified by a foster family agency when making placement decisions. When a child is placed in a home certified by foster family agencies, the state's costs generally increase by $1,000 on average. The higher costs can be attributed to the 40 percent fee paid to the agency for administrative costs.[119]

From 1999 to 2010, the number of children placed in homes certified by foster family agencies increased from 18 percent of all cases to 29 percent of all cases. During this same period, placements in licensed foster family homes decreased.

According to the state auditor, this increase in placements at homes certified by foster family agencies has not been the result of necessity, but rather for convenience and a lack of oversight. The Department of Social Services does not require Child Welfare Services to document the treatment needs of children to justify the necessity of being placed with foster family agencies. Children are being placed in foster agency homes even if they do not qualify for that type of placement.

A University of California at Davis study found that more children in the foster care system should have been placed with an agency to meet the child's treatment needs.[120] An estimated loss of $327 million occurred between 2001 and 2010 because children without treatment needs were improperly placed in foster homes that have an ability to provide a higher level of care.

"For approximately one out of four children who enter the system each year, foster care is not temporary at all, but a heartless limbo ..."
– The Little Hoover Commission

Recommendation: The Legislature should ensure that children who are placed in the foster care system are protected, and that their needs are properly identified. Lawmakers can improve the foster care system by amending Health and Safety Code Sections 1500 to make requirements for placement more specific. The Bureau of State Audits recommends requiring Child Welfare Services to document in writing the needs of each child being placed, to justify how the child qualifies for the placement. **This change could result in more accurate foster child placement, saving the state more than $60 million annually and possibly more in future years.**[121]

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