

LAFCO - San Luis Obispo - Local Agency Formation Commission
SLO LAFCO - Serving the Area of San Luis Obispo County

TO: MEMBERS, FORMATION COMMISSION
FROM: DAVID CHURCH, AICP, EXECUTIVE OFFICER
DATE: MAY 19, 2011
**SUBJECT: CALIFORNIA FORWARD STAKEHOLDER
ROUNDTABLES FOR SMART GOVERNMENT
FRAMEWORK**

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Attached for the Commission's information are the California Forward's Flyer for upcoming workshops, California Forward's Smart Growth Framework with 5 Draft Proposals, and CALAFCO's initial response and concerns.

California Forward held a Stakeholder Roundtable in Sacramento in April to discuss solutions about fixing the relationship between the State and local government to improve outcomes for all Californians. The Sacramento Roundtable has led California Forward to convene Regional Stakeholder Roundtables in the Bay Area, Los Angeles, Central Valley, Inland Empire, and San Diego during the month of May. The following dates and location are provided below:

Los Angeles – May 16, 18
Central Valley – May 17
Bay Area – May 19, 20, 23
San Diego – May 23
Inland Empire – Date TBD

California Forward hopes to use these regional meetings to learn more from stakeholders about what works in the Smart Government Framework, what doesn't, and what else is needed.

SUMMARY. In summary, The California Forward Conceptual Framework and Draft Proposals set forth a course of action to restructure the state/local relationship with the purpose of producing better results for both taxpayers and people who rely on government services. The Framework proposes five priority outcomes (Increased Employment, Improved Education, Decreased Poverty, Decreased Crime, and Improved Health) that serve as leading indicators for the largest state general fund expenditures.

Attachments

1. CAFWD Flyer
2. CAFWD Smart Government Framework
3. CALAFCO Response

The Framework is predicated on three principles developed by the Local Government Task Force, who helped to conceive this approach to state/local restructuring:

- Public programs should work collaboratively with a focus on shared outcomes. These outcomes should guide policy development, management decisions, and ultimately, accountability, through public reporting of results.
- Fiscal control is essential if local governments are going to be empowered to integrate services, innovate, develop better practices, and achieve economies of scale.
- Regional collaboration can make many services more efficient and effective by allowing local governments to meet large-scale challenges by developing more cohesive service delivery strategies across jurisdictions.

CONCERNS. CALAFCO is concerned with aspects of Draft Proposals 4 and 5. These recommendations include: A) Reliance on Councils of Governments (COG) to review the efficiency and effectiveness of local agencies to meet regional needs; B) COG role in establishing standardized data on effectiveness of local governments; and C) creating a new state commission to review local agency governance. These recommendations, should they become ballot measures this fall, could significantly affect the responsibilities and authorities of LAFCO.

San Luis Obispo LAFCO and the San Luis Obispo Council of Governments are working together on collaborative planning efforts to develop a better understanding and a stronger information base on regional infrastructure. LAFCO's are charged with implementing the Cortese-Knox-Hertzberg Act which includes among many things consideration of six factors when conducting municipal service reviews to understand the cost and effectiveness of local governments.



CALIFORNIA FORWARD – REGIONAL STAKEHOLDER ROUNDTABLES

On behalf of the Leadership Council of *California Forward*, we invite you to participate in *California Forward's* upcoming Regional Stakeholder Roundtables, a series of stakeholder discussions across the state focused on a set of policy proposals designed to make California's government work better. These events will be held throughout the month of May in **San Diego**, **Los Angeles**, the **Inland Empire**, the **Central Valley**, and the **Bay Area**.

The Regional Roundtables follow several months of stakeholder discussions in Sacramento—along with more than 50 civic engagement forums across the state—where *California Forward* has been leading the collaborative development of a policy solution to one of the biggest challenges facing the state: The dysfunctional relationship between the state and local governments.

In the upcoming Regional Roundtables, we hope to explore and refine a set of draft policy proposals called the *Smart Government Framework* that has emerged from these discussions. The Framework outlines a restructuring plan that can produce better results by moving more authority to the local level, refocusing the state on helping communities succeed, and encouraging more regional collaboration.

What will we be doing? In our upcoming meetings, we hope to tap into your experience and creative thinking to further refine these ideas. Our goals for each meeting:

- To get your impression of the proposals
- To explore specific changes you would make to these proposals, as well as any additional reforms you think may be needed to fully enable government to improve results
- To begin laying out how these policies might be implemented in your county

Who will be there? The Regional Stakeholder Roundtables will bring together current and former governmental leaders from counties, cities, schools, and special districts. To encourage multi-disciplinary thinking and problem-solving, it will also include academics, experts, advocates, and other civic leaders. The meetings will be led by **Richard Raya**, *California Forward's* Policy Director, and **Fred Silva**, *California Forward's* Senior Fiscal Policy Advisor.

Your demonstrated leadership in your field and the vital role you will play in implementing these kinds of reforms make you a valuable contributor to this discussion. In particular, we hope this meeting will give you an opportunity to showcase successful local examples of integration, highlight what you feel is not working in this system, and describe what you would do in your county with the increased authority described in the Framework.

More information can be found on *California Forward's* [Regional Stakeholder Roundtable website](#), where you can RSVP to one of our upcoming meetings in the following locations:

Los Angeles – May 16, 18
Central Valley – May 17
Bay Area – May 19, 20, 23
San Diego – May 23
Inland Empire – Date TBD

To get more information, please contact Danielle@cafwd.org.

We look forward to seeing you at an upcoming Stakeholder Roundtable. Even if you cannot attend, we encourage you to [read the Framework and comment online](#) on the *California Forward* website.

Sincerely,
Jim Mayer
Executive Director – *California Forward*



Making California Work Again: Restructuring State-Local Relationships

California may be struggling with a budget crisis and a sluggish economy – but we can fix it. Our state can have a prosperous and environmentally sustainable economy that provides equal opportunities for all, while remaining a frontier for innovation, creativity, discovery, and enterprise.

To get there, governments at the state and local levels must work together to provide cost-effective services and better results. In good times and bad, analysts and blue ribbon commissions' conclusions are the same: We can do better. Most essential services in California are delivered by local governments – counties, cities, school districts, and special districts. But most of the rules regarding who gets funded and how the money is spent are dictated by a state government far from neighborhoods. Taxpayers have little sense of how tax dollars are being used, whether public programs are working, and who to hold accountable. This top-heavy, siloed system also is frustrating for the community-level governments across this vast state of more than 36 million people that are charged with educating children, protecting public health, fighting crime, and building infrastructure.

To improve the results of public programs, the roles of state and local governments need to be restructured. The first order of business should be to better use existing

resources – and to gather more reliable information about how they are being used. The state should establish statewide outcomes and support local efforts to improve results. Counties need to assume greater authority for human services and community corrections. Local services must be integrated, and local governments need to coordinate their efforts to reduce costs and improve results. Studies show that if California could become as efficient and effective as other states in major programs – such as state corrections, public safety, welfare, and mental health – several billion dollars could be saved each year and outcomes could be improved.

California Forward calls this *Smart Government*, and the Restructuring Framework that follows is built upon a simple idea: The three biggest areas of state government spending in the General Fund – education, health and human services, and public safety – are fundamentally interrelated. Better education leads to better jobs, which leads to a healthier population, less crime, and, ultimately, less pressure on government budgets. Programs addressing these challenges must work together – with a renewed focus on cost-effectiveness and improving outcomes – to achieve safer communities, increased employment, reduced poverty, improved health, and educational success.



Restructuring: A Conceptual Framework for Smart Government

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Note: *The California Forward Conceptual Framework and Draft Proposals set forth a course of action to restructure the state/local relationship that will produce better results for both taxpayers and people who rely on government services. These ideas are being collaboratively developed with local government practitioners, stakeholders, and experts involved in a Local Government Task Force, a series of Stakeholder Roundtables, and California Forward’s “Speak Up California” civic engagement forums. (See Appendix 5 for details.)*

Each chapter ends with a principle statement defining California Forward’s approach, followed by a detailed draft proposal. These proposals are intended to facilitate discussions regarding governance in California and to inform future reform proposals. At this point in the process, they are not California Forward recommendations. All five proposals can be found in the Conclusion beginning on pg. 26.

Introduction

The goal of *California Forward* is a state government that works. The California state budget crisis cannot be fully resolved without fundamental reform that restructures the relationship between state and local governments. The following pages outline the essential steps California will need to take to develop a new governance model that promotes a culture of performance and accountability.

This goal is shaped by the “Three Es:” At every level, government should be making simultaneous progress toward achieving:

1. A Prosperous Economy
2. A Quality Environment
3. Community Equity

Californians need to know what they are getting for their tax dollars and what government is achieving. The three biggest components of state general fund spending – education, health and human services, and public safety – are fundamentally interrelated. Better education leads to better jobs, which leads to a healthier population, less crime, and, ultimately, less pressure on government budgets. Too often, these relationships are obscured by the current state government structure.

This Framework offers a straightforward approach to addressing this problem: It proposes five priority outcomes that serve as leading indicators for the largest state general fund expenditures. The intention is to focus structural and fiscal governance reforms on these Big Five Outcomes, not just to balance the budget or close a shortfall – but to realign public programs at all levels to deliver these results:

BIG FIVE OUTCOMES

- Increased Employment
- Improved Education
- Decreased Poverty
- Decreased Crime
- Improved Health

The current state and local structure is failing on several levels: The state struggles to ensure that statewide interests are met, while also complicating the efforts of local governments to hold down costs and provide effective services.

- Part of the reason for this is organizational: For decades, a plethora of state departments and scores of programs have been aimed at addressing one narrow aspect of complex social and economic issues. This organizational evolution has made it difficult to integrate these efforts.
- At the local level, hundreds of autonomous agencies make it politically difficult to shift priorities, share resources, reduce costs and collaborate on shared goals.
- Budget volatility and constraints on how money can be spent make it difficult for local leaders to integrate efforts to improve long-term results.

"This is not a parlor game. It's not just an exercise. Across the country, a discussion has started about how we will deliver services in the 21st century. This is the tip of the spear of that discussion."

- *Ron Loveridge, Mayor of the City of Riverside*

*Testimony at a Stakeholder Roundtable meeting
March 31, 2011*

This Framework is predicated on three principles developed by the Local Government Task Force, a group of current and former city and county officials who helped to conceive this approach to state/local restructuring:

- Public programs should work collaboratively with a focus on shared outcomes. These outcomes should guide policy development, management decisions, and ultimately, accountability, through public reporting of results.
- Fiscal control is essential if local governments are going to be empowered to integrate services, innovate, develop better practices, and achieve economies of scale.
- Regional collaboration can make many services more efficient and effective by allowing local governments to meet large-scale challenges by developing more cohesive service delivery strategies across jurisdictions.

1. Focus on Outcomes

The State of California has a nearly \$90 billion budget without a unified vision and strategy for achieving statewide goals. To improve the performance of public programs, state and local operations must be aligned with measurable outcomes. This will not only allow taxpayers to determine whether these programs are achieving their goals, it also will better serve California's most vulnerable populations.

A comprehensive restructuring of the roles of state and local government must include a range of new measurement tools that will provide information about public progress – and give governments the ability to identify priorities and assess strategic choices. These tools will be especially important for integrating strategies and services and developing a range of new partnerships – among public agencies and between public entities and the private sector. These tools also will be an essential part of creating a new paradigm that allows citizens to better engage with their government by creating more transparency and accountability.

The state will need to set some basic standards for outcomes for public services – reflecting statewide interests and objectives. But more detailed performance metrics will need to be developed at the regional and community levels. Many states and many regional and community governments in California already have adopted a standard format of overarching statewide Outcomes, targeted Indicators, and ongoing Performance Measures.

- **Outcomes:** The state's long-term goals should be expressed in terms of desired outcomes. These outcomes should be embedded in the state budget and used in reviewing policies and creating strategic plans, along with other decision-making venues, to sharpen priorities and inform trade-offs.
- **Indicators of Success:** To determine whether the state is making progress toward its highest priorities, outcomes should be tied to indicators like employment rates, graduation rates, obesity rates, and crime rates. Indicators should inform debates among policymakers and managers on what needs to change in strategies, practices, and personnel to accelerate progress.
- **Performance Measures:** To gauge whether state programs and services are producing the desired results, performance measures are needed to measure program effectiveness and efficiency. These performance measures need to be benchmarked against those in other agencies and states to identify opportunities for improvement.

**WHAT THIS MIGHT LOOK LIKE:
EMPLOYMENT AS AN EXAMPLE**

Outcome	Increased Employment
Indicator	State Unemployment Rate
Performance Measures	<ul style="list-style-type: none"> • Number – Families Participating in CalWORKs • Ratio – Case Manager/Participant • Number – CalWORKs Participants Obtaining Employment

The Benefits of Integration and Collaboration: Developing outcomes-based programs and integrated services can be a challenge in California today. But even with the many limitations imposed by our current system, some communities have found ways to focus their programs on collaboration and other changes to improve performance. See below for several examples of counties that have integrated the services they provide – in partnership with cities, schools, and special districts – to improve outcomes. (See Appendix 3 for more examples.)

- **San Diego County:** In the 10 years since the county began integrating the agencies responsible for public health, mental health, alcohol and drug treatment, and foster care, the restructured programs have generated a total of \$230 million in savings for the county that have been reinvested in performance-based front-line services. Restructuring has helped the county streamline administrative overhead from 21 percent when integration began to less than 12 percent today.
- **San Mateo County:** To encourage county agencies to work together to mitigate the health issues of the county’s most vulnerable people, San Mateo has pooled the resources of three large agencies – human services, juvenile probation and mental health services. These agencies meet once a week to make joint decisions about shared clients. Over the past 10 years, restructuring has resulted in a 50 percent reduction in the number of children being placed out of home, while also reducing levels of incarceration, homelessness, and hospitalization.
- **Alameda County:** Using a Joint Powers Authority, the county has institutionalized an integrated service plan that allows programs from the county, the city of Oakland, and the Oakland Unified School District to work together to keep kids in school, lower Oakland’s high school suspension rates, and reduce crime. The program has thrived for over a decade, through six superintendents and four mayors. “When we put our staff into the schools, these kids become our kids,” says Dave Kears, special assistant to the county administrator. “It doesn’t matter who signs the paychecks. What we discovered was, “We can’t do this by ourselves.””

“We did this with all of the challenges of siloes, and all of the minutiae we have to deal with locally. In spite of all that, we were able to make change happen. Just think of what we could do if we had the flexibility we need.”

- **Nick Macchione**, director of the San Diego County Health and Human Services Agency

Testimony before the Senate Committee on Governance and Finance, January 26, 2011

Lessons Learned: There is an emerging consensus among members of the Stakeholder Roundtables about how the lessons learned from these local efforts can be applied to statewide restructuring, especially in the three most significant areas of government spending – education, health and human services, and public safety. (Details about the ongoing Stakeholder Roundtable dialogues can be found at CAFWD.org/stakeholders.)

- **Education:** There is support for integration both within education programs and between schools and other programs. These efforts will be vital to improving student performance and addressing goals like closing the achievement gap. This would involve two steps:
 - The school system itself benefits from integration. The state has separate early childhood, K-12, and higher education programs, many of which do not communicate as much as needed, or work together to create a seamless workforce or higher education pipeline.
 - Health, welfare, and public safety programs benefit from links to schools such as in the form of community schools, full-service schools, and joint-use schools.
- **Health and Human Services:** There is support for integration and information-sharing in the areas of juvenile justice, child welfare, child mental health, and behavioral health programs. Improved results in these areas will not only help the most vulnerable Californians – they also have the potential for huge savings across the safety net, including:
 - Reduced Medi-Cal expenses
 - Reduced incarceration rates
 - Reduced employee health costs
 - Increased tax revenues from a more economically productive population
- **Public Safety:** There is substantial evidence that the most cost-effective public safety strategies in other states involve a continuum of programs aimed at prevention, early intervention, community corrections, incarceration, and offender re-entry. These efforts also require an integration of services: Many community-based programs have demonstrated the potential benefits of this approach, and, in recent years, California policymakers have attempted to move in this direction. The state has not developed a comprehensive approach, however – or effectively implemented small-scale efforts to deploy programs that have cost-effectively reduced crime in other states.

“For restructuring the fiscal relationship between state and local governments, this is the time. We can all agree on that. The stars are aligned, but that’s not a guarantee of anything other than the stars are aligned. We have an opportunity, and we need to take advantage of it.”

- **Senator Lois Wolk**
Chair, Senate Committee on Governance and Finance

Testimony at a Stakeholder Roundtable meeting, March 10, 2011

Local experimentation will be a critical part of this process. Even if some temporary failures occur, a new statewide focus on integrating public services to improve outcomes will help drive a culture change in California's public sector from risk-aversion to one of innovation and excellence.

PRINCIPLE I

California government must be aligned to a clear, unified vision, and restructured to focus decision-making on improving performance. The new structure must systematically encourage decision-makers to change policies, budgets, personnel, and practices to improve results – and the public knowledge of these results is essential to restore accountability to the people.

DRAFT PROPOSAL I – FOCUS ON OUTCOMES

Aligning program outcomes with larger statewide goals should follow a standard cascading format – similar to those already used in other states – of overarching outcomes, targeted indicators, and ongoing performance measures. A widespread stakeholder process involving both state agencies and local governments will be necessary to establish desired program outcomes. To allow local agencies to demonstrate more progress toward achieving outcomes, the state should allow for greater flexibility in how those outcomes are achieved.

- **Outcomes:**
 - The state should prioritize at least the Big Five Outcomes – Increased Employment, Improved Education, Decreased Poverty, Decreased Crime, and Improved Health.
- **Indicators of Success:**
 - At least three Indicators of Success in each of these outcome areas should be developed by local governments in consultation with the state. The Indicators of Success should be in line with state (and where appropriate, national) objectives and approved by legislators.
 - Cities, counties, schools, and special districts should develop a five-year strategy and an annual action plan for achieving these Indicators of Success, relying where possible on proven and evidence-based practices. The strategies should be publicly presented annually to their regional Council of Governments.
- **Performance Measures:**
 - Progress made by cities, counties, schools, and special districts toward achieving these indicators should be reviewed annually during the state budget process, and quarterly at the state departmental level.
 - This county performance information should be published on the state website and should be used to make programmatic and fiscal decisions at the state and county levels.

POTENTIAL MODELS (see these and more online at **CAFWD.org/bestpractices**)

- State of Maryland StateStat: Modeled after the CitiStat performance-measurement and management tool that has been successfully implemented in Baltimore, StateStat uses a data-based management approach to make public programs more efficient and accountable by continually evaluating state performance. Key public safety, health, and social services agencies are already involved, from the Department of Juvenile Services to the Department of Housing and Community Development.
- Washington State Priorities of Government: This budget approach creates a strategic framework for public investment decisions, prioritizing activities that guide the governor's budget proposal to the Legislature – and helping communicate that budget to the public. As part of the Priorities of Government plan, every agency in Washington has been asked to answer eight questions related to whether their activities are essential to state government and whether they are being delivered in the most cost-effective manner.
- Virginia Performs: A performance leadership and accountability system within state government, Virginia Performs aligns specific state agency outcomes with larger statewide goals. Outlining a vision for Virginia's future – including responsible economic growth, an enviable quality of life, good government, and a well-educated citizenry – the state has defined key metrics like obesity in adults, graduation rates, and acres of land preserved to gauge whether it is getting results on its highest priorities.

2. Align Authority and Revenue with Responsibility for Results

To achieve the outcomes described above, local communities will need more authority to integrate services and collaborate with other communities to improve outcomes. The goal of restructuring is not to move all functions from the state to local governments, but to ensure the most appropriate alignment at each level of government of both program operations and fiscal control to get the job done.

For more than 125 years, Californians have thrived with a bottoms-up approach to community governments. With few exceptions, most of the state's local governments were created by groups of people using state statutory procedures to provide services and regulate land-use based on local preferences. This system of locally controlled community government – cities, counties, school districts, community colleges, and special purpose districts – has been a hallmark of California's system of governing. The desire to reinvigorate local governance should build on this tradition, with the state continuing to maintain some responsibility where appropriate.

2011 Realignment: Governor Brown has proposed taking a substantial step toward greater local control, starting an essential conversation and ultimately a negotiation among elected officials at the state and local levels. The Governor suggests realigning responsibility for community-based corrections, mental health services, foster care, child welfare, and substance abuse. His plan shifts a total of \$5.9 billion in programs and proposes a five-year extension of \$5.9 billion in taxes (1 percent sales tax and 0.5 percent Vehicle License Fee) to fund the realignment. The state would be constitutionally obligated to fund the programs after the five-year extension expires. The proposal expresses intent to give maximum flexibility to local governments to administer these programs.

If enacted, the 2011 Realignment will serve as a cornerstone for the comprehensive restructuring proposal that is outlined in this document. Its strengths include its community focus, its alignment of programmatic responsibility with fiscal authority, and its predictable and stable funding source accompanied with a constitutional guarantee.

Comprehensive Restructuring: Long-term, comprehensive restructuring should take the next step – linking statewide objectives with improved outcomes, encouraging interagency collaboration, and including incentives for local agencies to engage in functional as well as structural consolidation. Many local officials have said unfunded pension obligations also must be addressed for them to be able to effectively manage greater responsibilities, and this may need to occur at the local level. Regional mechanisms also need to be developed for generating the workforce, infrastructure, and regulatory framework that would allow for economic vitality, particularly in communities with chronic underemployment.

This comprehensive restructuring will require shifting both (1) program authority and (2) fiscal authority to local governments:

1. Program Authority: Improving local outcomes should be the responsibility of communities. Local governments can do this most effectively if they have more control over the way they provide programs. Counties, for example, should have primary authority over most public safety, self-sufficiency, social services, and behavioral health programs.

- To achieve positive outcomes, local governments need the following authority:
 - The ability to set priorities within the outcome framework, including which problems, issues, or opportunities are most important.
 - The ability to develop strategies, partnerships, and programs to respond to those priorities.
 - The ability to integrate services to achieve the best outcomes.
- To achieve positive outcomes, other barriers need to be identified and removed:
 - Federal requirements that discourage innovation or best practices.
 - Limits in the state constitution, statutes, and regulations that increase costs without value or block cost-effective solutions.
- Cities, counties, school districts, and special districts have always enjoyed different degrees of autonomy in California, and some of these distinctions should continue.

Restructuring the state's public service system won't just improve outcomes – it also can cut costs. Studies show that if local governments could bring programs like CalWORKs, public safety, and mental health to the same levels of effectiveness and efficiency as other states, **California could save billions of dollars each year.**

2. Fiscal Authority: In addition to program authority, improving the outcomes of communities' public programs will require giving local government more discretion over revenues. A more simple fiscal system also should enable Californians – as advocates, clients, citizens, and taxpayers – to more easily express their desires and hold government accountable.

Aligning the fiscal system to a performance-oriented structure will require major changes to two elements of the state's fiscal system:

- **The revenue system:** The current revenue structure must be realigned with local government responsibilities.
- **The allocation system:** The way the state allocates dollars at the county, regional, and state levels must evolve, as well.

Principles of a Results-Based Revenue Structure:

Since community governments vary in the types and scale of services they provide, California needs a flexible revenue structure that does not ignore historical choices, while also encouraging new fiscal arrangements that allow local governments to be responsive and accountable to citizens, voters, and taxpayers. The objective is to provide a revenue structure that is flexible enough to meet local needs, while also allowing the state to maintain equity among community governments focusing on improving outcomes.

The following principles define *California Forward's* approach:

1. **Local governments need control of local revenue.** The local control envisioned by *California Forward* would have three components:
 - o The state should not direct or redirect or condition the use of local revenue.
 - o Local governments, working together within an established process, need authority and incentives to allocate local resources to reflect changing public priorities and to encourage efficiencies and better outcomes.
 - o Within some limits, local taxpayers need appropriate control over the level of taxation.

2. **Revenue sources should be matched to the appropriate unit of government.** This will vary based on service responsibility and the administrative and economic nature of the tax. This could include reassigning revenue streams to local governments that are given more responsibility. For example, is the property tax more appropriate for municipal services? Are sales and other transaction taxes a more appropriate way to fund county and regional scale services?

THE RIGHT FISCAL INCENTIVES CAN IMPROVE PERFORMANCE – AND SAVE MONEY

In Arizona, counties are rewarded with 40 cents on every dollar the state saves by not having to lock up county-managed probation violators. The counties, in turn, are able to use those funds to strengthen offender supervision and victim services – but they continue to receive those dollars only if crime by probationers falls or holds steady. This tightly drawn fiscal incentive is strongly supported by both counties and voters, as it reduces the number of prisoners and gives local government more flexibility. When successfully implemented, studies show this collaborative approach to corrections reduces prison reentry by as much as 20 percent, while also directly improving the state's bottom line.

3. Revenue sharing agreements between governments should be encouraged.

Fiscal incentives are some of the most effective tools the state can use to encourage service integration. Most of the state's largest programs are fundamentally interrelated. Revenue sharing agreements can support strategies for integrating services and targeting resources to community and regional priorities and needs. A realigned revenue system should allow for that cooperation, while other state-based revenues should be allocated to reward cooperation. This might involve sharing savings, for example, or revenue pooling at the countywide or regional scale.

PRINCIPLE 2

Transforming the performance of public programs will require systematic change, not just shifts in responsibilities and resources. The new structure needs to be supported by a restructured fiscal system that constitutionally guarantees control of revenue to the level of government responsible for delivering services. In addition, aligning authority and responsibility with those resources is essential to encourage the integration needed to improve results.

DRAFT PROPOSAL 2 – ALIGN AUTHORITY WITH RESPONSIBILITY

PROGRAM AUTHORITY ALIGNMENT

To promote accountability, efficiency, and effectiveness, the state should grant control of funding and programs for locally delivered services to cities, counties, schools, and special districts. The state should provide fiscal incentives to local governments that include the reallocation of state savings resulting from successful local strategies. In exchange, cities, counties, schools, and special districts should agree to:

- Coordinate the pursuit of an evidence-based, interagency approach toward local improvement across the Big Five Outcomes.
- Hold themselves accountable to these Outcomes by tracking Indicators of Success, and provide an ongoing public review mechanism. This should include regular publication of agency report-cards detailing each agency's funding allocation, how it was spent, as well as program outcomes.
- Share program resources to create economies of scale and maximize the return on taxpayer investments.
- Be transparent and efficient regarding administrative overhead costs, including pension costs.
- Use fiscal incentives, including local savings as well as state savings resulting from local successes, to invest in and expand approaches that are working.
- Ensure that there is more flexibility for local governments to contract with non-profit organizations working toward the Big Five Outcomes.

REVENUE AUTHORITY ALIGNMENT

Local governments currently have limited ability to finance joint services. To align the revenue structure with local government responsibilities – and to provide local governments with greater flexibility to provide services collaboratively – three major steps must be taken.

1. **A new constitutional authority is needed:** A legal construct (statutory and constitutional) must be developed that enables local governments to develop local agreements for reassigning responsibilities and revenue in a way that is transparent to citizens. These local agreements would include increased authority over distribution of the property tax and the locally levied sales and use taxes. It would not require changes in the tax rate or the property assessment system established by Proposition 13.
2. **State appropriations must be adjusted:** A portion of state resources – including General Fund, fuel taxes, and a portion of transportation, resources, and other bond funds – would need to be appropriated to regions to support integrated regional plans for infrastructure, environmental projects, and workforce development.
3. **Changes to the tax structure are necessary:**
 - This could involve broadening the sales tax base for selected services. The first opportunity to do this would be to extend the tax to services that are connected to currently-taxed retail goods such as auto repair. Tax base-broadening could be offset with lower tax rates. Consideration would be given to defining transaction taxes to capture new aspects of economic activity, including the 'greener' economy.
 - Business-related income that is now taxed under the personal income tax could be transitioned to the corporate tax to reduce volatility.

An Example of a Voluntary Revenue Restructuring Authority: One County's "30-30-40 Plan"

The revenue flexibility outlined above would greatly simplify the current revenue system by moving more authority over local revenues to local governments, while providing a way for the state to maintain equity statewide.

This revenue flexibility would be voluntary: If County X elected to restructure its revenues, for example, its cities and other service providers would establish an intergovernmental agreement for the allocation of public services and the locally levied taxes (e.g. property and sales taxes) necessary to implement them.

One way County X might distribute these resources would be a "30-30-40 Plan" that shares property taxes among cities, the county, schools, and special districts in a more straightforward manner than the current system – with municipal services collecting roughly 30 percent, countywide services collecting roughly 30 percent, and education services collecting roughly 40 percent.

This new model would decrease the competition among local governments over revenue streams and allow taxes to be connected to the level of government where services are being provided – promoting transparency, simplicity, and ease of administration. *(A detailed chart outlining how these revenue options can contribute to improved results can be found in Appendix 1 on pg. 34.)*

Examples of Restructured Services in County X:

1. **Municipal services:** There is no straight line in the current system between property tax revenues and the provision of municipal services. Some cities receive a large share of property taxes, while others do not, leading to some competition among governments for sales tax dollars. In County X, a city that provides a full range of services like law enforcement, fire protection, utilities, libraries, parks and recreation planning, and community development would receive 30 percent of the property tax collected within the boundaries of a city. This would apply to unincorporated areas of the county that receive municipal services through their county, as well as to special districts that provide municipal services.
2. **Countywide services:** County programs ranging from election and tax administration to community corrections and health and human services currently rely on a share of the property tax that varies from county to county. County X could choose to receive a much more stable 30 percent share of countywide property taxes, which would be shared between the two major types of county services:
 - **Local services:** County services that are local in nature and are not administered as an agent of the state, primarily social services programs that do not have a health-related component.
 - **Agent-of-the-state services:** County health and human services that are administered locally by counties serving as agents of the state. This includes public health, mental health services for the elderly, and health services for local income populations, among many others.

To ensure that all counties have the resources they need to improve outcomes in health, social services, and criminal justice, the state also would distribute a share of the statewide sales tax to counties to maintain equity of effort. *Options for this state revenue allocation are listed below.*

3. **K-14 education agencies:** The current education finance system is the least transparent of all of the state's revenue systems. For the most part, school districts rely on a mix of property tax and state aid that varies from district to district and county to county. In County X, K-14 education agencies would receive roughly 40 percent of local property taxes, while a substantial portion of the state General Fund would remain dedicated to K-12 education to maintain equity across the state. *(Under this voluntary model, a countywide minimum of local tax effort would need to be dedicated to schools to ensure local participation.)* These funds would be allocated on a weighted per-pupil

formula, instead of the current average daily attendance formula. The new model also would include a system for assistance to community colleges.

4. **Regional collaboration:** No system exists today for financing regional infrastructure projects or for encouraging program collaboration. To encourage coordination of services on a regional level, the new model would provide fiscal incentives to local governments like County X – or neighboring Counties Y and Z – that take action to improve efficiencies, integrate services, and cooperate regionally. The revenue source for these incentives would come from a region-wide tax such as a sales tax or from a portion of the growth on state business taxes. This would encourage increased economic activity within the region.

REVENUE ALLOCATION MODELS

All of the options for a new local revenue model assume the presence of some form of state assistance to meet underlying statewide goals for improved outcomes. Even if counties decide not to pursue revenue restructuring plans like the “30-30-40 Plan” above, the new state responsibility will require an allocation model that will fit into a new state-local finance system.

For the purpose of discussion, three models are suggested. *(More details on each model, including examples to illustrate how each might work, can be found in Appendix 2, beginning on pg. 35.)*

- **The Compact Model:** A compact is a formal bilateral agreement between the state and local governments that would outline roles, responsibilities, and financing. The governments responsible for the service would have broad discretion as to the manner of delivering the service subject to the accomplishment of mutually agreed outcomes.
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- **The Block Grant Model – Children First:** The state could simply set up one or more broadly-crafted grants to support locally defined services directed at improving outcomes for a targeted group such as children. The purpose of the grants would be to provide local government maximum flexibility in the delivery of services and encourage inter-county and regional collaboration. Participating governments would have broad discretion over service delivery, flexibility in co-mingling program funds, and freedom from state oversight and administrative rules.

POTENTIAL MODELS (see these and more online at CAFWD.org/bestpractices)

- **SB 678:** In 2009, to address the problem of repeat offenders accounting for 40 percent of new felony prison admissions, the state Legislature passed SB 678, also known as the *California Community Corrections Performance Incentives Act*. Drawing from evidence-based practices in other states, the legislation established a new performance-based funding

system to supervise the state's adult felony probationers. This legislation requires interagency collaboration, and provides a financial incentive to locals for achieving outcomes by reallocating state savings to local programs.

- 1991 Realignment: In 1991, the state enacted a major change in the state and local government relationship that involved the transfer of some mental health, social services, and health programs from the state to county control. This realignment altered program cost-sharing ratios and provided counties with dedicated tax revenues from the sales tax and vehicle license fee to pay for these changes.

3. Adjust the State Role

There are vast social, economic, and geographic differences in California. State leaders must balance their desire to tell local government how to achieve statewide goals with the need for local leaders to develop and execute strategies that make sense in their communities. While the state may give up uniformity in how services are provided, the potential upside is continuous improvement in outcomes, even if some communities get better faster than others.

The state's role after restructuring would include the following:

- Establishing statewide performance objectives:
 - Defining the state's desired outcomes – that is, establishing what it is the state is trying to achieve – as well as establishing statewide performance and equity standards.
 - Ensuring data are collected and publicly available. Cost, performance and other data are essential tools for state and local officials, as well as the public.
- Tying statewide objectives to performance-based budgeting and management: To be effective, performance data must be tied to state-level decision-making, including the budget decisions that may remain at the state and the management of the new support role.
- Assisting local governments to meet outcomes:
 - **Technical assistance:** serving as a convener of peer-to-peer technical assistance that will allow successful communities to share analyses, best practices, and expertise with other parts of the state. This should involve an annual assessment by state departments of county program outcomes to identify areas in need of support, coordination, and assistance.
 - **Fiscal incentives:** encouraging improvements in strategy and execution.
 - **Performance mechanisms:** encouraging continuous improvement (publishing performance data, for example). This will help refocus local governments on pursuing success instead of avoiding failure.
- Intervening when local governments fail to meet statewide objectives. This might include:
 - State intervention, which should be handled by having another successful local agency – a peer, in other words – help a failed agency restructure or stabilize. Agencies falling short of performance thresholds could receive technical assistance from teams made up of state and peer administrators. They also could be assisted by consortiums of experts like the Fiscal Crisis Assistance and Management Team or the UC Davis Center for Human Services.
 - The state's role would be to set performance standards for when the failed agency could resume full operations.

- Sanctions and/or temporary state takeovers of local administration involving state administrators assuming local powers should be avoided whenever possible and considered a last resort.
- Reconsidering the role of state agencies, given their new roles, to eliminate overlapping functions or pursue consolidation opportunities.

PRINCIPLE 3

In the new structure the state has an essential role of establishing – in collaboration with local agencies – statewide outcomes reflecting statewide goals and values, ensuring that data is available to measure effort and performance, and facilitating learning and best practices to encourage continuous improvement.

DRAFT PROPOSAL 3 – ADJUST THE STATE ROLE

In addition to the draft proposals above, the state needs to restructure legislative and executive activities to provide a new form of leadership and technical assistance. The state also will continue to play a vital role in ensuring minimum standards across the state to maintain equity. Specifically, the state's role will be to:

- Establish the Big Five Outcomes for state programs in collaboration with local communities, and measure indicators of success annually.
- Incentivize collaboration among local programs based on evidence-based practices.
- Provide encouragement and serve as a convener of peer-to-peer technical assistance, so successful local governments can share best practices around achieving better outcomes and improving fiscal management. This also should include performance-based management training.
- Quantify savings to the state based on positive outcomes (e.g. reducing the number of people sent to prison can be directly tied to a reduction in state prison operating costs).
- Allow cities, counties, and schools to retain local savings.
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POTENTIAL MODELS (see these and more online at CAFWD.org/bestpractices)

- Washington State Priorities of Government: This zero-based budget approach creates a strategic framework for public investment decisions, prioritizing activities that guide the governor's budget proposal to the Legislature – and helping communicate that budget to the public. As part of the Priorities of Government plan, every agency in Washington has been asked to answer eight questions related to whether their activities are essential to state government and whether they are being delivered in the most cost-effective manner.
- Council on Virginia's Future: The Council on Virginia's Future was established in 2003 to develop a vision and long-term goals for Virginia's future. It also was tasked with developing a performance leadership and accountability system for state government that aligns with and supports achieving the vision.
- The Commission for a New Georgia: The Commission for A New Georgia was established in 2003 by Governor Sonny Perdue to launch a management turnaround that would make Georgia the best-managed state in America.
- The Prime Minister's Delivery Unit: The Prime Minister's Delivery Unit was established in June 2001 by former British Prime Minister Tony Blair to monitor progress on and strengthen the British Government's capacity to deliver its key priorities across education, health, crime and transport.
- Substance Abuse Mental Health Services Administration (SAMHSA): SAMHSA is a federal program that allocates funding to the states for substance abuse services and requires recipient agencies to document performance and report information as a condition of receiving funding.

4. Foster Regional Collaboration

Many of the challenges facing California's communities – land-use and environmental issues, for example – can be most effectively handled not just by one or two counties, but by regions. Local governments, particularly schools, should be encouraged to work together to create the workforce and infrastructure required by their regional economies. The state should not add another layer of bureaucracy, but rather provide the right fiscal and regulatory incentives to encourage public agencies and private entities to coordinate their efforts and integrate activities. This will help local entities find innovative ways to achieve the Big Five Outcomes.

Examples of regional solutions and their benefits often involve land-use and transportation:

- **Metropolitan Planning Organizations**, for example, were created in the 1960s to coordinate distribution of state and federal transportation funds. They serve as venues for representatives of local government and state transportation authorities to come together to make long-term transportation plans for different regions. Over the years, these groups have often proved to be effective collaborative models – taking into account available funds, the region's integrated goals, and the needs of the region's residents.
- **The California Inter-regional Blueprint** is an example of a plan to link statewide transportation goals and regional transportation and land-use goals to produce a unified transportation/land use strategy.

One barrier to regional partnerships is the disconnect between regional entities and the state's core fiscal system. As a result, many regional activities rely on the goodwill of cities and counties to coordinate their efforts.

Local strategies for infrastructure investments and workforce connectivity are already coordinated by existing regional agencies and structures that can be linked to outcomes-based plans for schools, cities, and counties. These include:

- Metropolitan Planning Organizations
- Regional economic development initiatives
- Joint Powers Authorities, such as Councils of Government
- Multi-county special districts (the East Bay Regional Parks District, for example, or the Bay Area Rapid Transit Authority)

PRINCIPLE 4

The new structure needs to provide regulatory, fiscal and other incentives to encourage cooperation among local governments to efficiently and effectively meet regional needs.

DRAFT PROPOSAL 4 – FOSTER REGIONAL COLLABORATION

Regional Councils of Government – or, in areas where it is appropriate, other existing collaborative planning entities – should develop an annual reporting process to review city, county, school, and special district strategies for achieving the Big Five Outcomes, and to incentivize progress toward achievement of Indicators of Success. This should include incentives that will encourage cities, counties, schools, and special districts to develop a robust pipeline between the educational system and the workforce needs of the regional economy. It also should include protections that give regions long-term flexibility throughout the period of implementation.

POTENTIAL MODELS (see these and more online at CAFWD.org/bestpractices)

- Senate Bill 375 (Chapter 728, Statutes of 2008): SB 375 directs the Air Resources Board to set regional targets for the reduction of greenhouse gas emissions. Aligning these regional plans is intended to help California achieve GHG reduction goals for cars and light trucks under AB 32, the state's landmark climate change legislation.
- Strategic Growth Council grants: The Strategic Growth Council manages and awards grants and loans to support the planning and development of sustainable communities. These grants aim to coordinate the activities of state agencies to improve air and water quality, protect natural resources and agriculture lands, increase the availability of affordable housing, improve infrastructure systems, promote public health, and assist state and local entities in the planning of sustainable communities.
- California Partnership for the San Joaquin Valley: The California Partnership for the San Joaquin Valley is an unprecedented public-private partnership sharply focused on improving the region's economic vitality and quality of life for the 3.9 million residents who call the San Joaquin Valley home. The Partnership is addressing the challenges of the region by implementing measurable actions on six major initiatives to help the San Joaquin Valley emerge as California's 21st Century Opportunity.
- California Stewardship Network: The California Stewardship Network is composed of 11 diverse regions across California who came together to develop regional solutions to the state's most pressing economic, environmental, and community challenges.
- California Regional Economies Project: Through a regional perspective, the California Regional Economies Project improves understanding of how the economy is changing, where changes are concentrated, and what catalysts and conditions are causing those changes. In addition, the project assesses how change in one region affects other regions and the state as a whole.

- Several outcomes-focused, reported metrics might be used regionally:
 - California Regional Progress Report (California Strategic Growth Council)
 - Re-Imagining California, A Sustainable Future for the Golden State (Women's Environmental Leadership League "WELL" Network)

5. Encourage Integration and Consolidation

As California has grown, the number of cities has increased, often as a way for communities to ensure local control. At the same time, some units of government – school and special districts, in particular – have remained, even as their populations have expanded far beyond historic geographic boundaries. Most existing political boundaries are justifiable, but opportunities do exist to consolidate some areas of government to develop more efficient and effective service delivery.

This process should build on the work of the *Commission on Local Governance in the 21st Century*, a commission led by former Speaker of the Assembly Robert Hertzberg. The Commission issued a report in 2000 recommending revisions to the laws that govern city, county, and special district boundary changes. Even after many of these recommendations were enacted, an abundance of governmental entities remain in California:

California's local governments:

- Counties: 58
 - County Service Areas: 895
- Community college districts: 72
- Cities: 481
- School districts: 1,043
- Independent special districts: 2,189

Options for encouraging political and functional reorganization:

- More authority could be given to counties and cities to consolidate special districts solely within their jurisdictions.
- Reduce thresholds/barriers to reorganization.
- More authority could be given to Local Agency Formation Commissions (LAFCo), countywide groups that ensure the orderly formation of local government agencies in every California county.
- Public release of data and analysis, including cost and performance comparisons. The state could provide fiscal incentives, including one-time matches for documented cost savings.

Functional integration:

- Smaller units of government could be given technical assistance for sharing administrative, maintenance, technology, and other functions, while still being able to maintain political autonomy and accountability.

PRINCIPLE 5

Local agencies need the incentives and the analysis to make organizational or functional consolidations to reduce costs and improve service.

NOTE: The draft proposals below outline two potential – but quite different – approaches to consolidation. A local commission (the Local Agency Formation Commission, or LAFCo) tasked with examining the efficiency and effectiveness of local agencies already exists in each county. Rec. 5A proposes several ways these commissions might be refocused on consolidation. LAFCos do have some built-in political constraints, however, since LAFCo commissioners also represent cities and counties. Rec. 5B examines another option, which would involve creating an independent commission to conduct these analyses statewide.

DRAFT PROPOSAL 5A – ENCOURAGE INTEGRATION AND CONSOLIDATION

LAFCos in each region – which are currently tasked with “encouraging the orderly formation and development of local agencies based upon local conditions and circumstances,” along with contributing “to the logical and reasonable development of local agencies in each county... [in an] efficient and accountable manner” – should establish a process with their Regional Councils of Government to present standardized data on the quantity, cost, and effectiveness of local governments in the region.

- This should take advantage of existing LAFCo municipal service reviews, comprehensive studies designed to better inform regional bodies, local agencies, and the community about the provision of municipal services.
- LAFCo reviews also should include regional analyses of the number of jurisdictions in each region, their boundaries, the role of each agency in the jurisdiction, these agencies’ goals and results, and identify any opportunities for consolidation.

DRAFT PROPOSAL 5B – ENCOURAGE INTEGRATION AND CONSOLIDATION

The governor and Legislature should jointly create a commission similar to the California Redistricting Commission or New York’s State Commission on Local Government, consisting of experts and local government stakeholders who would conduct a comprehensive review of California’s local government structure. This commission would hold public hearings and issue a report on the following:

- The number and types of local government jurisdictions, the basis for their creation, and the opportunities to restructure or consolidate.
- Opportunities to regionalize local government functions and services.
- The effectiveness of existing state laws and programs designed to assist local government efficiency, consolidation, and partnerships.

POTENTIAL MODELS (see these and more online at CAFWD.org/bestpractices)

- A New NY: A Blueprint to Reform Government: In 2008, The New N.Y. Government Reorganization and Citizen Empowerment Act was enacted into law to reduce New York's 10,521 overlapping governments. In his 2011 State of the State speech, Gov. Andrew Cuomo proposed a set of grants at up to \$100,000 each for local communities to conduct dissolution and consolidation studies.
- San Mateo Regional Fire Services: This memo estimates that the cost of fire protection in San Mateo County could be reduced by nearly \$20 million if five cities and the county jointly contracted with a single entity rather than using five separate fire departments.
- Sacramento City-County Functional Consolidation: A 2010 report identified annual savings upward of \$5 million if the City of Sacramento leveraged functional consolidation opportunities with the County of Sacramento. The following savings would be achieved if the city and county consolidated: emergency dispatch communication (\$2.2 million); major crimes investigation (\$750,000); police property and evidence management (\$290,000); police special teams units (\$840,000); police air support (\$200,000-\$500,000); and, animal care services (\$308,000).
- California School District Unification: In 1964, to encourage voters to form unified school districts, AB 145 (Unruh) stipulated that the funding level for qualified unified school districts be increased by \$15 per ADA. In addition to increasing support for unified school districts, for each elementary school district that voted in favor of unification, even if the whole proposition failed, the funding level of that district would be increased by \$15 per ADA.

Implementing with Accountability

Most of the benefits from a restructured governance model will come from smartly implementing the new structure to develop evidence-based strategies and deploy proven programs that focus services on better outcomes, involve residents in local decision-making, and ultimately make government more accountable and transparent.

While much of the initial thinking regarding restructuring rightly focuses on what the new structure will look like, even more attention will ultimately need to be put into implementation. To make restructuring a success, residents will need to be more heavily involved in the decisions that will change the manner in which they interact with their government. Given the range of potential service and funding options, the early stages of implementation will consist of mostly local choices – monitored by the state – including setting priorities, identifying community assets and partners, evolving programs to incorporate best practices, and critiquing results to provide for continuous improvement.

Leaders at the state and local level will need to adjust to their new roles and responsibility, and work to incorporate a culture of results and accountability. State and local officials will need to work more collaboratively to anticipate problems and proactively respond to resolve conflicts and seize opportunities for reinforcing the new culture. And it will provide an opportunity for legislators – as policymakers – to develop their own mechanism for jointly monitoring progress and assertively changing statutes or regulations that impede progress.

All of these considerations will best be acted upon with greater involvement from community level leaders – in the public and private sectors – who are championing improvements at the community level. Today's governance system makes it difficult for Californians to hold their public officials accountable. Only through a more coherent and simplified structure – one that the public helps implement – will citizens have a genuine opportunity to be engaged with government.

Conclusion – Five Draft Proposals

California's state and local governments must work better together for everyone. If Californians can come together to restructure the relationships between state and local governments, the state will see immediate benefits, from better outcomes to increased civic engagement. The experience of other states indicates that in five to seven years, a streamlined governance system also will lead to substantial fiscal savings and renewed private investment.

Continuous improvement in the performance of education and social programs will allow the state to shift resources from prisons back to universities. Reductions in the growth of safety net programs – along with increasing confidence in the performance of public programs – will also allow businesses to pay higher wages, while still remaining competitive. Growing middle-income jobs will reduce demand for public services and increase tax revenue.

Restructuring California's government, in other words, can be the beginning of a virtuous cycle – improved education, more workforce participation, better health outcomes, and less crime – that can lead to the best possible outcome: A government that achieves positive social gains in a financially sustainable way.

HOW TO GET THERE:**5 DRAFT PROPOSALS:****PRINCIPLE I**

California government must be aligned to a clear, unified vision, and restructured to focus decision-making on improving performance. The new structure must systematically encourage decision-makers to change policies, budgets, personnel, and practices to improve results – and the public knowledge of these results is essential to restore accountability to the people.

DRAFT PROPOSAL I – FOCUS ON OUTCOMES

Aligning program outcomes with larger statewide goals should follow a standard cascading format – similar to those already used in other states – of overarching outcomes, targeted indicators, and ongoing performance measures. A widespread stakeholder process involving both state agencies and local governments will be necessary to establish desired program outcomes. To allow local agencies to demonstrate more progress toward achieving outcomes, the state should allow for greater flexibility in how those outcomes are achieved.

- **Outcomes:**
 - The state should prioritize at least the Big Five Outcomes – Increased Employment, Improved Education, Decreased Poverty, Decreased Crime, and Improved Health.
- **Indicators of Success:**
 - At least three Indicators of Success in each of these outcome areas should be developed by local governments in consultation with the state. The Indicators of Success should be in line with state (and where appropriate, national) objectives and approved by legislators.
 - Cities, counties, schools, and special districts should develop a five-year strategy and an annual action plan for achieving these Indicators of Success, relying where possible on proven and evidence-based practices. The strategies should be publicly presented annually to their regional Council of Governments.
- **Performance Measures:**
 - Progress made by cities, counties, schools, and special districts toward achieving these indicators should be reviewed annually during the state budget process, and quarterly at the state departmental level.
 - This county performance information should be published on the state website and should be used to make programmatic and fiscal decisions at the state and county levels.

PRINCIPLE 2

Transforming the performance of public programs will require systematic change, not just shifts in responsibilities and resources. The new structure needs to be supported by a restructured fiscal system that constitutionally guarantees control of revenue to the level of government responsible for delivering services. In addition, aligning authority and responsibility with those resources is essential to encourage the integration needed to improve results.

DRAFT PROPOSAL 2 – ALIGN AUTHORITY WITH RESPONSIBILITY**PROGRAM AUTHORITY ALIGNMENT**

To promote accountability, efficiency, and effectiveness, the state should grant control of funding and programs for locally delivered services to cities, counties, schools, and special districts. The state should provide fiscal incentives to local governments that include the reallocation of state savings resulting from successful local strategies. In exchange, cities, counties, schools, and special districts should agree to:

- Coordinate the pursuit of an evidence-based, interagency approach toward local improvement across the Big Five Outcomes.
- Hold themselves accountable to these Outcomes by tracking Indicators of Success, and provide an ongoing public review mechanism. This should include regular publication of agency report-cards detailing each agency's funding allocation, how it was spent, as well as program outcomes.
- Share program resources to create economies of scale and maximize the return on taxpayer investments.
- Be transparent and efficient regarding administrative overhead costs, including pension costs.
- Use fiscal incentives, including local savings as well as state savings resulting from local successes, to invest in and expand approaches that are working.
- Ensure that there is more flexibility for local governments to contract with non-profit organizations working toward the Big Five Outcomes.

REVENUE AUTHORITY ALIGNMENT

Local governments currently have limited ability to finance joint services. To align the revenue structure with local government responsibilities – and to provide local governments with greater flexibility to provide services collaboratively – three major steps must be taken.

1. **A new constitutional authority is needed:** A legal construct (statutory and constitutional) must be developed that enables local governments to develop local agreements for reassigning responsibilities and revenue in a way that is transparent to citizens. These local agreements would include increased authority over distribution of the property tax and the locally levied sales and use taxes. It would not require changes in the tax rate or the property assessment system established by Proposition 13.

2. **State appropriations must be adjusted:** A portion of state resources – including General Fund, fuel taxes, and a portion of transportation, resources, and other bond funds – would need to be appropriated to regions to support integrated regional plans for infrastructure, environmental projects, and workforce development.
3. **Changes to the tax structure are necessary:**
 - This could involve broadening the sales tax base for selected services. The first opportunity to do this would be to extend the tax to services that are connected to currently-taxed retail goods such as auto repair. Tax base-broadening could be offset with lower tax rates. Consideration would be given to defining transaction taxes to capture new aspects of economic activity, including the ‘greener’ economy.
 - Business-related income that is now taxed under the personal income tax could be transitioned to the corporate tax to reduce volatility.

An Example of a Voluntary Revenue Restructuring Authority: One County’s “30-30-40 Plan”

The revenue flexibility outlined above would greatly simplify the current revenue system by moving more authority over local revenues to local governments, while providing a way for the state to maintain equity statewide.

This revenue flexibility would be voluntary: If County X elected to restructure its revenues, for example, its cities and other service providers would establish an intergovernmental agreement for the allocation of public services and the locally levied taxes (e.g. property and sales taxes) necessary to implement them.

One way County X might distribute these resources would be a “30-30-40 Plan” that shares property taxes among cities, the county, schools, and special districts in a more straightforward manner than the current system – with municipal services collecting roughly 30 percent, countywide services collecting roughly 30 percent, and education services collecting roughly 40 percent.

This new model would decrease the competition among local governments over revenue streams and allow taxes to be connected to the level of government where services are being provided – promoting transparency, simplicity, and ease of administration. *(A detailed chart outlining how these revenue options can contribute to improved results can be found in Appendix I on pg. 34.)*

Examples of Restructured Services in County X:

1. **Municipal services:** There is no straight line in the current system between property tax revenues and the provision of municipal services. Some cities receive a large share of property taxes, while others do not, leading to some competition among

governments for sales tax dollars. In County X, a city that provides a full range of services like law enforcement, fire protection, utilities, libraries, parks and recreation planning, and community development would receive 30 percent of the property tax collected within the boundaries of a city. This would apply to unincorporated areas of the county that receive municipal services through their county, as well as to special districts that provide municipal services.

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The new structure needs to provide regulatory, fiscal and other incentives to encourage cooperation among local governments to efficiently and effectively meet regional needs.

DRAFT PROPOSAL 4 – FOSTER REGIONAL COLLABORATION

Regional Councils of Government – or, in areas where it is appropriate, other existing collaborative planning entities – should develop an annual reporting process to review city, county, school, and special district strategies for achieving the Big Five Outcomes, and to incentivize progress toward achievement of Indicators of Success. This should include incentives that will encourage cities, counties, schools, and special districts to develop a robust pipeline between the educational system and the workforce needs of the regional economy. It also should include protections that give regions long-term flexibility throughout the period of implementation.

PRINCIPLE 5

Local agencies need the incentives and the analysis to make organizational or functional consolidations to reduce costs and improve service.

NOTE: *The draft proposals below outline two potential – but quite different – approaches to consolidation. A local commission (the Local Agency Formation Commission, or LAFCo) tasked with examining the efficiency and effectiveness of local agencies already exists in each county. Rec. 5A proposes several ways these commissions might be refocused on consolidation. LAFCOs do have some built-in political constraints, however, since LAFCo commissioners also represent cities and counties.*

Rec. 5B examines another option, which would involve creating an independent commission to conduct these analyses statewide.

DRAFT PROPOSAL 5A – ENCOURAGE INTEGRATION AND CONSOLIDATION

LAFcos in each region – which are currently tasked with “encouraging the orderly formation and development of local agencies based upon local conditions and circumstances,” along with contributing “to the logical and reasonable development of local agencies in each county... [in an] efficient and accountable manner” – should establish a process with their Regional Councils of Government to present standardized data on the quantity, cost, and effectiveness of local governments in the region.

- This should take advantage of existing LAFco municipal service reviews, comprehensive studies designed to better inform regional bodies, local agencies, and the community about the provision of municipal services.
- LAFco reviews also should include regional analyses of the number of jurisdictions in each region, their boundaries, the role of each agency in the jurisdiction, these agencies’ goals and results, and identify any opportunities for consolidation.

DRAFT PROPOSAL 5B – ENCOURAGE INTEGRATION AND CONSOLIDATION

The governor and Legislature should jointly create a commission similar to the California Redistricting Commission or New York’s State Commission on Local Government, consisting of experts and local government stakeholders who would conduct a comprehensive review of California’s local government structure. This commission would hold public hearings and issue a report on the following:

- The number and types of local government jurisdictions, the basis for their creation, and the opportunities to restructure or consolidate.
- Opportunities to regionalize local government functions and services.
- The effectiveness of existing state laws and programs designed to assist local government efficiency, consolidation, and partnerships.

2011

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30 March 2012

Ms. Sunne Wright McPeak
California Forward Leadership Council Member
1107 9th Street, Suite 650
Sacramento, CA 95814

Dear Sunne:

Thank you for the opportunity to serve on the Stakeholder Roundtable. Today I received the agenda for the Thursday/Friday meeting along with the revised framework. Having not been consulted regarding the original or revised recommendations for Principal 5, I wanted to correct some inaccurate information and offer a suggestion or two prior to the meeting tomorrow.

The framework states that LAFCOs are staffed by city and county representatives. This is inaccurate. LAFCo staff are independent of any local agencies and specifically report to their commission. The independence of staff was a key component in the major revision of LAFCo law (Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000). Commissioners are locally appointed and consist of elected officials from city councils, board of supervisors and, in many cases, special district boards. There is also a public member on every commission. In some instances it may be accurate to say that the commission could have a built-in political constraint since they are making decisions which might affect their jurisdiction.

We urge California Forward staff to look at the Municipal Service Reviews prepared by LAFCOs for cities, special districts subject to LAFCo review, and county municipal services. You will find they already include substantial information, such as inventories of local agencies, sphere and service boundaries (LAFCOs may actually have the most accurate maps), role of agencies in service deliveries and opportunities for efficiencies or reorganizations. Granted the level of detail varies from LAFCo to LAFCo – often depending on the financial resources available – however the foundation of information called for in Draft Proposal 5A exists in many parts of the state. LAFCOs are limited in that they do not have oversight of school districts, college districts, transportation agencies, joint power authorities, or private service providers (such as investor-owned utilities or mutual water companies).

We continue to be concerned with the focus on Regional Councils of Governments. While recognizing the important role many regional councils play, they are not organized under any state law, membership consists only of the county and cities, and they are generally transportation-focused. LAFCOs have been conducting service reviews for over a decade. It seems that the emphasis on Draft Proposal 5A should be on enhancement and better use of the existing service review resource rather than establishing a new process with Regional Councils to conduct this work.

With respect to Draft Proposal 5B, perhaps California Forward is not aware of the extensive amount of work that went into the deliberations and recommendations from

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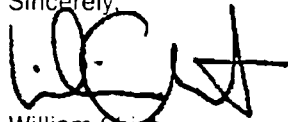
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the Commission on Local Governance for the 21st Century. The Commission released a report - very similar to the cited New York report - entitled *Growth Within Bounds: Planning California Governance for the 21st Century*. This resulted in the substantial rewrite of Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000. Before recommending the creation of yet another commission and report, it may be of greater value to revisit the findings in *Growth Within Bounds* and evaluate the recommendations and outcomes in terms of the goals of California Forward and today's circumstances. It may also be of value to review the earlier commission and report from 1960 which ultimately resulted in the creation of LAFcos: *Meeting Metropolitan Problems: Report of the Governor's Commission on Metropolitan Area Problems* (Governor Edmund Brown).

Finally, earlier this month voters approved the 482nd city in California, Jurupa Valley in Riverside County.

We hope you find these comments of value. Thanks again for the opportunity to participate.

Sincerely,

A handwritten signature in black ink, appearing to read 'W. Chiat', with a stylized flourish at the end.

William Chiat
Executive Director