The Little Hoover Commission (LHC), more formally known as the Milton Marks Commission on California State Government Organization and Economy, was created by the legislature in 1961 and became operational in the spring of 1962 (Government Code section 8501 et seq.). Although considered to be within the executive branch of state government for budgetary purposes, state law provides that the Commission "shall not be subject to the control or direction of any officer or employee of the executive branch except in connection with the appropriation of funds approved by the Legislature" (Government Code section 8502).

The Commission's enabling act provides that no more than seven of the thirteen members of the Commission may be from the same political party. The Governor appoints five citizen members, and the legislature appoints four citizen members. The balance of the membership is comprised of two Senators and two Assemblymembers. This unique formulation enables LHC to be California's only truly independent watchdog agency. However, in spite of its statutory independence, the Commission remains a purely advisory entity only empowered to make recommendations.

The Commission's purposes are to promote economy, efficiency, and improved service in the transaction of public business in the various departments, agencies, and instrumentalities of the executive branch of the state government; and to make the operation of state departments, agencies, and instrumentalities and all expenditures of public funds more directly responsive to the wishes of the people.

The Commission seeks to achieve these ends by conducting studies and making recommendations as to the adoption of methods and procedures to reduce government expenditures, the elimination of functional and service duplication, the abolition of unnecessary services and functions, the definition or redefinition of public officials' duties and responsibilities, and the reorganization or restructuring of state entities and programs. The Commission holds hearings about once a month on topics that come to its attention from citizens, legislators, and other sources.

In 1993, LHC was renamed in honor of former Senator Milton Marks, who authored the legislation originally creating the Commission.

**Major Projects**

**Consumer Protection:**

**A Quality of Life Investment**

In this study released in June 1998, LHC examined the Department of Consumer Affairs (DCA) and the extent to which it is fulfilling its statutory obligations under the Consumer Affairs Act of 1970, Business and Professions Code section 301 et seq.

DCA was created in 1970 to replace the former Department of Professional and Vocational Standards (DPVS), which had existed since 1929. DPVS was simply an umbrella agency which provided services to its constituent occupational licensing boards. Through the 1970 Consumer Affairs Act, the legislature sought to significantly augment the "consumer protection" mandate of the agency by creating a Division of Consumer Services within DCA to perform consumer protection activities unrelated to any of DCA's boards, and by instilling the Department with an affirmative consumer protection mandate. The new enabling act reflected the growing consumer movement spawned by Ralph Nader in the late 1960s and dissatisfaction with DPVS, which — according to a 1967 LHC report — "has functioned less as an executive branch department, in the normal sense, than as a group of independent licensing agencies held together by a set of staff services." Under the Consumer Affairs Act of 1970, DCA's statutory mandate reads as follows: "It is the intent of the Legislature and the purpose of this chapter to promote and protect the interests of the people as consumers. The Legislature finds that vigorous representation and protection of consumer interests are essential to the fair and efficient functioning of a free enterprise market economy. The Legislature declares that government advances the interests of consumers by facilitating the proper functioning of the free enterprise market economy through (a) educating and informing the consumer to insure rational consumer choice in the marketplace; (b) protecting the consumer from the sale of goods and services through the use of deceptive methods, acts, or practices which are inimical to the general welfare of consumers; (c) fostering competition; and (d) promoting effective representation of consumers' interests in all branches and levels of government."

LHC acknowledged that, "as California's economy has matured, consumer protection has evolved into a governmental imperative. Done correctly, consumer protection efforts facilitate market efficiency, improve public decision-making, and empower consumers to make smart choices while shielding the most vulnerable from the worst abuses." While dozens of agencies are charged with some consumer-related function, "ensuring this protection is the core expertise and the fundamental responsibility of the Department of Consumer Affairs." Thus, in 1970 DCA assumed significant responsibilities in addition to its role as parent agency to approximately 50 occupational licensing programs regulating over 200 trades and professions, through which the state licenses 2.1 million individuals and companies. Although DCA is — according to LHC — armed with "a noble charge and steeled.. with significant authority," and although section 301 expressly charges it "promoting," "representing," and "protecting" the interests of consumers, "educating and informing" consumers, and with
provides services to semi-autonomous constituent occupa-
tional licensing boards.

To affirm the intent of the Consumer Affairs Act of 1970 and DCA's essential role in this regard, and to make the most of existing government activities by coordinating the efforts of state and local consumer-related agencies, LHC made several findings and recommendations:

- **DCA Should Create, and the State Should Fund, a Comprehensive Consumer Education Program.** While consumer education is often the most cost-effective and least intrusive form of consumer protection, the state lacks a well-planned and well-funded effort to equip consumers with the information they need to protect themselves. Recognizing that DCA has been allocated no general fund money to engage in consumer education since the early 1990s, LHC recommended that DCA develop a comprehensive consumer education program which the Governor and the Legislature should fund with general fund money. LHC noted that the highest priority for consumer education funding should be instances in which the public health and safety are jeopardized, and that DCA's education program should be based on a strategic assessment of those areas of the marketplace where consumers are vulnerable to the greatest abuses and where there is the least government infrastructure to prevent or respond to those abuses. Further, the education program should provide for coordination between federal, state, and local agencies involved in regulating that aspect of the market.

- **DCA Should Administer a Consumer Advocacy Council to Advocate Consumers' Interest in Fora Which Affect Them.** LHC found that Californian consumers are not adequately represented in the variety of policymaking venues in which their interests are at stake. There are a number of public forums in which policies are forged that directly affect the quality, supply and price of consumer goods and services: the legislature, regulatory venues, the judiciary, and at times just the court of public opinion. In most of these forums, business interests—both individually and aggregated into associations—are well-represented by professionals skilled in the procedures and cultures of those public venues. In nearly all cases, consumers lack the same level of representation. While the stake of individual consumers in each of these proceedings is small, their collective stake is large. According to LHC, this small individual stake discourages participation and there is no natural mechanism for sufficiently encouraging consumers to effectively consolidate their interests. As the state has neglected this role, the task has fallen to a few and diminishing number of nonprofit activists with limited resources.

LHC found that "advocacy was a primary function of the Department of Consumer Affairs when it was created." Recently, however, DCA's critical lack of funding, time, and—perhaps most important—increasing political constraints ("the act creating the department did not envision that the director as consumer advocate would be prevented from taking a public position counter to another state agency") have hindered its effectiveness in advocating consumers' interests. In this regard, LHC recommended that the Governor and the legislature create and fund a Consumer Advocacy Council to serve as a repository for consumer advocacy funds and as a vehicle for distributing those funds through a competitive process to nonprofit groups that agree to represent consumers on a particular issue for a specific time. The council could be comprised of the DCA Director, former DCA directors, legislative committee chairs, and a range of consumer interests—such as retired citizens, renters and those with lower incomes.

LHC addressed funding for the council and for specific advocacy efforts on behalf of consumers: "While at times policymakers may want to appropriate General Fund or special fund revenue for specific advocacy programs, the council should first explore the use of court judgments, foundation and federal grants. The council should annually conduct a public process to identify the most immediate concerns to the broadest range of consumers and in which consumers are most grossly under-represented. The council should solicit proposals from nonprofit groups and award intervenor grants to fund consumer advocacy on those issues. Each grant should be evaluated to determine the effectiveness of the effort, providing information to guide future council decisions."

- **DCA and its Occupational Licensing Boards Should Be Restructured.** Focusing on the semi-autonomous occupational licensing boards which are part of DCA, LHC concluded that DCA's organizational structure "has evolved in ways that do not provide the best possible protection for California consumers." According to LHC, DCA's organizational chart "documents a tortured history of often conflicting goals. For decades professional licensing organizations that were created in the name of consumer protection were captured by the industries they regulated—and in some instances that problem persists, in reputation if not reality." LHC noted that the legislature's recent "sunset review" efforts have clearly prod-
ded some of DCA's boards to be more consumer-oriented, but "the remedy for ineffective entities is to eliminate the board and transfer the program's regulatory responsibilities to the department."

In one of its most controversial recommendations, LHC agreed with a longtime position of the Legislative Analyst's Office and suggested that DCA's boards be transformed from
nearly autonomous units into policymaking bodies that adopt regulations and review enforcement actions—allowing licensing, enforcement, and administrative activities to be coordinated and eventually consolidated within the Department. This change should begin with the formal involvement of the DCA Director in the activities of every board by having a seat on each board, even if that seat were routinely staffed by a proxy. LHC also recommended that the Governor and legislature enact legislation providing the DCA Director with the authority to approve the selection of new board executive officers; this legislation also should formalize the Director’s role in orienting and training new board members to their task as guardians of the consumers’ interests.

The Commission also reiterated another controversial recommendation it has championed since 1979. LHC suggested that licensing fees collected from regulated professions be aggregated into one special professional regulation fund that is then distributed among the boards and the Department. “This would unite the fiscal relationship between the regulated and the regulator, it would prevent regulated professions from starving enforcement efforts, and it would erode the popular concept that boards exist for the purpose and the benefit of the professions.”

♦ State/Local Interagency Collaboration. LHC noted that state and local government efforts on behalf of consumers are numerous and varied—but they also are uncoordinated and, as a result, are not as effective as possible. In recent years, more than a dozen state agencies have developed consumer protection functions. In addition, the Attorney General, many county district attorneys, and some local governments devote resources toward making sure that the marketplace is functioning for the benefit of consumers and policing individual cases of fraud and anticompetitive behavior. These efforts are occasionally coordinated. But, according to LHC, “more often the State’s limited consumer protection efforts are further limited by institutional isolation. Clearly consumers would be served better if protection efforts were guided by two fundamental principles: first, that government should work in the most seamless way possible, and second, that all of the various tools and talents represented by the various agencies are acting in an orchestrated and effective manner.”

On this issue, LHC recommended that DCA develop a Consumer Protection Alliance to coordinate the activities between state and local agencies responsible for consumer protection. The top officials from the agencies represented in the Alliance should meet at least annually to establish goals for the coming year and to assess the progress made toward already established goals. The Alliance also should establish technical committees of managers and supervisors to identify specific problems and recommend solutions that would provide seamless and effective consumer protection. The Alliance should help DCA to fashion a process and establish standards that the Department should use to fulfill its statutory obligation to assess and report on the consumer protection activities of other state departments.

LHC suggested that DCA’s Consumer Information Center be formally designated and widely advertised as the central contact point between California consumers and the State. While the Center is paid for with special funds, it clearly operates as a primary contact for consumers with complaints that fall within the jurisdiction of other agencies or within the jurisdiction of no particular government agency. While some general fund revenue is warranted for this effort, the Department should also implement available technologies to track and assess other agencies for the calls fielded by the Consumer Information Center that fall within the responsibility of those other agencies.

Caring for Our Children:
Our Most Precious Investment

In this September 1998 report, LHC noted that while primary responsibility for raising children remains with parents, “child care is a modern-day reality that also has become a public priority because of two recent historic developments”—the enormous increase in need and demand for available and affordable child care due to recent changes in state and federal welfare laws, and “the compelling research documenting what teachers and parents intuitively have known for a long time: that the earliest experiences of childhood fundamentally shape a child’s capacity to learn and can enable a lifetime of success.” Thus, “investing in assuring quality child care for our children is both morally correct and socially smart in all of our best interests...Public and private expenditures for child care amount to an investment. The dividends are paid out over a lifetime of higher earnings and lower criminal justice and social services expenditures.”

After a yearlong investigation, LHC found that “for too long, child care policies have been haunted by a seemingly unavoidable trade-off”—quality vs. quantity. “To pursue quality and forsake quantity results in more children left in potentially unsupervised and unsafe environments. To pursue quantity at the sacrifice of quality wastes the potential child care has to nurture a life of accomplishments and to prevent a life of failure and frustrations. Neither is acceptable for California.”

LHC found that more than four million California children aged 13 and under live in either two-parent households where both parents work or in single-parent families where the parent works outside the home. The Commission examined California’s child care programs and found that they fall into two categories: The state licenses child care facilities, and also provides subsidized child care to the children of low-income families and welfare recipients. Funding for these programs comes from both state and federal sources; most is funneled through the Department of Education (DOE) and Department of Social Services (DSS). An estimated 2.3 million children need formal child care services, but the state
has only 968,000 licensed spaces. At present, the state's subsidized child care programs are able to serve only about 25% of the more than one million children eligible for those programs. Thus, the remaining children are either in unlicensed care or are not receiving supervision at all. According to LHC, "California's existing child care programs and regulations lack the synergy necessary to maximize the opportunities at hand. There is no system here — no clear and widely-held goals, no alignment of efforts, no vision for how the variety of child care programs work with the other professions to meet the needs of local communities."

LHC made a number of findings and recommendations:

- **Child Care Master Plan.** LHC found that California lacks and needs an effective strategy to provide the supply of high-quality child care—and, in particular, to expand the supply of high-caliber caregivers—that working families need today to enable children to succeed later in life. The Commission found that state policymakers have failed to make the array of child care programs work with the effectiveness of an integrated system, and recommended that the Governor and legislature adopt a California Child Care Master Plan to guide the state's efforts to help families and local communities meet their child care needs. The master plan should be developed by the existing Child Development Policy Advisory Committee, in consultation with DOE and DSS. The master plan should be founded on a commitment by the state that ensures working families have access to affordable, stable, and high-quality child care; it should be based on the latest child development research, and should define overarching goals for child care and map out specific actions needed to accomplish those goals; it should quantify and address the persistent shortage of dedicated, talented, and trained caregivers and expand the supply and increase the quality of child care. According to LHC, the master plan should be based on detailed neighborhood-level assessments of child care needs and supply; the assessments should be funded by the state and conducted by local planning councils. The state's role should be streamlined based on its historic role in promoting early education; to accomplish that purpose, the plan should provide for improved collaboration between DOE and DSS, or should consolidate the state's child care activities into one organization.

- **Expanded Availability of Child Care.** Next, LHC found that shortages of licensed child care extend throughout the state and are especially severe in low-income, rural, and minority communities. Next, LHC found that shortages of licensed child care extend throughout the state and are especially severe in low-income, rural, and minority communities. When LHC last looked at the state's subsidized child care programs eleven years ago, [8:1 CRLR 37-38], only 7% of eligible families were receiving child care services; today, the system addresses about 25% of the need, but that need is going to more than double in the next few years as the recent changes to the welfare laws set in. Put simply, reform will not work if child care is not available to enable parents to take offered employment. In this regard, LHC recommended that the Governor and legislature provide sufficient funding for subsidized child care to serve all eligible families, and fundamentally reform the state's subsidized child care funding and contracting mechanisms to better serve local needs.

- **The State Must Improve the Quality of Child Care and Expand Opportunities for Early Education.** Finally, LHC found that, despite research showing that the care provided to infants and toddlers significantly affects a child's capacity to learn and succeed in later life, state policies and other factors subvert the goal of assuring that all children receive high-quality care and early education opportunities. LHC recommended that the state undertake a broad-based effort to improve the quality of child care available to children and to expand opportunities for early education. In this regard, LHC suggested that the state increase the reimbursement rates paid to contractors in DOE's subsidized child care program to enable providers to increase the salaries of child care workers, and enact legislation (1) requiring relatives providing license-exempt child care to pass a TrustLine background clearance in order to be paid for providing subsidized child care, (2) requiring license-exempt providers to pass health and safety inspections by DSS in order to be paid for subsidized child care, and (3) allowing the state to pay higher reimbursement rates to license-exempt providers who have undergone training in child development and to provide incentives for exempt providers to open licensed family day care homes. LHC also recommended legislation authorizing higher reimbursement rates for subsidized programs which

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LHC Rejects Governor's Proposal to Restructure the Regulation of Managed Care

On April 30, 1998, Governor Wilson forwarded to LHC a “reorganization plan” which would abolish the Department of Corporations (DOC) and divide its existing regulatory activities between two agencies: (1) its regulation of managed care organizations under the Knox-Keene Act would be transferred to a new Department of Managed Health Care, and (2) its regulation of non-health care businesses would be transferred to the existing Department of Financial Institutions, which would be renamed as the “Department of Financial Services.” Under the Governor’s proposal, both the Department of Managed Health Care and the Department of Financial Services would remain within the Business, Transportation and Housing Agency (BTH), and both would be headed by a single gubernatorial appointee (see report on DEPARTMENT OF CORPORATIONS for additional details).

A “Governor’s Reorganization Plan” functions differently from a legislative bill. Government Code section 8523 requires the Governor to forward a copy of any reorganization plan which he intends to submit to the legislature to LHC at least 30 days before the legislature receives it. LHC is required to study the plan and make a recommendation to the Governor and legislature. Government Code section 12080 et seq. requires the Governor to then submit the plan to both houses of the legislature, which in turn must refer the plan to a standing committee for study and a report. A reorganization plan will become effective unless, within 60 days of its transmission to the legislature, either house adopts by majority vote a resolution rejecting the plan; the legislature must vote up or down on the plan—it may not amend the plan.

On May 28, LHC held a public hearing on the plan. BTH and DOC representatives defended DOC’s regulation of managed care in light of minimal resources and constant change in the marketplace. Senator Herschel Rosenthal and Assemblymember Martin Gallegos urged rejection of the Governor’s Plan. Senator Rosenthal called the plan “severely flawed,” arguing that “the lame duck Governor should not be the architect of the state’s new regulatory structure for managed care.”

Senator Rosenthal called the plan “severely flawed,” arguing that “the lame duck Governor should not be the architect of the state’s new regulatory structure for managed care.”

State Auditor Kurt Sjoberg of the Bureau of State Audits (BSA) summarized a recent report entitled Department of Corporations: To Optimize Health Plan Regulation, This Function Should Be Moved to the Health and Welfare Agency (May 1998). Sjoberg noted that his audit predated the Governor’s Reorganization Plan, and came in response to a legislative request for recommendations on whether there is a “better fit” for managed care regulation than DOC and BTH. BSA evaluated the functions, mission, management focus, and skills of eleven different agencies, and concluded that managed care regulation should be moved out of BTH. If it is moved to an existing department, BSA recommended that it be transferred to the Department of Health Services; if it is moved to a “stand-alone” agency, BSA suggested that the new agency be located within the Health and Welfare Agency (see report on BSA for details on this report).

Consumer groups and representatives of health care provider trade associations unanimously recommended rejection of the Governor’s reorganization plan, denouncing it as “a cosmetic reshuffling which would preserve the status quo.” They argued that managed care regulation must be transferred from DOC and BTH to a new home where health care is a priority and an area of expertise; most argued that the new regulator should take the form of a multimember board within either the Health and Welfare Agency or the State and Consumer Services Agency (which houses the Department of Consumer Affairs and the occupational licensing agencies which regulate physicians, nurses, dentists, and other healthcare providers). Those arguing for a multimember board structure noted that state boards are subject to the Bagley-Keene Open Meeting Act and are required to meet in public and accept public comment in order to adopt regulations and make policy decisions; according to board proponents, “the public nature of a board meeting, and the chance for a shared decision, means more public credibility and confidence in the outcome.” Several noted the need for a substantial influx of resources to the new agency and substantive changes to the Knox-Keene Act (which cannot be accomplished in a Governor’s Reorganization Plan).

Representatives of the managed care industry generally supported the Governor’s proposal, agreeing that managed care deserves a dedicated agency and that it should be headed by a “single appointed professional who is subject to confirmation by a legislative body.” Additionally, the industry noted the need for additional staff (and more diversified staff) capable of processing amendments and material modifications to health plans more quickly.

Following receipt of testimony and internal deliberations, LHC voted 5–4 to recommend rejection of the Governor’s Reorganization Plan on June 25. The Commission’s three-paragraph rejection letter noted that “in discussing the merits of the plan, individual Commissioners raised a number of issues: Some Commissioners were concerned that the plan...
The new department. Some Commissioners were concerned about placing the new department within the Business, Transportation and Housing Agency, rather than within the State and Consumer Services Agency or the Health and Welfare Agency. Other Commissioners believed the new entity should be an agency unto itself or should be governed by a board.

On July 2, the Senate rejected the Governor’s reorganization plan on a straight party-line vote; 22 Democrats voted against it, and 15 Republicans supported it.

Dissatisfied with LHC’s one-page rejection, Governor Wilson subsequently asked the Commission to issue its own recommendations regarding how the new regulator should be constituted. The Commission agreed to convene to issue recommendations, but declined to reconsider its 5–4 vote on the reorganization plan. On July 31, LHC issued a ten-page letter advising the Governor to create a new managed care regulatory entity; although LHC did not reach a consensus on whether the new entity should be a department or an agency, it recommended that the new entity be governed by a single gubernatorial appointee confirmed by the Senate Rules Committee. According to LHC, the appointee should “have an extensive background in managed care and proven leadership skills....To enhance decisionmaking and increase legitimacy, public procedures should be established and the role of the advisory committee should be expanded to provide for meaningful public comment, review of proposed policies, and scrutiny of the regulatory entity.”

Thus, when Governor Wilson subsequently received SB 406 (Rosenthal), a bill which would have created a multi-member board to regulate managed care, he vetoed it—relying on the Commission’s July 31 letter. Wilson stated that SB 406 “fails to deliver the reform it promises. It would establish a weak and unaccountable regulatory bureaucracy with dispersed enforcement authority. The Little Hoover Commission, an independent non-partisan advisory organization, has rejected the key feature of this bill, establishing a board to regulate health plans, because the burden of collective decision making will not provide consistent and responsive leadership. The Commission instead concluded that health plans should be regulated by a focused department or agency led by a single gubernatorial appointee. The Commission found that a single appointee would be more accountable and would be in the best position to provide strong and decisive leadership, particularly on difficult issues lacking broad political consensus.”

Legislative Analyst’s Office

The Legislative Analyst’s Office (LAO) has been providing fiscal and policy advice to the Legislature for more than 55 years. It is known for its fiscal and programmatic expertise and nonpartisan analyses of the state’s budget. Overseen by the 16-member bipartisan Joint Legislative Budget Committee (JLBC), LAO currently has a staff of 49 people. The analytical staff is divided into seven subject area groups of fiscal and policy experts.

The Office serves as the legislature’s “eyes and ears” to ensure that the executive branch is implementing legislative policy in a cost-efficient and effective manner. The Office carries out this legislative oversight function by reviewing and analyzing the operations and finances of state government. Historically, one of the most important responsibilities of the LAO has been to analyze the annual Governor’s Budget and publish a detailed review at the end of February. This document, the Analysis of the Budget Bill, includes individual department reviews and recommendations for legislative action. A companion document, Perspectives and Issues, provides an overview of the state’s fiscal picture and identifies some of the major policy issues confronting the legislature. These documents help set the agenda for the work of the legislature’s fiscal committees in developing a state budget. LAO staff works with these committees throughout the budget process and provides public testimony on the Office’s recommendations.

LAO also reviews requests by the administration to make changes to the budget after it is enacted; prepares special reports on the state budget and topics of interest to the legislature; and prepares fiscal analyses of all proposed initiatives (prior to circulation) and measures that qualify for the statewide ballot.

Major Projects

“Best Practices” on Information Technology Projects

According to LAO, the state’s efforts to deploy large computer systems have resulted in a number of well-publicized costly failures which have not brought about promised efficiencies. In 1994, three separate reports from LAO [14:4 CRLR 24], the Bureau of State Audits (BSA) [15:1 CRLR 23], and the Governor’s Task Force on Government Technology identified numerous problems with how the state procured and deployed information technology (IT). These reports also recommended how to resolve these problems and identified shortcomings in state IT policies, including insufficient planning, poor procurement practices, weak contract terms, oversized projects, and lack of risk assessment and experienced staff.

In State Should Employ “Best Practices” on Information Technology Projects (December 1998), LAO examines twelve specific business practices frequently used by the private sector to develop, acquire, and implement IT. The term