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Success Stories from the Experts

Before launching into a new endeavor, it's always best to see if someone else has blazed something resembling a trail. A wise person learns from watching the mistakes and successes of others.

Several states and many large cities have employed privatization and competitive bidding as tools to help them reduce costs while increasing effectiveness. Even the federal government has gotten into the act.

This next section discusses success stories. Two of our favorites are not new, though they will be fresh to some readers. Still, the principles these leaders applied are timeless.

Rumsfeld and the herd of sacred cows

Our current Secretary of Defense spent nearly 20 years in D.C. as a member of Congress, Secretary of Defense and White House Chief of Staff. Donald Rumsfeld moved into the private sector where he spent the next 25 years as the CEO of two successful American companies.

In 1995, Rumsfeld was asked to testify before several Congressional subcommittees about the reorganizational principles that would be necessary to balance the federal budget by the year 2002. In his June 6, 1995 testimony, Rumsfeld addressed the sacred cows that would have to be challenged. He reminisced about the literal "sacred cow" decision Congress had to make in the 1960's—whether or not to close the dairy operated by the Naval Academy. He said, "those who tried to end that practice were accused of not un-

derstanding the importance of a captive milk supply for the Midshipmen. Heaven forbid that the Naval Academy would have to buy milk from the private sector like everyone else."

Rumsfeld noted that his example may seem like a mere annoyance compared to the sacred cows today's lawmakers confront, but the principles are the same. His recommendations for creating a smaller, more effective federal government are quoted below and could be **applied equally well to state governments.**

Define Your Core Business: As the overseers of the federal government, an institution which by any reasonable measure is in Chapter XI, members of Congress must treat the job of restructuring it in the same tough-minded manner corporations around the country are now doing The first task is to decide what your core business is For the federal government, the four basic departments, State, Defense, Justice, and Treasury, have a solid basis for their existence. The other departments either were more narrowly based, or were an afterthought, or both.

Once one has determined the core functions to be performed, all other activities should be scrutinized for elimination, cuts, reorganization, or movement to state and local governments or to the private sector. I begin with the conviction that the first place activities should be undertaken is with individual citizens, second with private organizations, third with local governments, fourth with

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state governments, and only last with the federal government.

Cut Sharply and Rapidly. Don't wait. Whatever it is you do, the odds are overwhelming that you should have done more rather than less and that you should have done it sooner rather than later.

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My advice is to sever public ties with much greater speed.

Downsize. There are hundreds of companies doing exactly this. Some do it after they should have; others do it ahead of the curve. Clearly, the U.S. government is behind the curve. It is guaranteed that there are more managers and staff than are needed.

Redesign the Organizational Chart. One can find powerful reasons for either merging or terminating many of the newer [non-basic] departments.... I am persuaded that two-thirds of the non-basic departments are no longer needed in their current form.

Don't Micromanage.

Rumsfeld gave three other pieces of advice.

1. Stop giving legislators credit for pork. The legislature should end the practice whereby members of Congress publicly announce state grants and projects in their districts. As long as we give credit to legislators who secure taxpayer dollars for their districts, incentive will remain for involving Washington in many activities that belong in the private sector or with local governments.

2. Privatize where possible. Government programs are effectively insulated from the rigors of the marketplace and, therefore, are denied the

possibility of failure. Sometimes, nothing short of privatization can restore the discipline of a bottom line.

3. Sell underutilized assets.

How much does it cost to fill a pothole?

A seemingly simple question asked in 1992 by former Indianapolis mayor, Stephen Goldsmith. But no one knew. Not about the cost of filling potholes or a lot of other city services.

This realization spurred former Mayor Goldsmith to do three important things.

- He introduced “activity-based costing” which measures total costs of a service performed: labor, equipment, material and overhead.
- He established the Office of Enterprise Development to spearhead competition projects.
- He created a private-sector, volunteer advisory group called SELTIC (Service, Efficiency, and Lower Taxes for Indianapolis Commission). SELTIC's purpose was to analyze government services by asking: 1) Should government be involved in this arena? 2) If not, how can the city get out?

If SELTIC determined the city should be involved in a particular area, it asked another question: How can we introduce competition from the private sector in delivering this service? Indianapolis quickly saved \$450 million as a result of this approach. Other savings followed.[†]

Activity-based costing enabled Indianapolis to open up service delivery to the competitive bidding process. City employees are asked to bid against the private sector if they wanted to continue doing business with the city. Goldsmith allowed union line workers to cut unproductive overhead to compete (such as reducing extra layers of management), and because of this, city employees—often already used to doing the job and understanding how it could be done better and cheaper—won about 40 percent of contracts put out for

[†] Information from correspondence with Matt Steward, Office of the Mayor of Indianapolis, December 13, 1999.

competitive bidding.

Goldsmith's reform strategies emanated from his belief that

- People governed least are governed best.
- Government should be a rudder, not an engine.
- People know better than government.
- Government should be measured the same way every other enterprise is measured—by results.

Goldsmith practiced his belief that competition not only saves taxpayer dollars and provides better services, but also sets the example of citizens learning to solve problems more independently of government. He says, "Over time, governments have essentially taken the place of the private leadership of neighborhoods."[†] He lamented that this causes communities and families to lack the desire or will to solve their own problems.

When Goldsmith was first elected in 1991, he said, "We have only four years of our lives to make the city better for everyone in Indianapolis." As his fast-moving, boat-rocking reforms became legendary, many said it would cost him re-election. But Goldsmith wasn't swayed. In 1995, he handily won re-election as Mayor of Indianapolis.

A local government success story

It's not often you hear of a government agency taking the initiative of providing more services with less staff, but that is exactly what Dr. Federico Cruz-Uribe has done as director of the Tacoma-Pierce County Health Department.

Over the past several years, Dr. Cruz-Uribe has made dramatic improvements in the health services provided by Pierce County in Washington state. He began by changing the department's mission statement from "providing clinical services" to "improving the health of the citizens of Pierce County." This had the effect of shifting the department from a "provider," in

most cases "of last resort," to a preventive agency. Cruz asked his staff to focus on what he determined were three key overall tasks

- Controlling known and emerging communicable diseases in Pierce County.
- Mounting population-based, primary prevention campaigns around the county to reduce harm and death caused by abuse of tobacco, alcohol, and other drugs.
- Enhancing the safety of the water supply.

In refocusing the department's mission, Dr. Cruz-Uribe closed county health clinics and put the services up for competitive bid. While several other health departments around the country had contracted some of their clinics, Cruz-Uribe took the brave step of setting a new precedent by contracting out the entire categorical health care system to private medical clinics.

Cruz-Uribe identified five specific major goals for his privatization initiative. He set out to:

- 1) expand geographic access to medical care for Health Department patients,
- 2) provide access to confidential medical care,
- 3) increase the number of medical providers treating Health Department patients,
- 4) provide comprehensive primary care services, instead of limited categorical care at the Department's one site,
- 5) provide effective medical care regardless of ability to pay.

Cruz-Uribe and his staff faced a number of obstacles in pushing for privatization. As pioneers, they had little on which to base their public health care innovations. Public employee unions were outraged at the prospect of jobs being cut from the Department's single clinic in Tacoma. Community leaders and advocacy groups expressed skepticism about the efforts. Cruz-Uribe was diligent in educating the public, working with lawmakers, and communicating with the media, and he eventually convinced the skeptics that he was correct.

[†] Quoted in William D. Eggers and John O'Leary, *Revolution at the Roots* (New York: Free Press, 1995).

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The results speak for themselves. All five of Dr. Cruz-Uribe's initial goals were met in a short amount of time. In 1997, the first year the county health department contracted out, \$650,000 was saved, and 109 unnecessary positions were eliminated. By contracting out to thirteen clinics, nearly twice as many patients were treated. With better and more localized access to health care, efforts to control disease and treat patients were eased.

Pierce County became a model for treatment of tuberculosis through its contracting out efforts. Until 1996, the rate of tuberculosis cases in Pierce County was similar to the national rate. Following privatization, the rate in tuberculosis cases dropped dramatically. The cost of treatment fell by nearly \$200,000, and the percentage of patients treated in accordance with national medical standards rose from 79 percent in 1996 to 100 percent today. Treatment is now available 24 hours a day at a variety of locations, whereas it had been very limited before the department contracted out. The Committee on the Elimination of Tuberculosis writes, "The cost-savings realized as a consequence of contracting direct clinical care to the private sector has enabled the health department to reinvest in primary, population based prevention efforts without any diminution of communicable disease control service."

As a result of department reforms, administrative costs were reduced from 28 percent to 16 percent. Today, the Tacoma-Pierce County Health Department is providing more services with fewer staff.

Cruz-Uribe's goal-oriented approach to management has saved money, time, and lives.

Be all you can be— Fort Lewis Army Base

In the mid-1990s, Congress began to discuss the rapid deterioration of military personnel housing on bases around the country. In 1996, President Clinton

signed the Military Housing Privatization Initiative which provides the Armed Services the option to contract out to the private sector for home construction and remodeling on bases.

During the Clinton Administration, former Secretary of the Army for Installations and Environment, Mahlon Epgar IV, developed a comprehensive strategy for public-private partnerships in military housing known as the Residential Communities Initiative. Epgar began by identifying four pilot army bases around the country that were in particular need of improved housing. Then he invited developers to bid on the projects using the Request for Qualifications (RFQ) process, which bases selection on overall excellence of the developer.

One of the pilot bases selected by the Army for an upgrade was Fort Lewis, WA. At Fort Lewis, family housing built after World War II had long since fallen below military living standards. "We want Fort Lewis' residential community to have the same qualities and features that most Americans now enjoy in their neighborhoods and communities," said Apgar. "RCI is all about taking care of our soldiers and their families by creating livable communities that improve their quality of life."

The military selected EQR/Lincoln Properties as the developer of the Fort Lewis RCI. The \$300 million contract with EQR/Lincoln included "the operation, maintenance, and revitalization of 3,637 existing homes, and construction of 345 additional homes." The Army's RCI program developed a comprehensive set of standards for construction so that the homes would be durable, attractive, and cost-efficient. In addition to homes, the developer has worked to improve local roads, landscaping, and park areas including playgrounds and bike paths.

When the first new townhouse duplexes at Fort Lewis were unveiled in November 2002, base commander Lt. Gen. Edward Soriano said, "These houses represent a com-

mitment by the Army and our partners in private industry to care for our soldiers.”

In exchange for their partnership with Fort Lewis, EQR/Lincoln is paid with the monthly housing allowance for each soldier. By using money that is already earmarked to the soldiers’ housing needs, the military does not have to worry about locating a new source of revenue.

In addition to providing housing for soldiers, the public-private partnership created over 500 new private sector construction jobs.

Bangor Naval Submarine Base

In 2002, Bangor Naval Submarine Base received the World’s Best Naval Base award for the fifth time because of its effective innovation in free market competitive bidding. Since 1976, the Navy has allowed competitive bidding on many of the jobs in Bangor that are not defined as core Navy functions.

As with most organizations, two of Bangor’s largest and most controllable costs are maintenance and facility operations. These are important jobs, but Naval personnel did not necessarily need to carry them out. Instead the operations were competitively bid to Johnson Controls, a company well known for its capable handling of such tasks

This outsourcing of routine operations like industrial waste treatment, fire inspection and suppression, custodial services, vehicle upkeep, utilities and hotel operations, and design engineering has allowed Bangor Naval Base personnel to focus on their more primary duty: the maintenance of U.S. submarines for national defense.

The base’s competitive outsourcing has saved millions of dollars. In 1982, 1,200 people were employed at Bangor to carry out services similar to what Johnson Controls now handles with 800 people and fewer resources. In addition to employee savings, Johnson Controls continually modifies, upgrades and

improves equipment to save energy and maintenance costs.

Johnson Controls has a simple goal: to get its contract with the Navy renewed every year by providing higher quality services at lower costs. The company accepts partial liability for the systems and buildings it maintains, giving it a vested interest in assuring quality. Johnson also operates at a fixed charge with bonuses for good performance, instead of a “pay-as-you-go” model. Such measures add incentives for efficient, quality work.

Don Burns, former General Manager for the Bangor Support Project at Johnson Controls, attributes Bangor’s recent award to a number of factors, among them a good community and skilled, motivated workers. “We serve at the pleasure of the Navy,” he said. “We try to keep them happy and earn their respect.” Burns adds that having workers on the job who care about representing themselves well is an important part of a successful relationship with the Navy.

Employees and managers at Johnson Controls are required to be on the lookout for ways to improve their daily tasks, and then document such improvements. As a result, the company is constantly working to become more efficient. New employees are well-informed of the most efficient way to complete tasks, driving down the normal costs of transition by eliminating trial and error. All employees are clear on their tasks and responsibilities, and understand that they are accountable for the work they produce.

The success of Johnson Controls is due in large part to the company’s willingness to be accountable for its work. “We have a contract to meet, and if we don’t meet it, then we are through,” said Burns. The self-imposed performance-based merit system has paid off. Based on criterion for quality excellence developed by the International Organization for Standardization, Johnson Controls is two years ahead of its competi-

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The work Johnson Controls does for the Navy saves millions of taxpayer dollars each year. State government could emulate Bangor's model. Landscape and building design, janitorial services, ground maintenance, central purchasing, and security are just a few of the tasks that could easily be performed by the private sector. This would decrease the cost of government, while stimulating Washington state's consumer-based economy.

Conclusion

Common threads weave their way in and out of each of the success stories we have discussed.

- Determine the core functions of government at each level.
- Be bold! Demonstrate decisive, courageous leadership.
- Insist on competition wherever possible.
- Build in accountability.

Implementing these important measures will allow government to ensure that services based on core governing functions are delivered to citizens in the most effective, efficient and economical way possible.