

# Summit on State Governance and Fiscal Reform July 17-18, 2009

*Cities Counties Schools (CCS) Partnership*

## ***REBUILDING CALIFORNIA From the Ground Up***

California government is broken.

The failure to adopt a sustainable budget is only the most obvious manifestation of a dysfunctional state government. The State is not investing in the future, whether in needed infrastructure, economic development, or in education. New laws and regulations are piled on without balancing costs against any clear added value. Long-term implications of current actions are ignored. Urgent current problems go unaddressed. The inherent strength of community level governments is dissipated.

Some say that “politics has failed us.” Others focus on the failure of the structure of government and the institutional rules within which State Government operates. Whatever the perspective, it is clear that there must be a new and better way of governing a large, complex and dynamic state.

The local governments of California are the key to the solution. The Core Principle of any successful reform is that each level of government and each agency of government must be given the authority and the resources to do what it does best. We can restore functional state and local governments only by aligning authority, responsibility, resources and accountability.

A more effective State Government requires more effective cities, counties and school districts. The CCS Partnership offers a set of possible principles to guide reform efforts and a series of reform options that embody those principles. We invite a continuing conversation about whether these or other options are best.

We encourage a vigorous debate about how to rebuild California government. There can be no doubt, however, that substantial reform is necessary and that it must be done from the ground up--building a stronger foundation of community government.

### **Suggested Principles and Reform Options for Discussion**

- 1. Responsive and Accountable Local Governments.** Local governments should have broad authority, subject to voter approval for bonds and tax increases, to raise and expend a diverse and broad set of revenues necessary to provide critical local services. Concentrating these decisions at the local level will ensure greater transparency and accountability to the voters.

- a) **Option—Protect Local Revenue Sources**: The state should not be able to divert or borrow local tax revenues to fund state programs or state mandated services.
- b) **Option—Change Requirements for Approval of Local Taxes**: Existing law requires voter approval of local general taxes (majority), special taxes (2/3), and parcel taxes (2/3). The reform options could include:
  - (1) **Option—Approve Local Taxes With <2/3 Vote**: Given the active involvement of voters in all decisions on local taxes, the 2/3 threshold for voter approval of taxes or bonds should be reduced (e.g., the current 55% vote for school bonds).
  - (2) **Option—Approve Local Taxes Without Voter Approval**: Local elected governing bodies should be authorized to approve increases in local taxes without the requirement of seeking prior voter approval, subject to voter referenda.
- c) **Option—Allow Regional or County-wide Taxes for Regional Services with Voter Approval**. Authorize counties, schools, cities, or any combination thereof to seek voter approval to levy income, sales, property (parcel or ad valorem within some limit), utility, vehicle or business taxes to finance important countywide or regional education, health, human services, public safety, environmental, or other services.

**2. State Preemption of Local Control.** Local control should be the rule and state preemption the exception.

- a) **Option—Require Findings and Supermajority Vote to Preempt Local Control**: When state preemption of local regulatory, taxation and other local powers is deemed necessary, the legislature should make specific findings setting forth the reasons and necessity of having a statewide rule or program, and the preemptive statute should only be adopted with a supermajority legislative vote of both the Assembly and Senate. Implied preemption of local control should be prohibited.

**3. Enhanced Protection from State Mandates.** Local governments need additional protection from state mandates that attempt to micromanage local affairs.

- a) **Option—Modernize Mandate Claims Process**: Reform the existing state mandate claims process to remove unreasonable burdens and delays on local agencies seeking to recover costs.
- b) **Option—Require Mandate Reimbursement Even if Local Fees Possible**: Prohibit the state from avoiding mandate claims by prohibiting the state from requiring local governments to pass on costs through local fees.

- 4. Personnel Policies and Pensions.** All local governments should have broad authority and flexibility in personnel matters.
- a) **Option—Allow Local Control of Employee Retirement Benefits:** All local governments, including schools, should be able to design and implement their own appropriate pension and post-retirement health benefits program, including the ability to establish new benefit tiers for new hires and to implement cost-saving measures otherwise allowed by the constitution.
- 5. Focus on Outcomes in State Funding of Locally Delivered Services.** When local agencies administer state programs and mandates with state funds, they should be held accountable for the measureable outcomes and given extensive administrative flexibility over the means and methods chosen by local leaders to achieve those outcomes.
- a) **Option—Expand Block Grants:** Make greater use of block grant programs that give local government flexibility in the administration of state funded services.
  - b) **Option—Allow Contracting for Services and Reward Innovation:** Remove obstacles to contracting out services as opposed to using employees of the local agency. Create financial incentives for lowering administrative overhead.
- 6. Modernize State Budgeting.** The state budget process should be modernized to reflect the best practices in state financial management from across the country.
- a) **Option—Institute Performance-Based Budgeting and Prudent Reserves:** Implement best practices in performance-based, multi-year budgeting and establish prudent reserves in order to achieve measurable outcomes and improved stability during periods of financial turmoil.
  - b) **Option—Require New Funding for New Mandates:** New programs or mandated funding obligations should be approved only if the budget authorizes a new, dedicated, reliable and adequate funding source or explicitly provides for measurable offsetting savings in state or local operations.
  - c) **Option—Require New Funding Sources for Statewide Ballot Measures that Impose New Obligations:** Every new ballot measure that imposes new funding obligations on state or local governments should authorize a new, dedicated and reliable funding source or provide for measurable offsetting savings in state or local operations to finance the entire cost of the new obligations.
  - d) **Option—Change Requirements for Legislative Approval of State Budget and Tax Increases.** Current law requires a 2/3 vote of the state legislature to approve a state budget or increase taxes. Possible reforms of this requirement include:

- (1) **Option—Require Voter Approval of State Tax Increases.** All state tax increases should be approved by less than a 2/3 vote of the electorate before taking effect.
- (2) **Option—Reduce Vote Required for Legislative Approval of State Budget and Tax Increases.** The 2/3 vote of the state legislature required to approve a state budget and increase taxes should be reduced.
- (3) **Option—Reduce Vote Required for State Budget Only:** The Legislature should be authorized to approve the state budget with less than a 2/3 vote but the 2/3 vote required to increase taxes should be retained.

**7. Update the State and Local Revenue Systems.** The laws governing the major state and local tax revenues should be regularly updated and revised to reflect the transformation to a service-based economy and the tax equity concerns that have arisen over time.

- a) **Option—Modernize the Sales Tax:** Broaden the sales tax base to cover major services and lower the rate to ensure a revenue neutral effect in the short-term.
- b) **Option—Equalize Tax Inequities Among Similar Property Owners.** Over time equalize inequities in property values among similar property tax payers that have arisen based on differences in the date of property acquisition.

**8. Governance and Responsiveness.** State government should periodically review and recommend improvements to the structure, functions and financing of state government operations in order to assure citizens that decisions are being made and services are being delivered in the most responsive and efficient manner possible.

- a) **Option—Require Periodic Legislative Reauthorization of Existing Programs:** At least every 10 years the Legislative Analyst should identify for the legislature those state programs that have increased in cost at a rate faster than state revenue growth or some other relevant factor or which for reasons of inefficiency or ineffectiveness should be the subject of legislative oversight and reauthorization. Upon completion of the evaluation of the programs by the LAO and the legislature, the continuation of the programs should be contingent upon reauthorization and funding by the legislature.
- b) **Option—Require Voter Approval for Reauthorization of Fast-Growing Programs.** Except for federally mandated services and programs, upon completion of the evaluation of programs by the LAO and the legislature, the legislature shall not appropriate any funds for a program it reauthorizes in excess of the average state revenue growth unless it is first approved by the voters.

- 9. Organization of the State Legislature:** The legislature should be modernized in order to achieve greater effectiveness and responsiveness to the priorities of the people of the state, including changes in how legislators are elected, limits on the length of their terms, the duration of the legislative session, and the way in which the legislature operates.
- a) **Option--Reform Term Limits:** Term limits should be eliminated or reformed to extend the length of service of members of the legislature. As a result of the rapid turnover of representatives in the current system, a large number of representatives are always new and inexperienced. This has resulted in a loss of historical memory, a system where representatives feel more loyalty to their respective parties than to the constituents that elected them, and a greater concentration of power among unelected staff members and lobbyists.
  - b) **Option—Institute Open Primaries:** The ideological extremes in the state legislature have impeded the accomplishment of the people’s business, and a system of nonpartisan open primaries should be approved by the voters, such as SCA 4 (“Two Top Primaries Act”) approved by the legislature in February 2009 for the June 2010 ballot. Voters should be able to vote for any state or congressional candidate in the primary, regardless of the voter’s party registration, and the top two vote getters, regardless of party, should compete in the general election.
  - c) **Option—Increase Legislative Transparency:** Public confidence in the legislature has declined in part due to the fact it operates largely in secret. The legislature should function under the same open meetings and open records requirements as local governments, and no legislation should be enacted without being first published and publicly available for at least 24 hours prior to action.
  - d) **Option—Shorten Legislative Sessions and Financially Reward Time in District:** The legislative session should be shortened (e.g., 90 – 180 days per year), and legislators should receive a financial incentive to hold hearings and spend time in their districts meeting with constituents rather than in Sacramento.