

C California

California faces fiscal problems that budget writers in most states would find difficult to grasp, let alone solve: a \$14 billion shortfall for the coming fiscal year, and chronic structural deficits that threaten to persist long after that. Just last month, the state issued the remaining \$3.3 billion in deficit bonds authorized by voters in 2004 to cover the last big budget gap. Governor Arnold Schwarzenegger addressed the situation in his January State of the State address. "It used to be that Sacramento plugged its deficits by just grabbing money anywhere it could: pension funds, local government, bonds, gas taxes that were meant for transportation," Schwarzenegger said. "We now have no way out except to face our budget demons."

Just how California faces those demons, whether it's through spending cuts or revenue raisers, remains to be seen. But there's no doubt that some structural changes need to be made. And that effort is beginning. The governor's lecture included a proposal for a Budget Stabilization Act that would put any tax revenues exceeding the long-term expected growth rate into a revenue stabilization fund. The Act would also create more flexibility to adjust spending levels on short notice when a year-end deficit is projected; the governor would be given authority to order cuts in spending without legislative approval. But the Act itself will require legislative enactment, as well as approval from the citizens in a statewide vote. All of that will take a while.

In the meantime, California has been making smaller management improvements to save money, such as reforming its procurement process. There are new contracting procedures and performance standards for agency procurement personnel. And California has saved more than \$150 million through strategic sourcing since 2005.

The state has taken a comprehensive, long-term look at its infrastructure needs, and is beginning to address them in a systematic way. Voters approved a Strategic Growth Plan proposed by the governor and an accompanying \$4.2 billion bond package, and are being asked for more in the

proposed budget. A bond accountability Web site launched last summer allows voters to see where their money is going by tracking all bond-funded projects.

In a state with a habit of overspending, there is one area of chronic underspending: maintenance for existing assets. This is not a good place to conserve cash. California spends \$2 billion less each year on highway maintenance and rehabilitation than is needed. Even by California standards, that's a lot of money.

It's no secret that California's personnel system is dysfunctional. "It's just so difficult to make any change at all to anything," says Insurance Commissioner Steve Poizner, an elected official who oversees 1,300 employees. "Even though I have significant regulatory control over the entire insurance industry, I don't have any control at all over salaries." An outdated and inefficient merit system makes it painfully difficult for newcomers to break into state government. Many jobs are not even open to anyone who doesn't currently work for the state, and those that are take months to fill. Too many choice positions are awarded to marginally qualified employees on the inside.

The State Personnel Board and the Department of Personnel Administration share statewide responsibilities for the overall system. But much of the work has been delegated to the agency level. That might make sense, since the state has some 235,000 employees. But the agencies don't report much information back to the central HR offices, so there is little overarching understanding of what's happening on the ground.

Efforts are finally underway to try to turn this behemoth around. The Human Resources Modernization Project kicked off last year with a strategic plan for reforms in workforce planning, hiring, classification, compensation and employee evaluations—and a budget to actually get the work done. A complementary project updating the state's payroll system is underway, too.

For additional data and analysis, go to pewcenteronthestates.org/gpp

Money D+

Long-Term Outlook	●
Budget Process	●
Structural Balance	●
Contracting/Purchasing	●
Financial Controls/Reporting	●

People C-

Strategic Workforce Planning	●
Hiring	●
Retaining Employees	●
Training and Development	●
Managing Employee Performance	●

Infrastructure B-

Capital Planning	●
Project Monitoring	●
Maintenance	●
Internal Coordination	●
Intergovernmental Coordination	●

Information C+

Strategic Direction	●
Budgeting for Performance	●
Managing for Performance	●
Performance Auditing & Evaluation	●
Online Services & Information	●

Population (rank): 36,457,549 (1)
Average per capita income (rank): \$26,974 (12)
Total state spending (rank): \$225,317,442,000 (1)
Spending per capita (rank): \$6,180 (11)
Governor: Arnold Schwarzenegger (R)
First elected: 10/2003
Senate: 40 members: 25 D, 15 R
Term limits: 8 years (lifetime)
House: 80 members: 47 D, 32 R, 1 Vacant
Term limits: 6 years (lifetime)