MAKING GOVERNMENT MAKE SENSE:

A MORE RATIONAL STRUCTURE FOR STATE AND LOCAL GOVERNMENT

How Should the Legislature Reorganize State and Local Government Program Responsibilities?

Summary

California citizens receive government services from a variety of federal, state, and local agencies. Although many of these services may appear to be provided by a single agency, in most cases, more than one agency is involved in paying for the service, determining how much of that service is provided, and in controlling the specifics of how the service is actually provided. Because the roles of the different types of governments are so interrelated, it is appropriate to view them as a "system" of government. This "system" should be organized in such a fashion that each of its component parts works together to achieve the public's goals.

California's existing "system" of government clearly does not work together to achieve the public's goals. Rather, in our system, the component parts have no common conception of mission, and often work at cross-purposes with each other. Local governments complain that state requirements interfere with their ability to satisfy local community needs. The state, in turn, issues more requirements to ensure that its service objectives are uniformly achieved. Governments compete amongst themselves to obtain larger shares of dwindling resources. Citizens observe declining levels and quality of services and find that they cannot hold any particular agency responsible. In short, we find that California's existing "system" of government is dysfunctional.

While the difficulties inherent in attempting to reorganize our system of government may appear to be insurmountable, we believe that a fundamental reorganization of state and local government responsibilities is required. Only in this way can the Legislature assure the achievement of the public's goals, the future health of the California economy, and the fiscal Integrity of its government entities. We offer a model of a more rational system of government for the state, and recommend that the Leg-

INTRODUCTION

The relationship between the state and other entities of government in California is currently characterized by substantial fiscal and programmatic tension. Scarce resources and increasing service demands at all levels of government dominate the picture. These conditions have exacerbated long-existing conflicts over the state's role in the under-mining of local government spending priorities and the state's control over local program and fiscal decisions. The increased fiscal pressure has also exposed other weaknesses inherent in our existing system of government, including its encouragement of cost-shifting between levels and entities of government, and the lack of accountability for program results.

Figure 2 summarizes the major problems we have identified in the existing state-local relationship. Most of these problems have been previously documented in "The County-State Partnership" (please see the *1991-92 Budget: Perspectives and Issues*, pp. 159-188). The remainder reflect problems characterizing relationships between other entities of government, such as exist between cities and counties.

Legislation enacted in 1991 (the so-called "program realignment" legislation) attempted to address some of these issues in the context of county-operated health and welfare programs. This legislation effectively reduced some of the counties' incentives for cost-shifting by making the counties' share of costs more equal across programs, and provided greater flexibility for counties to determine spending priorities by allowing some limited shifting of state-provided funds between health and welfare program areas. It also contained features which encourage a more coordinated approach to service delivery, recognizing that, often, more than one type of service is provided to an individual service recipient. In our view, this legislation demonstrates the potential for achieving better program outcomes through restructuring government fiscal and program relationships.

Ultimately, however, more fundamental change will be required to address the problems of our existing system of government. These problems are inherent to our system, and stem from its failure to assign responsibilities clearly among government agencies and provide them with the authority and tools to get their jobs done. The *1993-94 Governor's Budget* would make these problems worse by further reducing local government property tax allocations. Despite its recognition of the need for "a fundamental re-examination of what services local government can realistically provide and how those services can best be provided" the Administration's approach to these problems merely transitions local agencies to lower levels of revenues. As such, it does not attempt to address the fundamental problems of our system of state and local government.

Figure 2

Problems in California's State-Local Relationship

Counterproductive Fiscal Incentives

Fiscal incentives are present which encourage decision-makers to choose the least costly option from their perspective, even when this option is the least effective or most costly option from a statewide or overall program perspective.

Inappropriate Assignment of Responsibilities

Existing assignments do not recognize constraints on the ability of the state or local government to carry out program responsibilities.

Failure to Avoid Duplication and Realize Scale Economies

The existing system requires extensive duplication of efforts by local agencies and the state in the administration of programs, and precludes the realization of scale economies that might be achieved through consolidation of these efforts.

Inappropriate Exercise of Administrative Oversight

Existing program reporting and monitoring requirements are serving little useful purpose, and are diverting scarce resources from more productive uses.

Unproductive Competition for Resources

The existing system pits local agencies against each other in a competition for taxpayer resources. This competition sacrifices good land use practices, job development, and interagency cooperation in the process.

Lack of Accountability for Program Outcomes

The system fails to adequately link program spending control and funding responsibility, so that decision-makers are not accountable for program outcomes.

Erosion of Local Control

The system has eroded local fiscal capacity by redirecting local resources to pay for increasing costs of state-required programs.

In this piece, we offer a model of a rational organization for our system of government. While this model does not represent a detailed plan of action, we believe that it offers a realistic framework for the Legislature to consider in its efforts to resolve the problems of government in California. We also briefly discuss some of the implementation issues associated with the model.

THE PROPOSED REORGANIZATION

In developing this reorganization model, we have relied on the four basic principles summarized in Figure 3. These principles essentially reflect a consolidation of the basic reform principles we first outlined in

our 1991-92 *Perspectives and Issues* document. In addition, however, they reflect a recognition that there is a significant practical interrelationship between all of the services provided by government. That is, better efforts to provide services in one program area can reduce the demand for services in other areas. Further, greater use of collaborative efforts across program areas can be more successful than program efforts pursued separately. As a result, greater cooperation and coordination between all entities of government must be achieved if the "system" as a whole is to function most effectively.

Figure 3

Basic Principles of Reform

- Maximize separation of state and local government duties through appropriate alignments of control and funding responsibilities.
- Match redistributive programs with redistributive revenue sources at the highest level of government.
- Recognize program linkages by restructuring to promote coordination of service delivery mechanisms, removing barriers to innovation.
- Rely on financial incentives to promote prevention and coordination.

The Importance of Local Communities Working Together

We believe that one of the keys to achieving this greater effectiveness lies in promoting the interest of local communities in working together towards common goals. Local entities—schools, cities, and counties—share a common interest in achieving the higher levels of health, productivity, and safety their local citizens desire, but they currently pursue their individual goals in a mostly disparate fashion. While some communities have begun their own efforts to work more cooperatively, there remain substantial barriers to these efforts.

The state also has an interest in the success of local communities, as this translates into both lower demands for state services and a stronger economy. The state's existing fiscal relationship with local governments, however, is threatening their very survival. In addition, the state's support for local communities is not distributed in a way that provides equal opportunities for local community success. The resolution of these problems is a central objective of the reorganization model.

Greater Attention To Outcomes Needed

Another key objective is to promote a greater level of attention to the outcomes of government social service programs. Essentially, the basic objective of these programs is to restore some degree of individual independence and lessen the need for additional social services or treatment. In most cases, recipients of these services need more than one type of assistance to achieve this independence. For example, an adult criminal offender may require a mix of substance abuse, mental health, education, probation, low-cost housing, and job training services in order to resolve his situation successfully. Other types of typical service recipients require different mixes of services, but in each case, the focus should be on delivering the appropriate mix necessary to minimize the need for further government intervention. Accordingly, we believe that local agencies must be given greater flexibility as to delivery choices, but they also should be held more accountable for both program failures and successes.

The Advantages of Full Program Control

One of the most often cited complaints about the existing system is that, while local agencies must operate and fund state-required programs, they have little control over service levels or approaches to service delivery. The lack of control over service levels precludes local government entities from effectively responding to their citizens' service level and service mix preferences. Further, because local funds are expended for these programs, this lack of control has eroded local resources available for other local programs.

The lack of flexibility in approaches to service delivery has precluded or restrained the potential for innovation at the local level, as legislation or regulatory changes are required before such changes can be made. Thus, the final key to greater effectiveness lies in allowing local agencies to exercise full control over service levels and delivery approaches in locally operated programs. In addition, this control must be provided if local governments are to be held accountable for program outcomes.

A Three-Step Process

There are three major types of changes contemplated by the model:

- Changes in the assignment of primary *program control and delivery responsibilities.*
- Changes in *state and local revenue sources* to support the program assignment changes.
- The establishment of *new incentives and sanctions* to promote the achievement of broad public goals.

Each of these components is critical to the potential for achieving the benefits of the proposed reorganization. Indeed, the model should be adopted in its entirety, as a package, rather than taken incrementally, although implementation could occur in stages.

Changes in the Assignment of Program Responsibilities

Figure 4 displays the proposed assignment of responsibilities under our model. As indicated earlier, the model contemplates a clear separation of the assignments between entities of government. In this section, we describe the basis for the model's suggested assignments of responsibility.

State Government

The duties assigned to the state are determined primarily on the basis that they represent truly *statewide functions*, in that state control is needed to ensure adequate service levels. There are three primary criteria we have used to make this determination:

- The costs or benefits of a program are not restricted geographically.
- Service level variation will create adverse incentives for migration.
- Uniformity is needed to achieve statewide objectives.

However, in some cases the need to preserve linkages between services is a more important consideration. For example, while *mental health* services meet the three criteria mentioned above to some extent, these services often should be provided in conjunction with other community-based services, such as child welfare services and job training, to most effectively resolve the problems of an individual. The specific changes in state responsibilities are discussed below.

The model recognizes that state intervention is needed to ensure that certain minimum service levels are provided for cash grants and basic health care services provided to needy individuals. Under the existing system, counties provide widely differing service levels in their General Assistance and indigent healthcare programs, causing incentives for migration between counties. Further, it is impossible to effectively achieve the basic objective of these programs—redistributing income—without state-level control and funding. (Ideally, the federal government should play a greater role in these programs.) For these reasons, the model assigns responsibility for Aid to Families With Dependent Children (Family Group and Unemployed Parent), General Assistance, Medi-Cal, Developmental Services, and Indigent Health Care to the state government. Also, because the In-Home Supportive Services is becoming predomi-

nantly a Medi-Cal program under recent legislation implementing the Personal Care Option, it also is assigned to the state level. Figure 5 (see next page) lists some of the benefits from state assumption of these functions.

Figure 4

LAO Reorganization Model
Proposed Assignment of Basic Responsibilities

State	
Uniformity Needed	**Statewide Benefits**
Cash grant programs:	Higher Education
Aid to Families With Dependent Children (Family Group and Unemployed Parent)	Long-term custody:
General Assistance	State prisons
Basic health care:	State hospitals
Medi-Cal	Trial courts
Indigent health	Appeals courts
In-Home Supportive Services	State parks
Developmental Services	K-14 school funding
Public health	
Welfare administration	
Child support enforcement	
Unemployment Insurance and Disability Insurance administration	
Local (Cities and Counties)	
Linkage-Driven (Community-based services)	
Mental health	Greater Avenues for Independence
Child welfare services	District Attorney
Foster care	Public Defender
Adult protective services	Probation/parole
Substance abuse services	Jails/corrections
Job training and employment	Police
Local Benefits (Municipal services)	
Fire	Culture/leisure
Paramedics	Housing
Sanitary inspections	

Figure 5

Benefits of State-Operated Cash Grant and Health Care Programs

- Uniform access for the needy.
- Increased market power in negotiating for health care coverage.
- Greater uniformity of service levels will eliminate migration incentives.

Welfare Administration. The model contemplates state takeover of welfare administration functions from the counties, in order to reflect its complete assumption of responsibility for cash grant programs and basic health care functions. The state could carry out this function directly, or do it by contract with counties or other providers. Figure 6 summarizes the benefits from the state's assuming these responsibilities.

Figure 6

Benefits of Consolidating Welfare Administration

- Ensures accountability for program outcomes.
- Statewide computer system allows better uniformity, data capture.
- Allows consolidation with Unemployment Insurance and Disability Insurance systems.
- Eliminates duplication, allows realization of scale economies

Public Health. Communicable disease is a threat to all the state's residents. For this reason, the model assigns to the state the primary responsibility for those public health programs that focus on *individuals*, such as immunization programs. This arrangement also provides the state with a greater incentive to provide for the public health needs of individuals covered under its basic health care programs, because effective provision of public health services can prevent the higher cost of treating these persons for communicable diseases.

Custody. It appears necessary for the state to continue to play a role in the area of long-term custody, albeit one that is much more limited than now exists. Our model places a great emphasis on community-based institutionalization and alternatives to incarceration and institutionaliza-

tion, as will be discussed in greater detail later. However, even with this greater emphasis, it appears that the state should continue to be the custodian in very long-term situations, such as for persons sentenced to life imprisonment and for the severely mentally and developmentally disabled. The state also could provide prison beds to local communities on a "cost-recovery" basis, as is now done under the 1991 realignment legislation for state hospital services. However, the state would be financially responsible for the custody of fewer prisoners than it is currently.

Trial Courts. Responsibility for funding and operation of the trial courts would be shifted to the state government. A partial shift of funding responsibility has already been started under existing law. This arrangement recognizes the state's existing role in controlling trial court operations, and facilitates the state's ability to redirect resources as workload conditions change.

Other. The model continues other existing state responsibilities, such as those in the areas of transportation and economic development. State funding of these activities, whether through tax incentives or expenditure programs, recognizes the need for a cooperative partnership between the state and local communities in these areas. Lastly, the model proposes no changes in the existing division of responsibilities for regulatory functions (such as the Department of Corporations) and other special fund program areas supported by program-related revenues. Such changes are beyond the scope of the model.

Local Governments

As noted above, changing the "system" so that its component parts do a better job of working together to achieve common goals is a central objective of the proposed reorganization. To this end, the model assigns responsibility for all community-based service programs and housing to local government, with city governments financially responsible in the case of city residents, and counties financially responsible for unincorporated area residents. This arrangement recognizes that cities and counties face the same set of problems, and provides an incentive for them to work together to find solutions to these common problems.

These agencies would be accorded complete flexibility to provide these services as they see fit, including through multi-agency contracting arrangements. Counties would retain responsibility for certain existing county-wide functions, such as sanitary inspections, property tax assessment and collection, recording, and elections. Cities would need to establish, or contract with the county for, other existing county services like jails, district attorneys, and public defenders.

Incentives and sanctions would be built into the system to encourage responsibility in service provision while maintaining local control of decision-making (see discussion of these provisions below). In addition, a new constitutional provision would be needed to ensure the independence of local decision-making from state intervention in areas of local responsibility.

Critical Program Linkages. The assignment of responsibility for all community-based service programs to local governments recognizes the linkages that exist between the services. As noted above, a mix of different services often must be provided individual social service recipients—or even entire families—if their needs are to be resolved successfully. In addition, there has always been a relationship between traditional types of municipal services, such as police and fire services, and other social service programs. That is, success in resolving individual social service needs can reduce the need for these other municipal-type services. The model seeks to eliminate the artificial barriers that now exist between the different providers of these critical services, and to facilitate a more collaborative approach to the resolution of community-wide problems. (For a more complete discussion of this opportunity, please see "Collaborative Efforts to Coordinate Service Delivery," following this section.) To this end, local decision-makers would have the flexibility to determine the mix of services and methods of delivery appropriate for their community.

Social Services. Communities would be responsible for providing the broad range of existing social service programs shown in Figure 4. Because, at least initially, cities probably would contract with counties for these services, this would not differ dramatically from how the *operating responsibility* for these programs is now assigned. What would differ is that communities would bear the full financial responsibility for the programs, and the state would not exercise program control. The state, in many cases, would have to distribute federal funds to the communities and disseminate state program and client data. In addition, some state oversight or monitoring role would probably be needed to comply with federal requirements in some areas.

Job Training. The development of job skills and work aptitude among the unemployed is critical to the success of all communities, both in terms of limiting the costs of social services and correctional programs, and in terms of making these communities more desirable places for people to live and for businesses to locate. For this reason, communities would become the primary providers of job training and job development programs. Existing state funds and programs committed to these purposes would be channeled through the communities in order to most effectively integrate them with community efforts.

Corrections. The model contemplates a greater reliance on community-based institutionalization and alternatives to state prison sentences for convicted criminal offenders. Although communities would have the option of placing offenders in state prisons on a cost-reimbursement basis, the high costs of this alternative would provide an incentive for them to explore local options. Because each community would remain responsible for any costs associated with individual offenders, it would have a great incentive to develop alternative methods of incarceration and to provide whatever services would be necessary to minimize that individual's risk of repeated offenses. Ultimately, the treatment of mental illness or substance abuse problems, and job placement assistance are needed to achieve this result. Figure 7 notes some potential benefits of this community corrections approach.

Figure 7

Benefits of Community Correctional Approach

- Potential for greater integration with other community-based service programs.
- Potential for reduced recidivism.
- Cost reduction for treatment of nonviolent offenders.

Housing Development. The availability of housing for Californians of all incomes and ages is critical to community success. Specifically, a diverse housing stock enables businesses to recruit and maintain a full work force (without the need for lengthy commutes)—and enables family members of differing incomes and housing needs to live near one another. Local governments play a very major role in determining the cost and availability of housing in their communities—through the adoption of local zoning, growth management, building fee, and other regulatory policies. Finally, there are numerous linkages between the provision of housing for certain groups and the provision of social and public health services, such as in the case of the homeless mentally disabled. For these reasons, the model assigns communities full responsibility for housing development, including the development of low-income housing.

School Districts

K-12 schools and community colleges would continue to play their traditional role of providing education and vocational education. However, the model seeks to encourage greater involvement of K-12 school districts in the provision of services for children. Again, this is a linkage

issue, in that community-based services are often needed to ensure the success of children in school, and in that successfully educated children may be less prone to needing other community-based services. This greater involvement would be achieved through the use of incentives for schools to identify and work with children in need of community-based services. Similarly, the model seeks to encourage greater coordination of community college districts' vocational education efforts with other community job training programs. In general, this would involve providing additional state funding in the form of matching grants or pilot project funding to districts that have entered into agreements with their local communities.

Changes in Revenue Sources

The changes in program responsibility would have the net effect of shifting program costs from the state to the local government level. One objective of the model's revenue system is to counterbalance these cost changes. The other primary objectives are to (1) eliminate barriers to priority-setting at both the state and local levels and (2) eliminate the existing counterproductive fiscal incentives and fiscal disparities of the existing local revenue system. Figure 8 summarizes the changes in revenue allocation that would be needed to accomplish these objectives. The remainder of this section discusses these changes in greater detail.

Local-Level Changes

As noted above, the model would offset the cost shifts by allocating a higher share of the local property tax to cities and counties, and a lower share to school districts. Recognizing that local communities differ in the needs of their residents for community-based services, the allocation of base property tax revenues would be initially equalized across communities, in a fashion that promotes equal opportunities for local community success. In addition, in order to eliminate unproductive competition between local agencies over the siting of retail operations, the existing Bradley-Burns local 1 percent sales tax would be replaced by a corresponding increase in the state sales tax rate.

Allocation of Property Tax Revenues. Local property tax allocations for cities and counties would be increased by the aggregate amount of shifted costs and local sales tax revenues. The increased property tax revenues, together with existing local property tax revenues, would be entirely reallocated among local agencies. This would take place in two steps:

- An allocation for *traditional municipal services*, such as fire, parks, and libraries would be determined, taking into consideration other existing sources of local revenue.
- An allocation for *community-based services* would be determined, based on each community's relative needs for these services, including police and community corrections.

Thus, the initial allocation of property taxes is intended to equalize revenue allocations on the basis of communities' relative needs for services, in order to promote equal opportunities for local community success.

Figure 8

Changes in Revenue Allocations

- Offset Cost Impacts of Program Responsibility Changes.
- Shift property tax allocations from schools to cities and counties to offset net state-local cost shifts.
- Eliminate Counter-Productive Fiscal Incentives
- Transfer 1 percent local sales and use tax to state level, offset with increased property tax allocations.
- Higher State Funding for Schools to Offset Property Tax Shift
- Reduced school property tax allocations offset by higher state assistance.
- Equalize Opportunities for Community Success
- Redetermine each community's allocation of property taxes, taking into consideration the need for both municipal and community-based services.
- Facilitate Priority-Setting
- Repeal earmarking of realignment and cigarette tax revenues, eliminate schools' minimum funding guarantee.

Following the initial allocation, the annual growth in property tax revenues would be allocated to the jurisdictions in which the growth occurs (situs), as is now the case. The use of the situs basis for allocating growth provides a feedback mechanism which reflects the level of community success. To the extent communities are successful, they become more attractive places for citizens and businesses, leading to increased property values and higher tax revenues.

The model also recognizes the need of local communities for control over the level of the local revenue stream. The ability of local agencies to determine the appropriate mix and level of expenditures to reflect their

community's preferences is dependent upon the community's ability to raise—or lower—the level of local taxes they pay. To this end, the model would allow a majority of local voters to alter the existing 1 percent limit on local property tax rates, either for services or to fund improvements in public infrastructure. The existing provisions of Proposition 13 limiting increases in assessed values would be retained.

Property tax revenues now allocated to special districts would, instead, be entirely allocated to counties, or to cities in the case of city-dependent districts. These counties or cities would be responsible for funding them or taking over their operations.

Local Sales Taxes. The existing local sales tax encourages cities and counties to make land use decisions that are not optimal from a regional perspective. That is, in order to gain the increased revenues generated by a retail operation, local governments will make siting decisions that increase traffic congestion and other problems for nearby local jurisdictions. In addition, this fiscal incentive causes retail operations to be favored over other types of nonresidential development, which may be preferable from employment and community development perspectives. To remedy this problem, the model eliminates the existing Bradley-Burns 1 percent local sales tax, and replaces it with a corresponding increase in the state sales tax. As noted above, local property tax allocations would replace the revenues lost, on a statewide basis. The existing county-wide 1/4 cent levied for transit purposes and the existing authority for county-wide local option sales taxes would be continued.

State-Level Changes

Changes also are necessary at the state level. Specifically, the model makes changes in the allocation of existing revenues dedicated for "program realignment," and in the Cigarette and Tobacco Product Surtax (CTPS) funds, which help to facilitate the changes in program responsibilities. Changes in the allocation of trial court and vehicle-related revenues are needed for similar reasons. Finally, in order to facilitate priority-setting, changes are needed in existing constitutional provisions related to school funding. In the remainder of this section, we discuss these aspects of the model in greater detail.

Realignment Revenues and Tobacco Taxes. Under existing law, certain portions of the state's sales and use tax revenues and of the Vehicle License Fee (VLF) revenues are deposited in the Local Revenue Fund and transferred to counties to pay health and welfare program costs associated with the 1991 realignment legislation. In addition, revenues attributable to the CTPS are earmarked for health services, health education, and resources programs. This model eliminates the earmarking of the

existing realignment and CTPS related revenues to provide greater flexibility at the state level for the prioritization of state expenditures. The loss of realignment revenues at the local level would be taken into consideration in determining the level of property tax revenues needed to support costs shifted from the state level. Sales tax revenues associated with the realignment program and the CTPS revenues would instead be deposited in the state General Fund. The realignment-related VLF revenues, in combination with the basic VLF revenues, would be allocated to cities and counties on a per capita basis for general purposes.

Trial Court-Related Revenues. Revenues derived from the wide variety of existing fines, forfeitures, penalty assessments, and filing fees would be retained by the state and deposited in the General Fund. Local agencies would retain parking and other vehicle-related fines, and jurisdiction over these infractions would be transferred from the trial courts to local agencies.

Schools' Minimum Funding Guarantee. The changes in revenue allocation discussed above cannot be accomplished without, at a minimum, modifications in the existing Proposition 98 minimum funding guarantee. This is because the guarantee is based, in part, on levels of General Fund revenues, and these levels would be increased by the model's changes. While the model does not address the appropriate aggregate level of school funding, the earmarking of specific portions of state-level resources is fundamentally inconsistent with the overall changes the model seeks to implement. For this reason, the model eliminates the existing funding guarantee, rather than attempt to modify it to accommodate the model's revenue changes.

Establishment of Incentives and Sanctions

Even with the separation of state and local functions we propose, a great deal of interdependence would remain. For example, the success of local communities in providing job training to needy individuals could reduce the demands on the state for cash grant payments. Similarly, greater effectiveness of local land use planning and development practices can contribute to the reduction of regional environmental problems for which the state has assumed responsibility. In order to promote a greater consistency of local actions with statewide objectives, the model relies upon incentives and sanctions to achieve this goal. This section discusses the general types of incentives and sanctions that appear to be necessary.

"Failure Cost" Incentives

As noted above, the effectiveness of local efforts in the provision of community services can reduce the demands placed on the state's cash grant and health care programs. In order to provide a greater incentive for communities to be successful in certain critical areas, the model would impose a local share of cost for specific state services provided to community residents. Specific examples of where these "failure cost" incentives would impose a local share of cost include:

- *Prenatal and pregnancy* services provided by the state, to encourage more effective provision of family planning and education services locally.
- *AFDC-U* payments to individuals, where those individuals remain on welfare past some period of time, to encourage greater efforts to employ these persons.

Success Awards

Similar to the "failure cost" incentives, the success awards attempt to increase the incentive for effective community service provision by rewarding local actions that have a positive effect on reducing the demand for state cash grant programs. For instance, this would take the form of state payments to local agencies which successfully convert long-term AFDC Family Group payment recipients to financial independence.

Another area where such an incentive is appropriate is to encourage the establishment of alternative dispute resolution mechanisms. Civil cases account for a large share of court workload, and often wind up being settled after trial procedures have already begun. To the extent that these mechanisms are successful, they reduce trial court workload, as well as reduce the legal expenses of community participants.

Planning and Performance Sanctions

This portion of the model addresses the need for a mechanism both to motivate better coordination between levels of government and to promote achievement of statewide objectives. It accomplishes this through revisions and expansions of the existing local planning process, reinforced by the use of sanctions. There are two major types of changes contemplated:

- Changes that better integrate statewide objectives into the local *land use planning and development process.*
- Changes that incorporate objectives and goals for *local community-based services* into the planning process.

The nature of these changes essentially converts the existing local general plan process into a community strategic planning process akin to that now pursued by major corporations.

Land-Use Planning and Development. Essentially, the model seeks greater consistency between local plans and statewide objectives in the areas of housing, environmental protection, air and water quality, and transportation. It also contemplates that plans include standards by which their progress towards meeting these objectives may be measured. While communities are not required to comply with these changes, the model makes compliance a condition of state assistance. Specifically, local agency plans would have to pass a consistency review in order for the agency to qualify to receive state fuel tax and vehicle license fee subventions, transit subsidies, and priority for project inclusion in the State Transportation Improvement Program. As is now the case with general plan housing elements, the model would require state or regional agency review of new and existing plan elements to determine consistency. In order to ensure that progress is made towards the achievement of these planning goals, the model would grant broad standing to bring legal actions asserting lack of compliance. The primary remedy in such actions would be the loss of state assistance funding.

In addition, the model would make alterations in existing environmental review procedures to facilitate "master environmental impact" statements for these plans. This would allow local agencies to issue final development permits for projects that do not require special or unusual review procedures, instead of requiring that multiple permits be obtained from several different agencies, as is now the case.

Community-Based Service Plans. Local plans would contain a new community services element to lay out the community's general approach to the provision of community-based services. It would specify how services would be coordinated and delivered for different categories of recipients, the roles of different public and private organizations in the communities, and how it would meet its job training and development needs. In this case, state review would be limited to those aspects needed to address federal requirements, but the same broad standing to bring legal action would be provided to address performance concerns.

IMPLEMENTATION ISSUES

The reorganization model discussed above obviously involves some dramatic changes in the current structure of state and local governments. There are a wide variety of legal and other obstacles to its actual imple-

mentation, and its scope probably dictates that the package of changes be phased in over time. In this section, we discuss some of the larger constitutional and federal issues that would need to be dealt within proceeding to develop this model, and in providing for a transition to the new system.

Changes in the State Constitution

Several of the changes described above would require the elimination or addition of provisions in the State Constitution. In addition to these specific changes, however, there are other changes needed to eliminate provisions which are now or would become obsolete, or changes which would be appropriate for other reasons. Because of the scope of changes envisioned by this model, the Legislature should propose them in the form of a package of changes to be submitted to the voters. Some of the more important changes include:

State and Local Appropriations Limits. The existing Article XIII B provides for limitations on the growth in tax-funded spending of the state, schools, and local agencies; requires adjustments in these limits to reflect transfers of financial responsibility; and requires state reimbursement of costs mandated on local agencies. Because of the scope of changes envisioned, the improvement in accountability, and the restoration of local control over spending decisions provided by the model, we believe that Article XIII B in its entirety could be eliminated.

Local Government Powers. Article XI now describes the powers of cities and counties, including provisions governing the adoption of charters, ordinances, and boundary changes. These provisions should be revised to reflect the changes in the roles of cities and counties under the model. At a minimum, these changes should include the granting of equivalent municipal powers to all cities and counties.

Homeowners' Property Tax Exemption. The Constitution now provides for a small exemption from property taxes for homeowners and requires that the state provide reimbursement for the associated revenue losses. This provision was originally rationalized on the basis that it encourages home ownership. We believe that this goal is fully addressed by the existing Proposition 13 assessment limitations and by income tax deductions for mortgage interest, and that the provision of state reimbursement for the revenue losses associated with the exemption is inconsistent with the changes contemplated by this model. Accordingly, these provisions of the Constitution should be eliminated.

Trial Courts. Article VI prescribes the powers and composition of the judiciary. These provisions would need to be revised to transfer the responsibility for operating the trial courts to the state from the counties.

Changes in Federal Laws and Regulations

Some of the changes contemplated by the model may not be permitted under existing federal laws or regulations, or would require the creation of new oversight mechanisms at the state level. The state would need to seek law changes or waivers to obtain the necessary authority, or find other ways to satisfy the existing federal requirements. Because the state has had some success in addressing these requirements in the past, these difficulties do not appear to be unsurmountable. For example, federal requirements to maintain a certain funding level for mental health programs did not prevent the transfer of responsibility for these programs to counties under the 1991 realignment legislation.

Issues Involved With the Transition

The scope of changes contained in this model, and the amount of time that would be needed to work out its details, clearly preclude its immediate implementation. Further, difficulties associated with aligning service capabilities with the changes in responsibility argue that a transition period is needed, during which the features of the model would be gradually implemented. While we have not attempted to identify all of the issues that would need to be addressed, they would certainly include the following:

- ***Facility Constraints.*** The shift in emphasis to community corrections suggests an eventual expansion in the capacity of local jail and youth custody facilities. In part, this could be accommodated by the state's turning over title to some state prisons and Youth Authority facilities to local agencies, perhaps in recognition of trial court-related facilities the state would need to assume from local agencies. However, the location of these existing state facilities may not match local jail capacity needs, and time would be needed to accommodate their development.
- ***Sentences of Current Prisoners.*** The model assumes that the sentencing of existing inmates to state prison could be altered to enable their transfer to local arrangements. A specific method for accomplishing this would have to be developed.
- ***Existing Local Financial Commitments.*** The changes in the allocation of revenues could undermine the basis of certain existing contractual arrangements between local agencies and lenders. For example, local agencies may have pledged local sales tax receipts as security for notes of one type or another. Thus, it may be necessary to find ways to facilitate the restructuring of such arrangements.

- ***Public Employees***. The model would effectively change the status of many state and local employees. Actions to facilitate the transfer of state employees to local employment, and local employees to state employment, would be necessary.

CONCLUSION

The model we have outlined above requires a major reworking of our system of government, and the changes are potentially disruptive to both the citizens and institutions of this state. Notwithstanding this fact, we believe that continued reliance upon our existing system of state and local government entails a far larger risk to the public—the failure to move forward in resolving the social and economic problems of the state. The restructuring we are calling for, in contrast, would provide expanded opportunities for improving the effectiveness and quality of public services needed to ensure the state's future social and economic health.

The realization of these opportunities cannot be accomplished without fundamental changes in how the state assigns responsibility for program operations. This includes allowing those designated to carry out the responsibility to determine how best to carry it out. The public could then hold them completely accountable for the achievement of program outcomes.

As discussed earlier, the development and implementation of the proposed changes would take a period of time to achieve, and we do not underestimate the difficulties inherent in overcoming the implementation problems. Despite these impediments, we believe this model offers a useful framework for making government make sense in California. In the context of resolving the current fiscal crisis, it argues against transferring the local property tax away from local governments to schools, as proposed by the Governor, because this would leave local agencies insufficient incentive to increase the property wealth of their communities. Fundamentally, it suggests that the review of the roles and duties of government at all levels must be considered *prior to making revenue allocation decisions*. The model we have described shows how state and local government program roles can be changed in ways that allow increased flexibility and program control to help mitigate reductions in fiscal capacity. We see no alternative to such a reorganization in the long run and, accordingly, we recommend that the Legislature set in motion a process for implementing a major restructuring of state and local government responsibilities.