CITIZENS'
Budget
2003–05

A 10-Point Plan to Balance the California Budget and Protect Quality-of-Life Priorities

Reason

The Performance Institute

Project Director: Carl DeMaio

Part 4

Streamline and Reorganize State Government through Consolidation and E-Government

"Today each citizen pays the price of a government which has developed haphazardly in a piecemeal response to the pressure of growth. We are burdened by layer upon layer of patchwork agencies, and confusing lines of authority. The time has come for us to modernize State Government and improve its service to our people."

—Former Calif. Governor Edmund G. "Pat" Brown (D), First Inaugural Address, January 5, 1959

Summary of Citizen Budget Recommendations in This Section:

1. **Restructure State Government** by creating seven main departments to integrate and coordinate programs in key mission areas in government for a savings of $770 million.
2. **Consolidate Independent Boards and Commissions** into the seven main Departments to create one-stop decision making, program management and service delivery.
3. Create a **State Administrative Services Office** run by the Department of Finance to provide one-stop administrative services to all state agencies—as well as sell services on a fee basis to other federal, state and local governments.
4. Expand the use of **Information Technology and E-Government** to streamline agency business processes, achieve cost efficiencies and improve citizen service.
5. Hire contractors under a 12 month, **"Share-in-savings" Reorganization Implementation Contract** to manage the reorganization of the state government.

California Budget FACTS:



140

Number of state-wide boards or commissions in California today

15%

Conservative estimate in overhead and operational savings achieved by consolidation of two similar agencies or programs

$770 million

Amount of annual savings identified by the Citizens' Budget from comprehensive reorganization of the state government

The words captured in the quotation above from former California Gov. Pat Brown in 1959 are truer today than ever. Indeed, every governor since Pat Brown—including Gray Davis—has called for substantial reform in how the California state government is structured. In reality, the Governor has very little authority over the agencies in the executive branch. This undermines accountability for decision-making and creates a major challenge for effectively managing the state.

In the last section, the Citizens' Budget laid out a performance-based methodology for evaluating the relevance, performance and management of each program. Once a program is deemed "worthy" of taxpayer investment, where it is housed can have a substantial impact on how much it costs and how much it can accomplish. Indeed, it is clear that if California is to improve its fiscal situation and deliver improved performance, it will need to consolidate overlapping and duplicative functions, streamline its operations, and improve coordination of effort.



Why So Many Boards and Commissions in California?

"Nearly one-fifth of the $64 million Gov. Gray Davis has raised for his reelection, about $12 million, has been directed to his campaign by people he appointed to state boards and commissions.

At least 75 of the roughly 140 boards that have statewide authority include at least one Davis donor. Many have a majority who are contributors and some are filled exclusively with political donors, according to a *Times* analysis."

Los Angeles Times, October 13, 2002

Strategically Redesigning California State Government

Consolidation efforts can save the state money and improve services to the taxpayer. First off, every agency in the state has certain "fixed costs" and "overhead" necessary to operate. Each agency has to have public affairs, legal counsel, human resource management, information technology, office space, administrative support, etc. By consolidating similar programs into one agency, significant overhead cost savings can be achieved.

More important than just the cost savings, coordination can be improved dramatically. With duplicative and overlapping programs, it is hard for the right hand to know what the left hand is doing. In many cases, duplicative activities and initiatives are funded—or even worse, conflicting efforts are funded.

Our restructuring plan would shrink the number of cabinet-level agencies from twelve to seven.[36] This reorganization does NOT affect legislative responsibilities, but it does reorganize the organizations performing those responsibilities into a more strategic and coordinated structure. The remaining seven cabinet-level departments reflect the core "quality-of-life" responsibilities to be carried out by state government:

- Education
- Health and Human Services
- Transportation and Infrastructure
- Commerce, Agriculture and Consumer Services
- Public Safety and Corrections
- Finance, Technology and Personnel
- Environment Protection and Natural Resources Management

California state government should go well beyond just consolidating programs into seven super-departments. Instead, as each department takes shape, a top-down strategic planning process should be used



Source: Carl DeMaio, Performance Institute

to strategically "architect" the new department to be outcome-oriented. The graphic of "Building a Results-oriented Agency" reflects the design process suggested by the Citizens' Budget. Using this process, each department would create a mission and define outcome goals. Next, strategies for achieving results would be defined, complete with intermediate outcome performance goals to track success. Then, programs would be "grouped" under each strategy (e.g. improve health care for children; reduce violent crime; improve habitat for species conservation; etc.). Each program would have to demonstrate how it worked in a coordinated way with the other programs in its groupings. Based on priority and effectiveness, the new programs would be given a piece of the budget resources allocated to achieving each strategy.

Reforming Commissions and Boards

A myriad of commissions and boards has been created to address specific needs, but oftentimes they are rarely, if ever, evaluated to ensure that a need for them still exists or that similar services are not provided by other agencies. The Citizens' Budget suggests that "advisory" Commissions and Boards be eliminated and that "policy-making" boards be placed under one of the seven departments created in the reorganization plan. Where necessary, political independence of boards and commissions will be preserved in how reporting relationships within the department are structured.



Shared Administrative Services in Consolidation Plan

- Travel
- Payroll
- Recruitment
- Employee Training
- Information Technology
- Financial Management
- Contracting and Acquisition
- Records Management
- Fleet/Vehicle Management
- Facilities Management

Consolidating Administrative Services into a "Shared Services" Operation

The final element of the reorganization of state government involves the streamlining and consolidation of certain "administrative" services. An example of reforming administrative services can be seen with the President's Management Agenda (PMA)—currently being implemented at the federal level.[37] The PMA maps out five federal government-wide goals to improve federal management and make government citizen-centered, results-oriented, and market-based. One of the Initiatives, Expanded Electronic Government, is designed to bring more services to the American citizen over the Internet, make government more efficient, and improve IT

management throughout the executive branch. Within this goal, the Office of Management and Budget outlined 24 initiatives under four categories for improvement: Government to Citizens, Government to Business, Government to Government, and Internal Efficiency and Effectiveness. The seven initiatives within the Internal Efficiency and Effectiveness category have been designated as areas where programs can be consolidated and efficiency can be improved government-wide.

These shared services within the federal government are necessary to each agency, yet not distinct to each agency, making it possible to merge each agency's office into one or two all-encompassing offices. Several of these federal initiatives can be "borrowed" by the state of California and implemented to streamline some government processes and save a substantial amount of resources. Several shared services that have provided the federal government with significant results and cost savings are:

- **e-Training:** Provides a single point of online training and strategic human capital development solutions for all federal employees, reducing instructor and travel costs and improving human capital management. The official federal Web site for training, GoLearn.gov, was launched in July and is the most visited e-training site in the world. Containing information on thousands of e-training courses, e-books, and career development resources, GoLearn.gov has already allowed over 30,000 federal employees to receive on-line training, reducing variable training costs to less than a penny per student.
- **Recruitment One-stop:** Outsources delivery of USAJOBS Federal Employment Information System to deliver state-of-the-art on-line recruitment services to job seekers, including intuitive job searching, on-line resume submission, applicant data-mining, and on-line feedback on status and eligibility. With Monster Government Solutions selected as the primary vendor, Recruitment One-stop's "single point of entry to respond to many job openings" functionality will improve customer satisfaction by simplifying the application process and reducing application times. It will also help agencies achieve the desired quality level of new hires and enhance agency response times.
- **e-Payroll:** Consolidates 22 federal payroll systems into two in order to simplify and standardize federal human resources/payroll policies and procedures to better integrate payroll, human resources, and finance functions. The federal government is projected to save $1.2 billion over the next 10 years by modernizing only two providers as opposed to 22.
- **e-Travel:** Consolidates, streamlines and automates the travel management function across the federal government by providing a common, Web-based, end-to-end travel management service. The service stands to transform travel planning, authorization and reservations, expense reporting, and claims and voucher reconciliation. It will leverage commercial travel management "best practices" to realize significant cost savings, improve service, and broaden the range of travel-related services available to federal travelers.
- **Integrated Acquisition Environment:** Designed to create a secure business environment that facilitates and supports cost-effective acquisition of goods and services by agencies, while eliminating inefficiencies in the current acquisition landscape. Through the initiative, common acquisition functions that can benefit all agencies, such as the maintenance of information about suppliers (e.g., capabilities, past performance histories) are managed as a shared service.
- **e-Records Management:** Provides policy guidance to help agencies to better manage their electronic records, so that records information can be effectively used to support timely and effective decision-making, enhance service delivery, and ensure accountability. Ultimately, this initiative will improve the government's ability to ensure the integrity of electronic records and related information that agencies require to meet their legal and internal business needs.



The proposal for California would be to implement these consolidated offices and then require state agencies to opt-in to these services or devise a business case and offer these services up to competition with the private sector for improved cost savings. Payroll Services will serve as an example of this process. Under the Citizens' Budget plan, the state will mandate that a state-wide Office of Payroll Services will be created to handle the payroll maintenance of every state agency. State agencies will then be given two options for managing payroll: either opting-in to the consolidated Office of Payroll Services, or developing a business case for keeping payroll in-house. Should the agency opt to develop a business case for its payroll services, the agency's payroll service must be entered into a competition with the private sector to determine cost efficiencies. If the agency can prove that its payroll services can be done in the most cost effective manner in-house after going through the development of a business case and a public/private competition, then the agency can maintain its own Office of Payroll. No matter which method an agency chooses, cost efficiencies are guaranteed through this process, allowing resources to be reallocated to other programs.

California can readily implement consolidated offices for each of the shared service examples that are being implemented by the federal government, as well as additional services that are done by state agencies. Piggybacking on the successes and cost savings being produced by the federal government, California's state government can benefit from the efficient and enhanced services, as well as the significant savings in resources, from the consolidation of shared services.[38]

Expanded Use of Information Technology and E-Government

The California state government already spends $2 billion each year on information technology purchases. (Indeed, the federal government alone spends roughly $54 billion annually on information technology services.) The Citizens' Budget does *not* propose increasing funding for information technology in the aggregate. After all, there is not a whole lot of room for budget increases in this budget! However, it is vital that the state stretch its information technology budget and demand accountability for results.

Using information technology in government is not about putting up pretty Web sites or posting irrelevant information online; it is also not about giving every state employee the fastest and best personal computer. Rather, it is about government making better use of technology to improve citizen service and improve government efficiency. It is about cutting government's time to make decisions from weeks or months to hours or days.

In order to ensure every dollar spent by the state on IT is results-oriented, the state should create in the Dept. of Finance a Director of Technology and e-government (patterned after a similar position in the U.S. Office of Management and Budget). The director would not only manage information technology services provided by the Dept. of Finance, but would also review each state program's use of technology to perform its mission. The director would have the authority to suspend poorly planned or managed IT projects and could sequester IT funds for cross-agency technology initiatives that would reduce the total cost of technology to the state. The result of this improved approach to technology management would be to focus IT spending to improve mission performance, reduce duplication, ensure information security, and enhance cooperation across traditional program silos.

Implementation and Cost Savings Under the California Government Reorganization Plan

The reorganization of the California state government would be modeled after the massive and historic reorganization of the federal government under the Homeland Security Act of 2002 (which reorganized 22 agencies and over 170,000 federal employees into the Dept. of Homeland Security.) In order to ensure effective implementation of the reorganization, a management firm would be hired under a 12 month "Share-in-savings" Reorganization Implementation Contract to manage the reorganization of the state government. The management firm would *not* be paid up front—and would be paid solely out of documented cost savings achieved by reorganizing the state government in a timely and effective manner. Even if the contract provided a 0.1 percent "share-in-savings" bonus, the contractor would receive $770,000 for its services.

What should emerge within each of the seven departments is a streamlined, integrated and coordinated organizational structure that maximizes the efficiency and performance of each program. In constructing the new state organizational chart, the Citizens' Budget estimates cost savings will total $770 million annually. These cost savings were calculated by taking the smaller budget of two agencies combined in our reorganization and estimating a 15 percent cost savings on the budget. At the federal government, overhead rates under OMB Circular A-76 are pegged at 12.5 percent of a program's budget, but this figure has been criticized as too low. Moreover, evidence from other consolidation projects demonstrates at least a 15 percent cost savings factor due to elimination of overhead, duplicative services, streamlining, etc.[39] By

taking cost savings based on the smaller of the budget of two or more agencies consolidated, we feel the $770 million figure is quite conservative.

Old vs. New Organizational Chart and Details

In this section, we provide a listing of the seven new departments, complete with mission statements and strategic goals for each, along with details on what existing state agencies and programs will be folded into these new entities. Finally, Appendix B provides cost savings estimates for each commission or department and includes some agencies not contained in the organizational charts.

Figure 11: A Maze of Overlapping Bureaucracy

The Old California State Government Chart

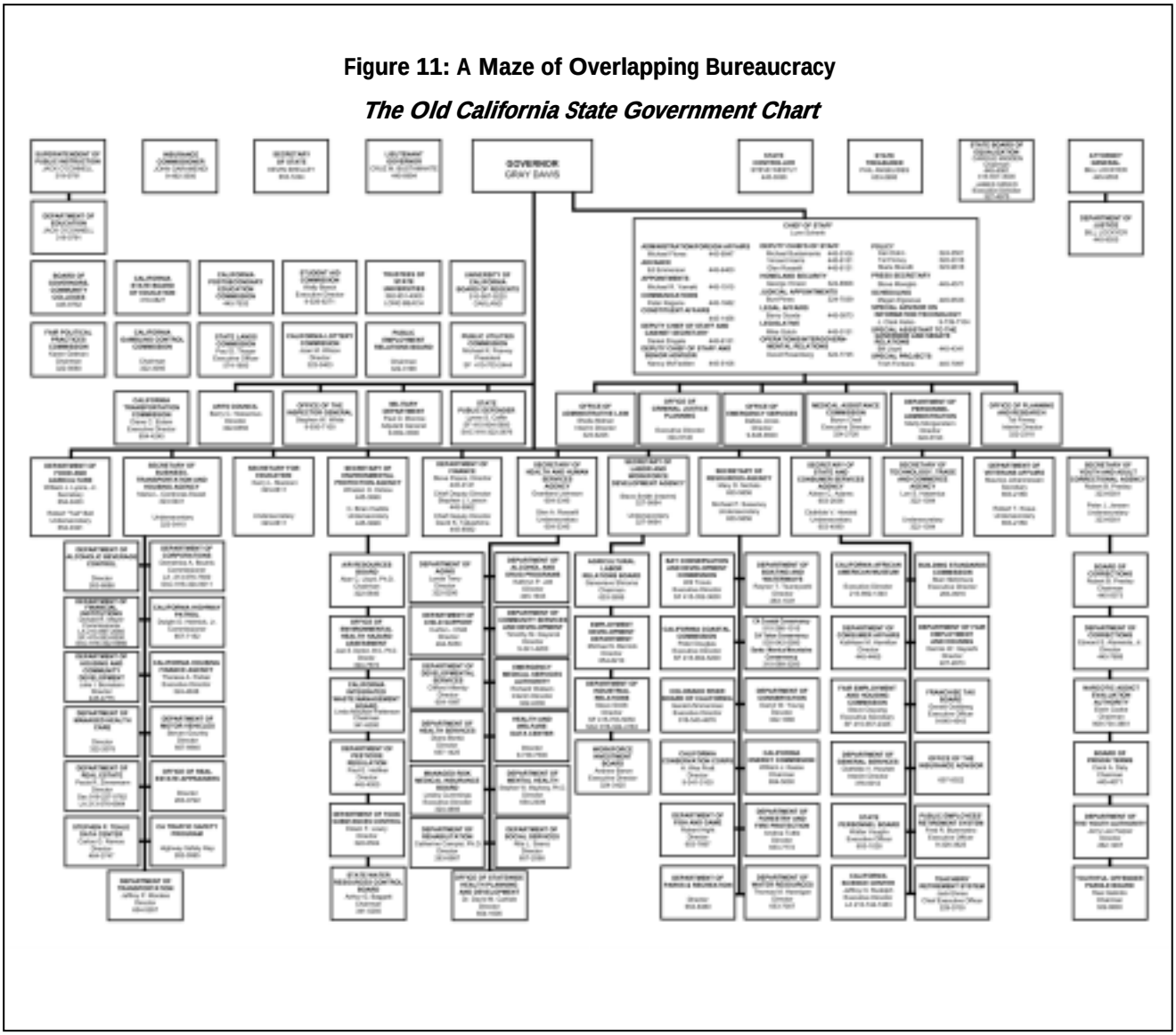
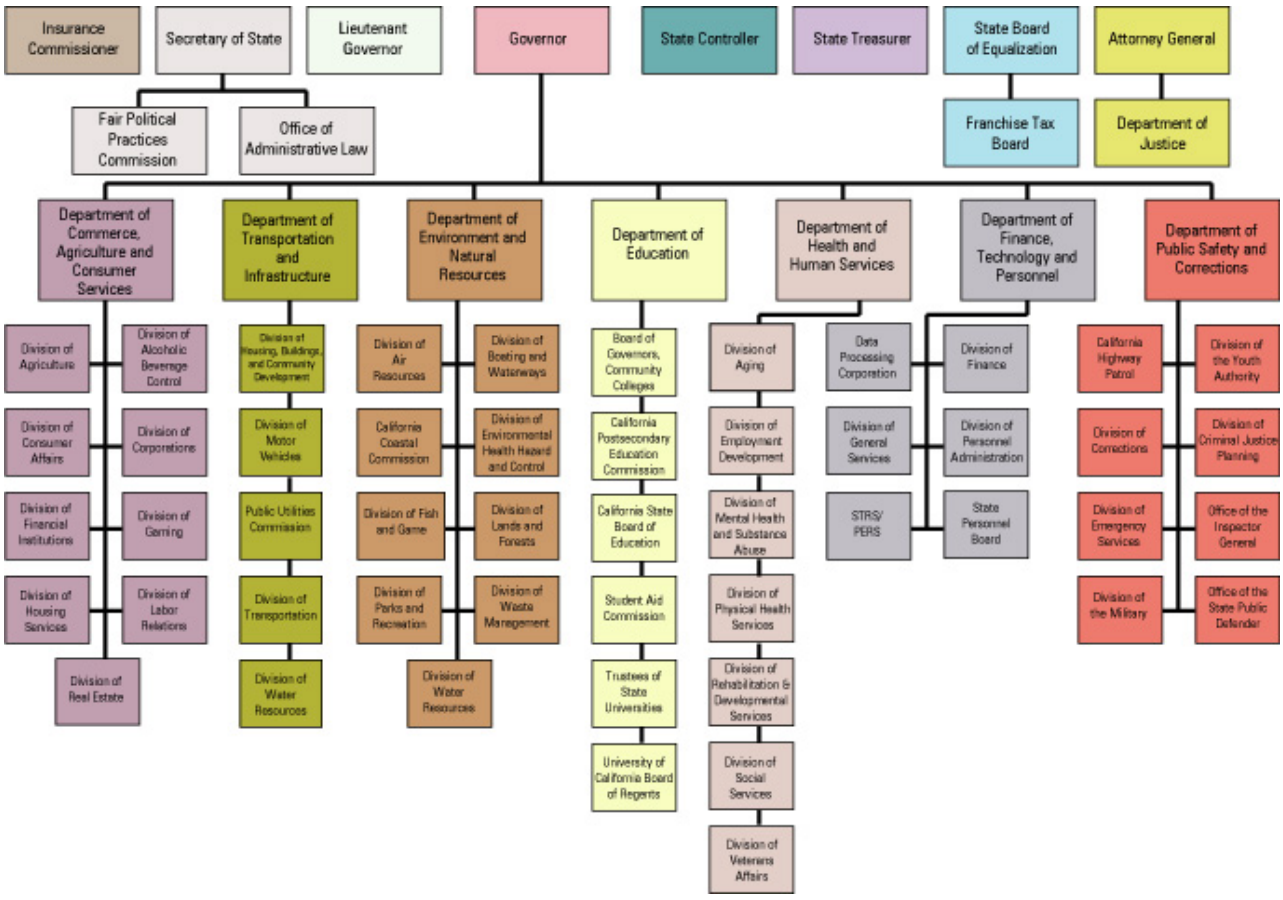


Figure 12: Strategic Redesign for Improved Efficiency

The New California State Government Chart



Department of Commerce, Agriculture, and Consumer Services

Mission Statement

The mission of the Department of Agriculture, Commerce, and Consumer Services is to promote fair markets to provide for stable commerce in California's agriculture, housing, and other industries.

Strategic Goals

- Ensuring that only safe food reaches the consumer;
- Protecting against invasion of exotic pests and diseases;
- Licensing professionals and regulating various industries, including the financial and real estate industries;
- Protecting consumers from fraud and professional misconduct;

- Monitoring the administration of workers' compensation claims;
- Mediating employee-employer disputes; and
- Regulating the gaming industry and administering the California Lottery.

New Division Names

This department consists of nine divisions, including the Division of Agriculture, the Division of Alcoholic Beverage Control, the Division of Consumer Affairs, the Division of Corporations, the Division of Financial Institutions, the Division of Gaming, the Division of Housing Services, the Division of Labor Relations, and the Division of Real Estate.

Where They Came From

The Department of Commerce, Agriculture, and Consumer Services (DCACS) consists of much of the Business, Transportation and Housing Agency's departments, although the transportation and public safety departments from that agency have been moved to the Department of Transportation and Infrastructure and the Department of Public Safety and Corrections, respectively. The Department of Food and Agriculture (renamed the Division of Agriculture) and the Technology, Trade and Commerce Agency have also been included here due to their influences on California commerce. The Agricultural Labor Relations Board has been folded into the Department of Industrial Relations (now the Division of Labor Relations) and moved to the DCACS as well. In addition, certain departments from the State and Consumer Services Agency have been moved here, including the Department of Consumer Affairs and the Department of Fair Employment and Housing (renamed the Division of Housing Services). Furthermore, the new department includes the state's gaming functions, which have been consolidated by integrating the California Horse Racing Board and the California Gambling Control Commission into the California Lottery Commission and naming the new organization the Division of Gaming. Finally, we agree with the Governor's proposal to eliminate funding for the Office of Real Estate Appraisers in FY 2003-04.

Department of Transportation and Infrastructure

Mission Statement

The mission of the Department of Transportation and Infrastructure is to provide Californians with safe, reliable and efficient roads and bridges, license drivers and transportation services throughout the state, and ensure reliable access to water, power, housing and other utilities.

Strategic Goals

- Improve efficiency, safety, mobility and operation of California State Highway System, as well as that portion of the Interstate Highway System within the state's boundaries;
- Ensure reliability and appropriate provision of key water, power and utility infrastructure; and
- Ensure safe buildings and housing are developed throughout the state.

New Division Names

This department consists of five divisions, including the Division of Housing, Buildings, and Community Development; the Division of Motor Vehicles; the Public Utilities Commission; the Division of Transportation; and the Division of Water Resources.

Where They Came From

The Department of Transportation and Infrastructure is comprised of the Department of Housing and Community Development (which now includes the Building Standards Commission and is renamed the Division of Housing, Buildings, and Community Development), the Department of Motor Vehicles, and the Department of Transportation (which now includes the California Transportation Commission) from the Business, Transportation and Housing Agency, as well as the Department of Water Resources (which now includes the Colorado River Board of California) from the Resources Agency and the Public Utilities Commission (which now includes the California Energy Commission from the Resources Agency and the California Consumer Power and Conservation Financing Authority).

Department of Environment and Natural Resources

Mission Statement

The mission of the Department of Environment and Natural Resources is to protect public health from environmental risks and safeguard the state's environmental resources.

Strategic Goals:

- Maintain quality, accessibility and safety at state parks, as well as the use of other state lands, bodies of water, and coastal regions;
- Reduce loss of property and life from wildland fire;
- Improve environmental outcomes for the state, including clean air, clean water, healthy lands, protected species, healthy oceans and sustainable development; and
- Facilitate sustainable use of California's natural resources.

New Division Names

This department consists of nine divisions, including the Division of Air Resources, the Division of Boating and Waterways, the California Coastal Commission, the Division of Environmental Health Hazard and Control, the Division of Fish and Game, the Division of Lands and Forests, the Division of Parks and Recreation, the Division of Waste Management, and the Division of Water Resources.

Where They Came From

The Department of Environment and Natural Resources is chiefly the result of a merger between the state's two environmental agencies, the Environmental Protection Agency and the Resources Agency. Many boards, commissions, and departments have been combined, however, to improve efficiency and eliminate duplicative functions. For example, from the Environmental Protection Agency, the Department of Toxic Substances and the Office of Environmental Health Hazard Assessment are combined to form the Division of Environmental Health Hazard and Control, and the Department of Pesticide Regulation is folded into the Department of Toxic Substances Control. From the Resources Agency, the San Francisco Bay Conservation and Development Commission, the California Tahoe Conservancy, the Santa Monica Mountains Conservancy, the California Conservation Corps, the State Lands Commission, the Department of Conservation, and the Department of Forestry and Fire Protection are combined to form the Division of Lands and Forests. In addition, the California Coastal Conservancy is folded into the California Coastal Commission.

Department of Education

Mission Statement

The mission of the Department of Education is to administer the state's public education system and to distribute state educational resources to local (primary education) public school districts and public secondary education institutions as directed by law.

Strategic Goals:

- Improve outcomes of students K-12 in math, science, reading and other achievement indices, and
- Ensure state population is "ready to work" with the latest skills needed to succeed in a 21st century economy.

New Division Names

This department consists of six divisions, including the Board of Governors, Community Colleges; the California Postsecondary Education Commission; the California State Board of Education; the Student Aid Commission; the Trustees of State Universities; and the University of California Board of Regents.

Where They Came From

The aforementioned commissions and boards that comprise the new Department of Education have heretofore enjoyed more independence—and less accountability. This structure should encourage a more direct chain of responsibility and accountability to the Secretary for Education. In addition, we see no need for the head of the Department of Education to be an elected official (after all, other agency heads are not elected), and so recommend the Superintendent of Public Instruction serve as the Secretary for Education and be appointed by the Governor instead of elected.

Department of Health and Human Services

Mission Statement

The mission of the Department of Health and Human Services is to administer state and federal programs for health care, social services, public assistance, job training, rehabilitation, and veterans services.

Strategic Goals:

- Improve public health outcomes by improving access to treatment, health care, mental health services and preventative medicine, and
- Administer veterans services.

New Division Names

This department consists of seven divisions, including the Division of Aging, the Division of Employment Development, the Division of Mental Health and Substance Abuse, the Division of Physical Health Services, the Division of Rehabilitation and Developmental Services, the Division of Social Services, and the Division of Veterans Affairs.

Where They Came From

The Department of Health and Human Services will remain, for the most part, unchanged from the Health and Human Services Agency, although the former Department of Veterans Affairs is now included in the new department, and there are some instances of consolidation. The Department of Rehabilitation and the Department of Developmental Services are merged to form the Division of Rehabilitation and Developmental Services, the Department of Alcohol and Drug Programs is combined with the Department of Mental Health to form the Division of Mental Health and Substance Abuse, and the Department of Managed Health Care (from the Business, Transportation and Housing Agency), the Medical Assistance Commission, and the Managed Risk Medical Insurance Board are integrated into the Department of Health Services (renamed the Division of Physical Health Services to distinguish its focus from that of mental health services). In addition, we support the Governor's plans to eliminate funding for the Emergency Medical Services Authority, as core emergency services are provided by other agencies, including the Department of Forestry and Fire Protection, the Department of General Services (which oversees the state's 911 system), the California National Guard, and the Governor's Office of Emergency Services. Furthermore, we concur that the Department of Community Services and Development should be integrated into the Department of Social Services.

Department of Finance and Personnel

Mission Statement

The Department of Finance and Personnel supports the efficient and effective operation of California state programs through provision of financial management, human resources, procurement, and information technology services.

Strategic Goals:

- Establish and evaluate fiscal policies to carry out the state's programs;
- Monitor and audit expenditures by state departments to ensure compliance with law, approved standards, and policies;
- Administer public retirement systems;
- Adopt and administer civil service rules and regulations; and
- Provide support services to other state agencies in information technology, human resources management, financial management and facility management.

New Division Names

This department consists of eight divisions, including the Data Processing Corporation, the Division of Finance, the Division of General Services, the Division of Personnel Administration, the Public Employees' Retirement System, the Public Employment Relations Board, the State Personnel Board, and the Teachers' Retirement System.

Where They Came From

The Data Processing Corporation is to be formed from the existing Stephen P. Teale Data Center and the Health and Human Services Agency Data Center. Its operations will be completely outsourced and the new data center will sell its services to various government agencies, making it self-sufficient and requiring no taxpayer dollars for its support. In addition, the State Personnel Board, the Department of General Services, the Public Employees' Retirement System, and the Teachers' Retirement System are moved here from the State and Consumer Services Agency, and the Public Employment Relations Board and the Governor's Office of Personnel Administration, which formerly were directly responsible to the Governor, are included in the new department.

The Department of General Services (DGS) deserves special mention here due to its complete lack of organization around a central mission or function. The DGS has become a hodgepodge of miscellaneous functions that legislators apparently could not figure where else to place. It should thus be reexamined, and its functions reorganized, into more suitable agencies. For example, the financing and construction of K-12 classrooms should be transferred to the Department of Education, or perhaps to the Department of Transportation and Infrastructure, the management of the state's vehicle fleet, the maintenance of the state government's telecommunication systems, and the management of state-owned or leased warehouses and office space should be transferred to the Department of Transportation and Infrastructure, and the

administration of the 911 emergency system should be transferred to the Department of Public Safety and Corrections. Functions such as the procurement of certain goods and services for state agencies (particularly when purchased in bulk for a large number of agencies to save on costs) and reprographics services can be maintained under DGS.

Department of Public Safety and Corrections

Mission Statement

The mission of the new Department of Public Safety and Corrections is to ensure the safety of California citizens and residents, to respond to and provide assistance during emergencies, and to incarcerate those convicted of crimes.

Strategic Goals

- Incarcerate and rehabilitate offenders, and
- Respond to and mitigate the impacts of emergencies

New Division Names

This department consists of eight divisions, including the California Highway Patrol, the California Traffic Safety Program, the Division of Corrections, the Division of Emergency Services, the Office of the Inspector General, the Division of the Military, the Office of the State Public Defender, and the Division of the Youth Authority.

Where They Came From

The Department of Public Safety and Corrections is comprised of the California Highway Patrol and the California Traffic Safety Program from the Business, Transportation and Housing Agency; the former Youth and Adult Correctional Agency (YACA); and the Military Department; the State Public Defender; and the Governor's Office of Emergency Services, which formerly reported directly to the Governor. In addition, several of the departments of the YACA have been consolidated, as the Board of Corrections, the Narcotic Addict Evaluation Authority, and the Board of Prison Terms have been collapsed into the Department of Corrections, and the Youthful Offender Parole Board has been integrated into the Department of the Youth Authority. Furthermore, the Department of Criminal Justice Planning has been divided up such that many of its Victims Services programs, which are duplicative of Health and Human Services (HHS) programs, are eliminated or consolidated with corresponding HHS programs and its other programs and administrative functions are integrated into the new Division of Corrections.

Miscellaneous

In addition to the aforementioned changes from restructuring the state government into seven cabinet-level departments, there are a few other changes that fall outside these seven departments. For instance, the Fair Political Practices Commission and the Office of Administrative Law are moved into the jurisdiction of the Secretary of State. In addition, the Office of the Insurance Advisor has been moved from the State and Consumer Services Agency into the Office of the Insurance Commissioner and the Commission on State Mandates has been folded into the Department of Finance.

The Department of Insurance has been split up such that its fraud control and other prosecutorial functions are now handled by the Office of the Attorney General (the Department of Justice) and its tax collection and audit functions are performed by the new Division of Tax Collection. Other functions may be deemed "low priority" and the remainder of the department eliminated, but this will be up to the Governor and the legislature to decide.

We also recommend that the state's two tax collection agencies, the Franchise Tax Board and the Board of Equalization, be combined to form the Division of Tax Collection. There has been talk of merging these two bodies for years, and the authors feel it is time for the state to take the initiative and do it.