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## **Economy & Efficiency Commission Presentation**

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*Editorial Note: Although every effort has been made to insure the accuracy of the material in this presentation, the scope of the material covered and the discussions undertaken lends itself to the possibility of minor transcription misinterpretations.*

**PRESENTATION BY  
Ms. Julia Justus McGinity  
Senior Assistant to the Governor of California**

**Topic: The Governor's Plans and Future Direction for the State of California**

**March 4, 2004**

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Chairman Philibosian introduced Ms. McGinity and welcomed her to the Commission. Ms. McGinity began by commenting that in the course of her presentation she hopes to find out more about the mission of the EEC.

### **The Scope of the Presentation**

Ms. McGinity stated that she intended to discuss the California Performance Review (CPR) and the methodology it employs. The CPR is designed to respond to the campaign promises of Governor Schwarzenegger: that is, an audit of state government to show how government can reform itself. The second issue to be discussed is how the administration will respond to the passage of Proposition 57 and 58. These Propositions consider how to deal with the structural deficit and on the state's capacity to balance the peaks and valleys of expenditures and financing. The administration's goal is to make state government a responsible partner to the local level.

### **The California Performance Review**

The CPR is a serious and unusually broad look at how the government of the State of California is organized and operated. The focus of this effort is on how to better serve the public, rather than on cost-savings. It is organized onto 13 different teams whose purpose is to collect ideas which will end up as recommendations to the Governor in a final report. Since there is no funding for this program, the administration is borrowing individuals from state departments and agencies. From a pool of 1600 applicants, 200 state employees have been selected as full-time staff members until June 30th. This June date is critical since California is already in the second year of a two-year budget cycle. Several mechanisms also exist for citizens and local government to participate, including a website: <http://www.cpr.ca.gov> and a toll-free number: 1-877-END WASTE (363-9278).

Texas State Controller Billy Hamilton, who was responsible for a successful Performance Review in Texas, has agreed to come to Sacramento for 2 weeks per month to be the intellectual inspiration and direction of

the California government's effort. Mr. Hamilton will work with Chon Gutierrez, a long-time California state government executive who will bring to the CPR his extensive management skills.

### **An Example of a CPR Silo and its Methodology**

One of the areas being reviewed is Intergovernmental Relations. This review team, or silo, is headed by Susan Ross, an employee of the Department of General Services and a Placer County Supervisor. This team will conduct a series of "murder boards" or what Hamilton calls "tollgates" -- if an idea makes it past the first discussion, it will proceed to the next level. This will continue until the number of recommendations has been reduced to 500-600 executable core ideas. Some other CPR silos are Customer Service, Public Safety, Performance-Based Budgeting, Personnel Management, Business Climate, Job Retention and Business Development, Corrections and Education, Training and Volunteerism.

### **The CPR Process**

Implementing the results of the CPR is the vehicle that will allow Governor Schwarzenegger to revise the governmental process within California. The levels of implementation will be as follows:

- First Level - executive orders and administrative functions.
- Second Level - work through the current budget process on items that could potentially be included in the budget.
- Third Level - negotiation with the "Big 5" to get recommendations before the Legislature adopted into current legislation for this legislative cycle.
- Fourth Level - utilizing the "Little Hoover Process" which reviews the structure of state government with the objective of finding the most efficient way to affect change in that structure. The process allows a proposal that makes it to the Little Hoover Commission to be fully developed within a given time period, generally within 45-60 days. It then it goes to Legislature, but is not amendable. This process was used effectively during the first 100 days of the Wilson Administration when the creation of the California Environmental Protection Agency consolidated divisions and departments into one cabinet-level agency.

Additionally, a major effort is underway to bring the labor and state employee unions into the process to facilitate the implementation of recommendations. To date the response from the unions has been generally positive.

### **The Governor's Plans and Goals**

Although the passage of Propositions 57 and 58 has empowered the Governor to address the fiscal situation of California, the administration is not content with issuing a long-term bond to payoff operational deficits. This is in spite of the fact that this was the only option available since neither revenue enhancement nor expenditure cuts could have affected the level of change required in this fiscal year.

To meet the June 1st due date for the short-term bonds, the Governor is committed to front-loading the cycle by pushing the usual mid-May budget revision up to April. This will benefit local governments and send a message to the financial markets affirming California's fiscal responsibility and on-going sustainability. It is hoped that this will also raise the state's debt rating, resulting in a reduction in the cost of issuing bonds.

The Governor is committed to marketing California by selling the state as a place to work and do business. The administration hopes to develop this economic environment by working closely with the Democratic Majority in the Legislature and key administration reformers. To further support this effort he is committed to workers' compensation and unemployment insurance reform.

### **Misconceptions and Clarifications: Propositions 57 and 58**

Unfortunately, much of the public erroneously believes that the passage of Proposition 57 has fixed our

budget problems. However, Proposition 57 is only a \$15 billion portion of a \$22 billion problem. Cuts are still necessary, as is the need to re-prioritize.

The intent of Proposition 58 is to level out the state's budget cycle to incorporate increased predictability. The first component of Proposition 58 is the creation of a constitutional requirement that the Legislature must approve a balanced budget, which is not currently the case. It also establishes a constitutional provision to allow the Governor to declare a fiscal emergency and bring the Legislature into a special session to resolve current year budget problems. This provision is designed to prevent current year deficits from being pushed into the following year. Additionally, if there is an imbalance, Proposition 58 requires the Governor to call the Legislature into a special session to resolve the imbalance within 45 days. If these actions are not taken, then no other legislation can be passed and the session cannot adjourn.

The second component of Proposition 58 is a reserve requirement which establishes a budget stabilization account. The account starts out small in the first year -- 1% of general fund expenditures, or \$850 million -- then increases annually by 1%, until \$8 billion in reserves is accumulated. It is possible to use this reserve, but only with the approval of 2/3 of the Legislature and the Governor.

Finally, Proposition 58 restricts the capacity of the state to engage in deficit borrowing for operational expenses. Specifically, it allows for the issuance of short-term bonds to maintain cash-flow or for specific items, but it prohibits the state from engaging in broadly based bond indebtedness to support operational expenses.

### **Commissioner Questions**

Commissioner Tortorice asked when the CPR Report will be issued and whether there will be a public comment from the Governor on the report. Ms. McGinity replied that a report will be issued June 30th. This report is basically advisory to the Governor and will include recommendations for change that could be made by the Governor.

Commissioner Baltierrez inquired, that given the fact the state already has a huge deficit, how will the administration be able to fund a 1% reserve without impacting the level of social services. Ms. McGinity acknowledged that although \$850 million was a large sum of money, there are actions that could be taken. For example, there is an \$866 million dollar structural deficit in Corrections due to the previous administration's renegotiation of a contract with correctional peace officers. Since this negotiation was not coordinated with the Departments of Finance and Personnel Administration, this resulted in the approval of a contract that was never funded by the Department of Finance. If the current administration renegotiates the contract with the correctional officers and takes out some of the more onerous and excessive aspects, the state would have the money to fund the reserve. In addition, Governor Schwarzenegger has negotiated a deal in which the California Teacher's Association has agreed to take \$2 billion less in increases in the next budget year.

Commissioner Baltierrez raised the question as to whether Proposition 57 increases taxes a quarter of a penny in order to cover this fund. Ms. McGinity responded that it is not an increase, but rather a designation of a quarter cent sales tax. Commissioner Baltierrez, in an attempt to further clarify the issue, asked if this means that Proposition 57 will not increase current taxes, but instead will redirect a quarter cent out of what is already being collected. Ms. McGinity responded that this was correct.

Commissioner Baltierrez expressed concern over where the quarter cent tax will go once the debt has been paid off. She suggested that a clause should have been included in Prop 57 stating that this tax will go back into the reserves once the debt has been met. Ms. McGinity responded that the Governor is doing everything he can to prevent raising taxes precisely because of this kind of concern. Although California is a high tax state, the Governor's marketing effort will focus on restoring the tax structure so that California is not so far out of alignment with other major states. Ms. McGinity also observed that a designated revenue stream is required prior to releasing a bond, thus the necessity of the quarter cent sales tax.

Commissioner Thierer was concerned whether there were indications of any legal action against Proposition

58. Ms. McGinity responded that she had not heard of anything and inquired as to whether he had. Commissioner Thierer replied that he had not.

Ms. McGinity asked about the Commission's contribution to the governance of Los Angeles County. Commissioner Tortorice responded that the mission of the Economy and Efficiency Commission is similar to that of the Little Hoover Commission. He noted the Commission has issued 142 reports since 1964 and that a significant number of them have to do with organizational structure, process improvement and reduction in government waste.

Chairman Philibosian commented that he has described the nature of the Commission to others as the "Little Little Hoover Commission" due to numerous similarities, but without the ability to legislate autonomously. He went on to describe the mission and methodology of the Commission. He mentioned that the mission of the Economic Development Task Force dovetails with some of the actions Ms. McGinity has been discussing today, and asked the head of that Task Force, Commissioner Sylva, to elucidate.

Commissioner Sylva gave a brief history of her recent work with the county, and then described her current role as head of the Economic Development Task Force and its goals. She said that she looks forward to working with the Governor's office in some capacity. Ms. McGinity commented that the previous administration had eliminated the Wilson administration's Trade and Commerce Agency, which led to difficulties that were encountered in business promotion and retention in the early nineties. The current administration is discussing re-prioritizing staffing in the Governor's Office, particularly in regard to the field offices located in San Diego, Riverside, Los Angeles, Fresno and San Francisco. Specifically, the desire is to have at least one senior executive in each office, except the 2-person office in Riverside, who possesses business and economic development expertise. These executives would represent the state in local efforts to work with a particular company. Ms. McGinity mentioned the big inter-jurisdictional, bipartisan effort to get Legoland in a national competition as an example of one of the successes of having a Trade and Commerce Agency.

Ms. McGinity can be contacted at the Ronald Reagan State Office Building on Spring Street at 213-897-0322, or by email: [Julie.mcginity@gov.ca.gov](mailto:Julie.mcginity@gov.ca.gov) She and the other staff at the Governor's Los Angeles office are available to be of assistance or used as a resource in any way.

Chairman Philibosian thanked Ms. McGinity for making this presentation to the Commission -- especially on such short notice -- and emphasized both his appreciation and the contribution that this information has made to the Commission's understanding of the new state administration.

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