



*Reprint*

FROM *THE 1993-94 BUDGET: PERSPECTIVES AND ISSUES*

# RESTRUCTURING GOVERNMENT IN CALIFORNIA

Elizabeth G. Hill  
*Legislative Analyst*

February 1993

## INTRODUCTION

There is currently much talk about the need for the public sector to "restructure" or "reinvent" itself. The subject has taken on more prominence of late, as governments at all levels struggle with fiscal problems.

Governmental restructuring can, in fact, result in significant savings to taxpayers, as well as provide improved services to the public. In this piece, we describe what restructuring is and what's involved in doing it, and suggest strategies for the Legislature to pursue in considering restructuring proposals.

## WHAT IS RESTRUCTURING?

Most generally, restructuring involves a fundamental rethinking of the way public services and functions are organized and delivered. Essentially, restructuring involves challenging the traditional ways of doing things and searching for new and better ways to do the tasks now being done, including not doing some of them at all.

For example, restructuring a particular state agency would involve not just marginal changes in the way it operates, but answering such questions as:

- What is the mission of this agency? Is that mission still appropriate today?
- Are the efforts of the agency geared toward achieving specific results?
- Can the agency show that it is actually achieving results?
- Can the tasks of the agency be accomplished in a completely different fashion that is more effective or efficient (for example, by providing incentives to individuals or by shifting it to a more appropriate level of government or the private sector)?

In the process of asking questions like these, restructuring assumes that "anything's game." In addition, it tries to define a certain "culture" in which policymakers can make such decisions. This culture consists of several key characteristics.

---

## Characteristics of Restructuring Efforts

Restructuring efforts are generally characterized by the following:

- **Service Orientation.** Typically, governments approach their "jobs" as simply performing specific tasks required by laws and/or regulations in order to carry out the public's business. Restructuring tends to turn that view on its head. Public entities, instead, become service providers focused on meeting the needs of customers (that is, the public).
- **Outcome—Not Process—Oriented.** Restructuring focuses on end results, not on process. It stresses specific, measurable goals, not the specific steps that have to be taken to reach those goals.
- **Decentralized Authority.** Traditional bureaucracies (public and private) are "top-down" organizations. Restructuring attempts to move decision-making down as far as possible. This is to discourage micro-managing at higher levels, and encourage greater involvement and innovation by "line" employees.
- **Market-Oriented.** Most public entities are the sole providers of the service they deliver. As with any "monopoly" situation, this can result in higher costs and poorer service compared to competitive situations. Restructuring stresses the importance of competition and market incentives as a means for achieving improved—and cheaper—public services.
- **Risk-Taking.** As noted earlier, restructuring means trying different ways of addressing problems. This requires decision-makers and public officials to take risks by trying new and creative ways of addressing existing problems, and to accept failures when results fall short of the mark.

## Levels of Restructuring

All restructuring efforts tend to incorporate the traits discussed above. There are, however, several different levels at which restructuring can occur.

**Intergovernmental Restructuring.** One of the most important types of restructuring involves changes in the relationship between and among levels of government. The Legislature tackled such restructuring in a major way in 1991-92 with the realignment of various health and social services programs between the state and the counties.

**"Process" Restructuring.** There can also be restructuring in the way that governments operate—the processes that they use to implement

---

programs. Process changes typically apply across program lines. This type of restructuring could involve changes in: (1) civil service (for example, opening up more job examinations to people outside the system, and providing rewards for successful program performance); (2) contracting (increasing competition for state contracts); (3) state budgeting practices (more performance-based budgeting); and (4) regulation (more incentives-based, rather than "command and control" regulatory practices).

*Program Restructuring.* Most of the ideas for restructuring pertain to a specific program. Changes can result from asking basic questions about the *mission* of a program or agency and by questioning the traditional ways of achieving program goals. (See the questions posed above.) Such restructurings can result in programs which are consolidated, downsized, streamlined, and/or revamped.

It's important to note that *eliminating* a program is *not* necessarily restructuring. For instance, if a program or agency is proposed to be eliminated because it is the state's lowest-priority, that decision does not involve restructuring. It is simply part of the annual budgetary process. If, on the other hand, a program is proposed to be eliminated because its tasks no longer achieve the desired goals or its tasks can be performed as well by another agency or the private sector, then that involves restructuring.

## WHY IS RESTRUCTURING NECESSARY?

As discussed above, restructuring involves taking "fresh looks" at governmental operations. This kind of approach is beneficial any time decision-makers are reviewing budgets or overseeing programs. There are, however, good reasons why restructuring deserves particular emphasis at this time:

*End of a Rapid Growth Period.* Prior to this current recession, California experienced steady growth in state spending. For example, between 1965-66 and 1989-90, state General Fund spending increased at an average annual rate of 12 percent. As a result of this growth, the state now has almost 100 departments administering hundreds of programs. Given the virtually uninterrupted growth in state revenues over that time period, the state did not have a pressing need to reevaluate many of these programs. As a result, there are most certainly numerous cases of program duplication, irrelevant missions, and outdated practices.

---

*More Complex Governing Environment.* Not only has the public sector grown significantly, but it has become much more complex. The passage of Propositions 13 and 98, alone, has drastically altered and complicated the relationship between the state and local governments. In addition, the federal government is far more involved in state affairs, as are the courts. As a result of these factors, government has become more centralized, more process-oriented, and infinitely more complicated.

*Dated Processes.* Many of the processes used in state government were devised decades ago. For instance, the state's personnel, contracting, and budgeting practices have changed little over the years, despite drastic changes in the fiscal environment (as just noted). New approaches in each of these areas have the potential for significant improvements in program operations.

*Beginning of a Slower-Growth Era?* It is very likely that the state could face budget gaps in future years. For instance, we estimate that projected expenditures (based on current services) will exceed revenues for several years. Restructuring efforts can help bridge those gaps.

*Lack of Public Confidence in Government.* Finally, the public sector currently suffers from a lack of public confidence. Restructuring efforts can address this problem to the extent that it improves services to the public and at equal or less cost.

## WHAT ARE THE RISKS?

Given the obvious benefits of successful governmental restructuring, why not plunge headlong into a major effort in this regard? Unfortunately, there are some very real risks involved for policymakers in attempting far-ranging restructuring.

*Politically Difficult Process.* Real restructuring is a time-consuming, tedious process that ends up alienating long-established interests. This will take a lot of effort and commitment, with no guarantee of success.

*Loss of Control.* A large part of the restructuring agenda (as noted earlier) involves decentralizing decisionmaking, and relying more on market forces to achieve public ends. While the Legislature obviously would retain policy control over general program goals and objectives, these types of restructuring involve a lot of "letting go" over much program decisionmaking.

*Consequences of Failure.* Restructuring encourages public entities to try new things in the search for more efficient ways of serving the

---

citizenry. By definition, that means there will be failures (for example, monies will be "wasted" or service delivery will suffer). Such failures are unavoidable and may be a small price to pay in order to achieve numerous other successes. The Legislature, however, will still have to deal with the downside consequences, including the public's lack of tolerance for mistakes.

## **WILL RESTRUCTURING SOLVE CALIFORNIA'S BUDGET PROBLEM?**

Some restructuring advocates have suggested that reexamining government is the answer to the state's short-term budget problem. While restructuring efforts can make important contributions to a budget solution, there are reasons for caution:

*Many Benefits Are Not Budget-Related.* Restructuring often involves changes which have nothing to do with the state's *current* fiscal situation. For instance, workers' compensation is an oft-mentioned candidate for restructuring. Yet, successful reform of the system would have virtually no impact on the state budget in 1993-94. (It could, however, have significant positive effects on state revenues and costs in future years.) Similarly, many potential restructurings have as their primary objective the improvement of service delivery, not budgetary savings.

*Restructuring Can Cost Money in the Short Run.* The budgetary benefits of some restructurings will not be realized until later years. For example, we have recommended several times in the past that the state's revenue-collecting agencies be consolidated into one department. This restructuring would probably result in major state savings and improved taxpayer services *in future years*. The proposal would *cost* money in the near term, however, to plan for and consolidate the agencies. The same is the case with most investments in computer technology.

*Restructuring Can Take Time to Achieve.* Finally, major changes in many programs—especially large and/or complex ones—can simply take time to plan and implement.

These are not reasons to shy away from restructuring. Rather, they serve as reminders that not all the benefits of restructuring are budgetary in nature, and that much of the fiscal savings will occur in later years.

---

## WHAT STRATEGIES SHOULD THE LEGISLATURE PURSUE?

The Legislature has recently explored many restructuring ideas. The 1991-92 realignment legislation for health and social services programs is easily the most dramatic example of its restructuring efforts. The Legislature has also spent considerable effort in examining ways to restructure state boards and commissions (from large entities—like the Public Utilities and Energy Commissions—to small advisory boards).

As a result, there are already a lot of ideas “on the table” about how to restructure state operations. As part of our office’s statutory mandate, we have made many suggestions on how state programs can be restructured in past *Analysis* and *Perspectives and Issues* documents, and in special reports and publications. (See, in particular, *Options for Balancing the State’s General Fund Budget: 1991-92*, June 1990, and *Options for Addressing the State’s Fiscal Problem*, January 1992).

We have also provided numerous examples of restructuring in this year’s documents. Most significantly, we recommend in the following piece (“Making Government Make Sense”) that the Legislature undertake a fundamental restructuring of state and local governments in the state. The last write-up in this document (“Collaborative Efforts to Coordinate Service Delivery”) describes how state and local programs can be devised so as to foster more collaborative efforts among service providers.

In addition, this year’s *Analysis* includes many discussions of restructuring opportunities. Figure 1 summarizes these issues and shows where they can be found in the *Analysis*.

The Governor’s Budget document also provides some discussion on “reinventing” government. For instance, the budget summary proposes to: (1) downsize state operations (cuts of almost \$200 million), (2) privatize various state functions (such as law schools and the Maritime Academy), and (3) initiate “performance budgeting” on a pilot basis. There are, however, no details on these proposals.

The only significant restructuring proposal actually reflected in the budget involves the Aid to Families with Dependent Children Program. The proposed changes, which are similar to those offered last year, are intended to increase work incentives, thereby reducing long-term welfare dependency. For the typical recipient, however, the most immediate effect would be a reduction of the monthly grant.

---

**Figure 1****Restructuring Opportunities  
Identified by Legislative Analyst's Office  
1993-94**

<b>Subject Area</b>	<b>Issue</b>	<b>Analysis Section</b>
Transit Capital Improvements	Consolidate funds with another program	Transportation
Department of Conservation	Transfer recycling program	Resources
County Medical Services Program	Options for restructuring funding	Health and Social Services
Primary Care and Family Planning Programs	Consolidate administrative functions	Health and Social Services
Department of Corrections	Options for controlling prison population	Judiciary and Criminal Justice
Special Education	Improve incentives regarding nonpublic school placements	K-12 Education
Categorical Programs	Consolidate various programs into block grants	K-12 Education
Community Colleges	Alternative ways to ration enrollments	Higher Education
Financial Services	Consolidate various departments into one	Business and Labor
Savings and Loan	Eliminate state charters	Business and Labor
Housing Elements	Rethink the current process	Business and Labor
CALDAP	Limit eligibility to earthquake claims	Business and Labor
Agricultural Export Program	Consolidate within Trade and Commerce Agency	Business and Labor
Consumer Affairs	Eliminate 13 boards and bureaus	Business and Labor
Consumer Affairs	Consolidate remaining boards and bureaus	Business and Labor
Judges' Retirement	Create new system for new judges	State Administration
Teachers' Retirement	Create new system for new teachers	State Administration
Tax Agencies	Create a new Department of Revenue	State Administration

**A Strategy for 1993-94 Action**

In thinking about how best to deal with restructuring issues in the coming months, we recommend that the Legislature take action on various fronts. Below, we provide examples of where the Legislature



could direct its efforts in each of the three levels of restructuring we discussed earlier.

*Intergovernmental Restructuring.* There is perhaps no more important issue facing the Legislature than the structure of state and local governments. As we describe in the next piece, our current structure is simply not working. We strongly recommend that the Legislature begin work on a permanent, comprehensive solution. This type of fundamental restructuring will take time, and will not solve the budget-year fiscal problem; but—in our opinion—it should have the Legislature's highest priority in order for state and local governments to again make sense in California.

*Process Restructuring.* In this area, the Legislature could identify a couple of issues (for example, state procurement and contracting) that would be subject to intensive review by policy committees in both houses. Again, there would not be a payoff—in terms of budgetary savings—in 1993-94, but restructuring efforts in such areas could make future state operations more effective and efficient.

The Administration's concept of performance budgeting also holds some promise. The fiscal committees should seriously consider a pilot project which gives certain agencies more operational discretion in return for greater accountability of results.

*Program Restructuring.* Finally, there are many specific program restructurings, such as those identified in Figure 1, that can be considered during this year's budget deliberations. As described above, there are many ideas and suggestions that are already in circulation. The Legislature's task is devising a specific approach for addressing such restructuring proposals which will result in better services and provide budgetary savings.

This report was prepared by Mac Taylor. For information concerning this analysis, please contact the author at (916) 445-6511.

---

# Legislative Analyst's Office



## Recent Reports

*Year-Round School Incentive Programs: An Evaluation* (April 1990), Report No. 90-5.

*Child Abuse and Neglect in California: A Review of the Child Welfare Services Program* (January 1991), Report No. 91-1.

*Analysis of the 1991-92 Tax Expenditure Budget: Overview and Detailed Compendium of Individual Tax Expenditure Programs* (May 1991), Report No. 91-4.

*State Spending Plan for 1991-92: The 1991 Budget Act and Related Legislation* (September 1991), Report No. 91-5.

*Options for Addressing the State's Fiscal Problem* (January 1992), Report No. 92-1.

*Supplemental Report of the 1992 Budget Act, 1992-93 Fiscal Year* (Containing statements of intent or requests for studies adopted by the Legislature) (October 1992).

*State Spending Plan for 1992-93* (November 1992), Report No. 92-3.

*Analysis of the 1993-94 Budget Bill* (February 1993). This report presents the results of our detailed examination of the Governor's Budget for 1993-94.

*The 1993-94 Budget: Perspectives & Issues* (February 1993). This report provides perspectives on the state's fiscal condition and the budget proposed by the Governor for 1993-94, and identifies some of the major issues facing the Legislature.

*Analysis of the 1993-94 Budget Bill—Summary of Findings and Recommendations* (February 1993), Report No. 93-1.

## Recent Policy Briefs and Issue Papers

*A Review of the State Bar Court* (December 1991).

*The State's Fiscal Problem* (December 1991).

*Paperwork Reduction in Schools* (January 1992).

*California's Child Support Enforcement Program* (January 1992).

*Bonds and the 1992 Ballots* (January 1992).

*An Overview of the 1992-93 Governor's Budget* (January 1992).

*Status Check—Proposition 98—A Brief Look at the Current Situation* (July 1992).

*Focus (No. 1)—Budget 1992—Local Government Funding* (September 1992).

*Focus (No. 2)—Budget 1992—Health and Welfare Funding* (September 1992).

*Focus (No. 3)—Budget 1992—Judiciary and Criminal Justice Funding* (September 1992).

*Focus (No. 4)—Budget 1992—General Government Funding* (September 1992).

*Focus (No. 5)—Budget 1992—Higher Education Funding* (September 1992).

*Focus (No. 6)—Budget 1992—Proposition 98 Education Funding* (September 1992).

*Status Check—K-12 Education Funding—Ten-Year History* (October 1992).

*Status Check—California's Growing Prison Population—The Current Situation* (January 5, 1993).

*California's Economy and Budget in Perspective* (January 6, 1993).

*An Overview of the 1993-94 Governor's Budget* (January 1993).