

### III. THE PRIVATIZATION MOVEMENT IN CALIFORNIA

Governor Pete Wilson has launched a top-to-bottom review of state government and has developed a blueprint for fundamental change over the next three years. The report, entitled, "Competitive Government, a Plan for Less Bureaucracy, More Results", is intended to serve as a catalyst for systematic reform.

Governor Wilson focuses on systemic reforms in four areas:

1. *Rightsizing government to give us a government we can afford.*
2. *Choosing value for taxpayers.*
3. *Cutting government red tape.*
4. *Rewarding merit and maximizing human potential in the California State workforce.*

The issue of privatizing the State Fund is included in the Rightsizing State Government section of the report. Pertinent excerpts of the report as they relate to the State Fund are quoted below:

#### ***Rightsizing State Government (page 6 of report)***

*State government is far larger than it need be to deliver essential services to the people of California. Governor Wilson proposes streamlining state government by ending unnecessary functions, transferring self-sustaining activities to the private or non-profit sector, consolidating overlapping functions and returning authority and resources of local government. The Governor's initial recommendations include:*

- *Privatizing the \$7.3 billion State Compensation Insurance Fund.*
- *(10 other recommendations are also listed)*

#### ***Proper Role of Government (page 14 of report)***

*State government should concentrate on doing a few things and doing them well. But what should state government do?*

*The state's limited resources should be directed in four core areas:*

1. *Protecting public safety.*
2. *Educating our children.*
3. *Caring for those who can't care for themselves.*
4. *Preserving and enhancing our infrastructure and environment.*

*What should we do with everything else? Eliminate the obsolete, consolidate the overlapping, sell the surplus, privatize the independent, and turn over to local government or non-profits those tasks that don't require state-level intervention, along with the resources to fund them.*

***Divest to Private and Non-Profit Organizations (page 19 of report)***

*Many functions now performed by the state can be done better and at a lower cost by private or non-profit organizations. The state even operates entities that are fully self-supporting and require no state oversight.*

***Action: Divest Functions to Private and Non-profit Sector.***

*The Governor directs all state agencies and departments to divest appropriate functions to the private or non-profit sector, particularly those that are self-supporting or can be run more efficiently through private or non-profit management.*

***First Step: Privatize the State Compensation Insurance Fund.***

*The State Fund is California's largest workers' compensation insurance carrier. It covers almost 50% of California's employers, has \$7.3 billion in assets, and competes with private insurers in selling policies to California companies. The Fund, which employs 6,000 people, is fully self-supporting. The State Fund board of directors and the Department of Industrial Relations will conduct a comprehensive feasibility study on the privatization of the State Fund to be completed in six months.*

The potential benefits of privatization must be considered in light of the State Fund's principal role as the assured market in California. This function would have to be replicated under any other organizational form that might be adopted. In addition, the role of the State Fund in preserving a competitive private market must also be addressed, as employers seeking workers compensation coverage in California are best served by a competitive insurance marketplace.

In California over 300 private insurance companies currently compete for workers compensation business, and since the 1995 Open Competition rating law eliminated constraints on competitive pricing, the current marketplace has generally been described as extremely competitive. The price competition, along with reductions in actual workers compensation costs, has resulted in a 44% decline in employer paid premiums during the past two years.

The State Fund plays an important role in the dynamic of this market. Insurance companies traditionally have not competed for certain classes of workers compensation insurance across the United States, and as a consequence, an assured market is needed where insurance is compulsory and not all employers can find the coverage they desire. The form of that market can vary. Currently, the State Fund fills the role as the assured market, while competing with private insurance companies for

"voluntary" business. Under a privatized organizational structure, an alternative arrangement might be needed for those who could not find coverage on a voluntary basis.

In summary, while the principal objective of privatization is minimizing government involvement in the economy, this objective must be implemented in such a way as to assure there is a mechanism to fill the role the State Fund currently fills as the assured market. At the same time, implementation should encourage an efficient, competitive workers compensation marketplace. These additional objectives are integrated into the evaluation criteria discussed in Sections VI and VII.