
Controller Serves as State Paymaster, Guardian of the Treasury and Chief Tax Administrator

Among the seven executive offices of government established by California's constitution, the three which seem most anachronistic according to the precepts of modern political science are those of Secretary of State, Treasurer and Controller. Among these three, perhaps the most difficult to explain is that of Controller. The office, which was established in 1849 with the state's first constitution, has come to encompass a group of administrative activities in the area of taxation and fiscal control which seem more appropriate to an appointive position subordinate to the Governor than to an independent elective office. And yet because the person who holds this office is also a member of some 27 boards and commissions, at least one of which is likely to be in the news at any given moment, it is an office which has some attractiveness to politicians who seek just that amount of statewide exposure which will make them eligible for higher office in the eyes of party leaders and the voters.

It is nevertheless widely accepted among capitol veterans that Houston I. Flournoy, who has held the office of State Controller for the past five years, was induced to run for that office in November 1966, against his better judgment. This may have been because Flournoy was a professor of government at Pomona College and the Claremont Graduate School, specializing in constitutional law and political science — as well as an Assemblyman — prior to his election in November 1966, although it is also true that the incumbent, Alan Cranston, was considered unbeatable. Whatever the reason, it is evident that Flournoy has learned to make the most of his office and to achieve the sort of nonpartisan recognition as a statewide executive officer which is so useful to politicians in this state. As a consequence, Flournoy's name is invariably included in the list of those of his party who are likely candidates to succeed Governor Reagan in 1974. And it is evident that he does not disapprove of this recognition.

Fiscal Officer

The Controller is the state's chief accountant and guardian of the treasury. The office itself is divided into seven divisions with a total professional and clerical staff of 577 and a total budget, for the current year, of \$7.3 million drawn from the General Fund (\$5.9 million) and four special funds. To assist him in managing his office, Flournoy has two staff members who are exempt from civil service: Chief Deputy Controller Kirk West, who was previously deputy director in the Department of Finance, and Glenn Paschall, who most recently served as an assistant to Washington's Governor Dan Evans. He also has a Deputy Controller, Ralph I. McCarthy, who is a civil servant with many

years of experience in the Controller's Office and who therefore has a major role in the day-to-day administration of the office.

The principal functions of the Controller's office are to: control the receipt and disbursement of public funds; report the financial operations and condition of the state and of local governments; collect certain taxes; provide assistance to local governments in financial matters; and serve on fiscally oriented state boards and commissions. For budget purposes these functions are grouped under four program titles: fiscal control, tax administration, local government fiscal affairs, and administration.

The largest of these is the fiscal control program, which includes the maintenance of accounts for some 150 different funds in the state treasury, preparation of the state's financial reports, computation of certain apportionments to local agencies, audit of all claims for state expenditures, audit of the financial records of local agencies, issuance of some 7.5 million warrants each year in payment of the state's obligations, and administration of the state's payroll system. Since several of these activities are highly computerized, a data processing unit has been established which now serves a number of other state agencies as well.

Next year the Controller's office will take on a new function when it becomes responsible for refunding overpayments of state income taxes under the new withholding system. It is currently estimated that some 5.2 million refund payments will have to be issued in the first half of 1973 for overpayments on 1972 taxes. Another significant increase in the office's workload will occur when, on an experimental basis in two counties, the state takes over the payment of Medi-Cal claims which are now handled by fiscal intermediaries under contract to the state.

Tax Administration

The next largest program in the Controller's office covers the administration of gift and inheritance taxes, gasoline tax refunds, and the collection of delinquent fuel and transportation taxes. The principal activity under this program, and the one which has attracted the most attention in the past, is the administration of inheritance taxes. Inheritance taxes are levied by the courts based upon the recommendations of inheritance tax referees appointed by the court from a panel set up by the Controller. For the current year it is estimated that the inheritance tax referees will prepare approximately 40,000 "taxable" reports which will yield \$202 million in revenues to the state. Every report is audited

by one of the Controller's three district offices to ensure that the state receives the full tax due.

The controversy surrounding this program has had to do with the fact that the 165 inheritance tax referees are appointed to the referees' panel by the Controller and are not civil servants, as are all the state's other fiscal agents, but private individuals who serve only part-time in this capacity. They are not paid a salary but a fee based upon a percentage of the amount of each appraisal. Inasmuch as an inheritance tax referee may gross between \$35,000 and \$60,000 per year and net as much as \$30,000 or more from fees for his services, these are obviously positions which are highly sought after in the more populous counties, and the appointment power which the Controller has gives him a small "spoils system" which he may be tempted to use to his own advantage.

This was, in fact, the charge levied by Flournoy when he first ran for the office against Alan Cranston in 1966. Previous Controllers, he said, had set up their own patronage systems with kickbacks in the way of campaign contributions that helped to keep them in office. Flournoy vowed, if elected, to back legislation taking the appointment power away from the Controller and bringing the inheritance tax referees under the state's civil service. As he promised, he has regularly supported such legislation, but to no avail, for the bills have been defeated regularly. Several significant changes have been made, however. In the fall of 1967 Flournoy, by an administrative ruling, required that all referees with permanent appointments must have passed an examination administered by the State Personnel Board. According to Glenn Paschall, Flournoy's assistant deputy, 90-95 percent of all the present inheritance tax referees have passed this test.

Three years later, in 1970, legislation was passed writing the test requirement into the statutes and adding such other provisions as a prohibition against donations by a tax referee to a Controller's reelection campaign and restricting the ability of a newly elected Controller to fire the referees appointed by his predecessor. Although Flournoy says he continues to favor civil service status for the referees (a proposal successfully opposed by the state bar association), he acknowledges that most of what he sought to accomplish by his proposed legislation has been achieved in other ways.

Local Agencies

The third major program of the Controller's office is to advise local government agencies on the preparation of uniform and effective budgets and financial reports and the efficient collection of their local property taxes, and to prepare annual reports on the financial transactions of all local agencies. There are some 6,000 local government entities in the state, including counties, cities, school districts and other special districts. In this capacity the Controller is also responsible for reviewing and reporting on the use of state gas tax funds apportioned to the cities and counties for street and road construction and maintenance.

In addition to these functions, the Controller is a member of some 27 state boards and commissions which have fiscal responsibilities of varying degrees of importance. The most important of these are the State Board of Equalization, which is the state's largest tax collection agency (sales, use, gasoline, cigarette, alcoholic beverage, and utility taxes); the Franchise Tax

Board, which administers the personal income tax and the bank and corporation taxes; the State Lands Commission, which manages the state's tide and submerged lands; the Council on Intergovernmental Relations, which deals with relations between local, state and federal government agencies; and the State Board of Control, which approves claims against the state. Flournoy was also one of five members of the Reapportionment Commission, which for a short time late last year entered the controversy over legislative reapportionment until it was ruled unconstitutional by the state Supreme Court (see *California Journal*, January 1972).

It is the Controller's role as state paymaster and his membership on the two state tax collection boards which make him one of the state's principal figures in the field of tax and budget policy. Although he has little real power to act directly to affect the state's fiscal policies, he is frequently in a position to comment authoritatively in public and to the Governor's cabinet on those policies and thus to exert important pressure on their development. Most recently, Flournoy, who has long had a special interest in education and school finance, has been pressing for state action in response to the Supreme Court's *Serrano* decision mandating a major overhaul of school support. Although Flournoy appears to be increasingly pessimistic as to the willingness of the Reagan administration and the Legislature to act in the absence of further action by the courts, he is continuing to press for early consideration of alternative ways to reconstruct the state's school finance system to conform to the *Serrano* ruling.

This also gives Flournoy a good reason for getting around the state, speaking to a wide variety of audiences, presenting his views on a subject of particular interest to him and in which he has gained considerable expertise over the years—and keeping his name before the public. In this and other ways he has maintained his position as a potential candidate for higher office—Governor or U.S. Senator—in 1974. 🏛️

Senate Committee Changes

Upon the appointment to the judiciary of the Senate's Water Resources Committee chairman Gordon Cologne, the Senate Rules Committee merged that committee with the Agriculture Committee to make a new Agriculture and Water Resources Committee with an expanded membership of nine. Senator Burgener was added to the new committee and dropped from the Elections and Reapportionment Committee. Senator Coombs, the Vice Chairman of Water Resources, replaced Burgener on the election committee. Senator George Zenovich replaced Cologne on the Natural Resources and Wildlife Committee and is believed to hold the balance of power on the controversial costline legislation which was one vote short of passage in this committee last year.

Senator Roberti replaced Cologne on the Business and Professions Committee, Senator Marler replaced Cologne on Judiciary, and Senator Mills replaced Marler on Transportation. The Health and Welfare Committee membership was increased by two, and one of the positions was filled by Senator Moscone. The other spot remains vacant.

Interview: Controller Houston I. Flourney Discusses His Accomplishments and Plans

Houston I. Flourney must be one of the very few holders of high political office in the nation who also has a Ph.D. (from Princeton). Flourney was Associate Professor of Government at Pomona College and Claremont Graduate School when he was elected to the state Assembly in 1960. In 1966 he squeaked out a long-shot win for Controller, and won reelection in 1970 by 1.5 million votes. California Journal interviewed Controller Flourney in his Capitol office on March 28th.

California Journal: Would the state of California be any different if there were no office of Controller?

Houston I. Flourney: Oh, I think it would be in that I feel that the independent status of the Controller lends support and credence to the accounting, auditing and particularly the reporting function that he performs. He is not tied in with the preparation of the budget nor the forecasting of fiscal events which the Finance Department necessarily has to do. But he comes along afterwards with the opportunity to report on a straight out basis what in fact happened. We've seen in recent years, the budget controversies which tend to be almost annual, that whether there's going to be a surplus or deficit and how much the surplus or deficit is going to be are important to the determination of many policies. And there would inevitably be a tendency, if the figures did not come out the way you had predicted them, to want to make them appear as favorable as possible, if you are involved necessarily with that projecting process. It's very important that the Controller isn't.

Journal: As a political scientist, however, the idea of a single Department of Revenue must have been attractive to you at one time. How do you feel about that now?

Flourney: The idea of a Department of Revenue appointed by the Governor, consolidating and, in effect, eliminating the Board of Equalization, the Franchise Tax Board and everything else, I think has had a theoretical attraction. But I can't really say that in terms of the administration and collection of taxes that I feel that the present arrangement is so bad that it ought to be changed. I think it has been fairly efficient.

Journal: As a member of the Board of Equalization and the Franchise Tax Board, you have an opportunity to speak out on tax issues, but do you really have any more substantial role than that?

Flourney: I think so, of course. Part of it I may claim because of the fact that a couple of years ago the Governor asked me to be the chairman of his advisory commission on tax reform, and we did come forth, after some significant study, with a proposal for tax reform that necessarily got us involved with the whole gamut of the distribution of the burden, as well as its administration. That, plus the board I sit on and participation in practically every tax we collect, in one way or another, I think, gives us an influence. We're not instrumental in changing the tax structure, however, except to the degree that we can persuade the Legislature or the Governor, or both, to pursue a course that we think is desirable.

Journal: Did you have any particular role in last year's tax negotiations?

Flourney: No, I didn't, as far as the negotiation between the Governor and the Legislature. I wasn't involved with that except in spirit in urging that whatever else happened we had to have withholding because of our cash flow problems.

Journal: One of your prime interests right now, apparently, is goading the state into some response to the Supreme Court's *Serrano* decision. In this case both the Legislature and the administration seem to be dragging their feet. How are you going about this and what impact can you have?

Flourney: Well, I feel that's a real responsibility for a lot of reasons. One, I'm a defendant in the *Serrano* case so I feel that I have standing to say something, despite the fact that I'm glad we lost at the Supreme Court level. And certainly I spent an awful lot of time working with people in education and finance trying to deal with the results of inequitable school support when I was in the Legislature for six years. I think it's a most important part of tax reform, and as a personal view I get very very unhappy when I see all kinds of grandiose proposals for tax reform that fundamentally fail to touch what is the most inequitable burden on the property taxpayer, by far, and that's the way we finance schools. We said all this in our tax reform commission report, when we proposed a statewide property tax for schools as the key to tax burden equity. I've advocated it since and I participated on Wilson Riles' Task Force which came up with a proposal this year to implement *Serrano*.

Talking around the state, it's amazing, despite all the publicity it's gotten in many ways, how few people really understand how gross the inequities are. They're always astonished when you really lay out for them just how it works.

I would, of course, like to see the Legislature act now, and I think that the outlines of what they have to do are perfectly clear. It's just a question of what proportions you're going to mix: a reliance on a statewide property tax and new state money to come up with a guarantee that is somewhere close to what it costs to educate kids today in California. I always hate to see the court come along and tell the Legislature to do something I think the Legislature and the state should have done on its own merits a long time ago.

Journal: Are you very optimistic that there will be any action?