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## **Economy & Efficiency Commission Presentation**

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**PRESENTATION OF  
Mr. Peter Schrag  
April 8, 1998**

### **Topic: Structures of Inefficiencies**

Chairman Abel introduced Mr. Schrag, retired Editorial Page Editor of the Sacramento Bee. He is currently a Visiting Scholar at the Institute of Governmental Studies at UC Berkeley. Mr. Schrag's book, **Paradise Lost: California's Experience, America's Future**, was recently published. He has also authored an article on the impact of Prop. 13 on California in the March issue of Atlantic Magazine.

Mr. Schrag thanked the Commission for inviting him. He stated that many of the "structures of inefficiency" he will be mentioning during his presentation result from the way California has attempted to reform itself over the last twenty years.

1. Bankruptcy and bailout. Five years ago the Los Angeles Unified School District was near bankruptcy and was saved by a bailout from then Speaker Willie Brown and Controller Gray Davis. One of the causes of this near bankruptcy was that in the late 1980's the School District approved a contract with an approximate 27% pay increases for teachers, which the District could not afford. As a result of Proposition 13 school boards and other local agencies no longer had the power to raise local property taxes to meet expense levels. Also the involvement of the local business community and their input has been reduced. School boards have become dominated by representatives of public employee unions that finance elections. The problem of the influence of special interest groups is also prevalent in other public agencies.
2. Political involvement in funding. In the last 20 or 25 years the amount of money California spent on education per child has decreased dramatically compared to other states, while the pay for teachers has remained among the highest in the country. It is not that teachers are overpaid, but is due to the politics of education funding. These politics dictate that the salaries of the public employees always come first, with everything else being secondary.
3. The building of schools. Based upon the number of organizations that must be involved in this process and the number of rules and regulations that need to be enforced, the Little Hoover Commission of California has estimated that the process for building a school takes six years from the time the decision to build is made to the time the doors are open.
4. The role of fire districts. Fire districts are popular with voters, they are powerful during elections, and they provide significant monetary benefits for their employees. The districts are particularly well funded even when the counties in which they operate are strained financially or even on the verge of bankruptcy. This is true since county supervisors have virtually no control over their funding. In Sacramento, the fire unions have been so influential that emergency

provider contracts are being taken away from private providers and given to local fire departments. These departments fight fewer fires due to better building codes and need these contracts to stay occupied.

5. Fiscalization of land use. The current structure of the property tax system which sends most of this revenue to the state, makes sales tax, which goes directly to communities, e.g. shopping malls, more attractive to local communities. This makes other industries that could pay better wages while providing a clean environment less desirable from a governmental revenue standpoint. Due to Proposition 13, property cannot be reassessed until it is transferred or sold, so enormous front end costs are loaded on to new properties, particularly business property. There is currently no system for capturing any part of the financial success as companies grow and prosper. This sets up a backwards taxing system that discourages new development and business ventures.

These are all illustrations of the problems associated with the shift of authority from local government to Sacramento due to the passage of Proposition 13 and the measures that were passed in its wake.

Currently, the largest lobbying group in Sacramento is local government. The amount of "government lobbying government" is so large that it is unusual, to say the least.

The California Constitution Revision Commission (CCRC) made efforts to restore authority to local governments, particularly the counties, but its efforts were ignored by the legislature. Mr. Schrag stated that it is important to note that the CCRC tried to rectify one of the unintended consequences of Proposition 13 by returning to local governments the power to distribute property tax monies.

Chairman Abel asked Mr. Schrag his opinions on why the CCRC failed. Mr. Schrag stated that there were several reasons:

1. Little public or media interest in process issues,
2. Tinkering with Proposition 13 is not welcomed by public officials, and
3. Some local officials may not want the accountability associated with the return of property taxes.

Commissioner Stoke asked if Mr. Schrag's book provided any suggestions to correct the structures of inefficiencies. Mr. Schrag stated that in relation to the school board, some local authority has to exist over current expenditures and revenues that involves a simple majority vote. This will create accountability.

Commissioner Buerk asked if it is possible to balance the authority and responsibility statewide. Mr. Schrag replied there is another organization, comprised of interested representatives, who are trying to further this issue since they understand that the current structures are unmanageable. This group was originally hoping to propose recommendations by the 1998 elections, but have now set a new goal date of 2000.

Mr. Schrag stated that one of the reasons for the problems that California government has faced in the last twenty years is the growing difference between the population in California and the people who vote. The statewide electorate is different from the accumulated local electorate and, in effect, can "trump" the will of local voters through initiatives. For example, an assembly member can be elected in Los Angeles County with a small number of votes. Because districts are divided by population, this small amount of votes will send one person to represent the total district population. The statewide voters are typically white, less urban, more conservative, and older than the population and the people who use public services. Until more people vote, particularly Latinos, this problem will continue.

Chairman Abel thanked Mr. Schrag for his presentation and urged the commission members to take a look at his new book.

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