

Appendices

A

Review Agency Activities

Once an agreement has been reached (*i.e.*, continuing resolution passed by the House and Senate) on core functions and indicators, we urge the respective standing committees to review the activities of all agencies under their jurisdiction to make sure the activity meets the core function and is procured in an economical, efficient and effective manner.

The key issue is not whether a particular service is retained or outsourced. The real issue is what steps should the governor and legislators take to make sure services are provided on a competitive basis to the taxpayer and the public.

Legislators, in particular Legislative Policy Committees, need to thoroughly screen the “Agency Activity Inventory System” reports using the following criteria:

1. Retain: Many of the activities that should be retained by government have traditionally involved responsibilities where direct control is essential for public health and safety. EFF considers public health and safety a core function of government. However, the fact that government has a core function does not mean that government must provide the function. A public health department can have as its mission “improving public health” and can contract out performance of those services. The department’s role would be to set the core functions and output indicators, then to competitively bid the services, monitor the performance of the contracts, and constantly look for “best practices” in delivering the services.

In the past, government has also traditionally assumed primary responsibility for

goods and services that the private sector cannot or does not provide. These include parks and roads. State and local governments, however, are now outsourcing some of these services to private industry or the nonprofit sector.

Departments should retain the activities that they provide on a more cost-effective basis than the private sectors.

2. Improve: Core activities can be improved by restructuring and consolidating operations within a department, enhancing personnel effectiveness and employing the most effective technology.

A department may be able to enhance services or lower costs by restructuring its organization or changing the process by which an activity is performed. Competitiveness may be enhanced by educating personnel and giving them the appropriate tools to perform their activities more effectively. A department may be able to increase services or lower costs by identifying and using the right technology to produce better outcomes. A key is to focus on outcome measures.

3. Outsource: Sometimes an activity supports a department’s mission, but cannot be provided by state government on a cost-effective basis. These activities are excellent opportunities for outsourcing. After outsourcing, the responsibility to the consumer for the quality, reliability and cost-effectiveness of these services remains with the department. Central records management, building and grounds maintenance, and computer operations usually fall into this category.

4. Transfer: Some activities do not support a department’s core mission and there

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are no compelling public policy interests to providing them (*i.e.*, operation of a greenhouse, rest area, municipal golf course, etc). These activities should be transferred to the private sector, the non-profit sector, another level of government, another department, or discontinued.

Review all activities

The Governor's budget office has required all agency directors to inventory each major activity as high, medium, or low priority, with at least one-third of the total agency expenditures in the low priority category. These are the activities that are reported on the "Agency Activity Inventory System" mentioned above.

Specifically, legislators should review the detail related to what services are delivered, who benefits, how much these services cost, and what results (outcomes) are expected to be achieved. We suggest a chart and worksheet similar to those attached at the end of this booklet be utilized in this review.

As part of this review, we suggest the following steps:

1. Review the inventory of all major activities and list the statutory authority for each activity and what core function it supports.
2. Determine if the activity is essential. Department activities that neither directly support the department's core function nor serve compelling public interests should be discontinued or transferred to a department whose core function supports the activity.

If an activity is mandated by another unit of government, question the cost and benefits and be willing to let the elected officials who mandated the service know the cost-benefit. (Does it cost us more money to chase the federal dollar than the resultant benefit or does the chase for the federal dollar affect our priorities in a negative manner?)
3. Determine whether the activity should

be transferred to another department. Some activities that are secondary to the core function of one department may be essential to the core function of another. These activities should be transferred to the latter. If the activity is not essential to any government core function, the activity should be transferred to the private sector, nonprofit sector or be discontinued altogether.

4. Measure performance, cost and quality. Department managers can gauge the quality and cost-effectiveness of the programs by measuring performance, cost and quality measures. This allows the manager to determine how competitively the department is providing the service. Performance measures should focus on outcomes.

Quality measures should provide a direct link to a department's consumers so satisfaction with the services performed can be evaluated. Quality measures also provide a check against performance and cost measures, ensuring that as process improvements are made, the level of product quality is maintained.

Cost measures establish the total cost of providing services so that the cost of government-provided services can be compared to private sector costs for the same service.

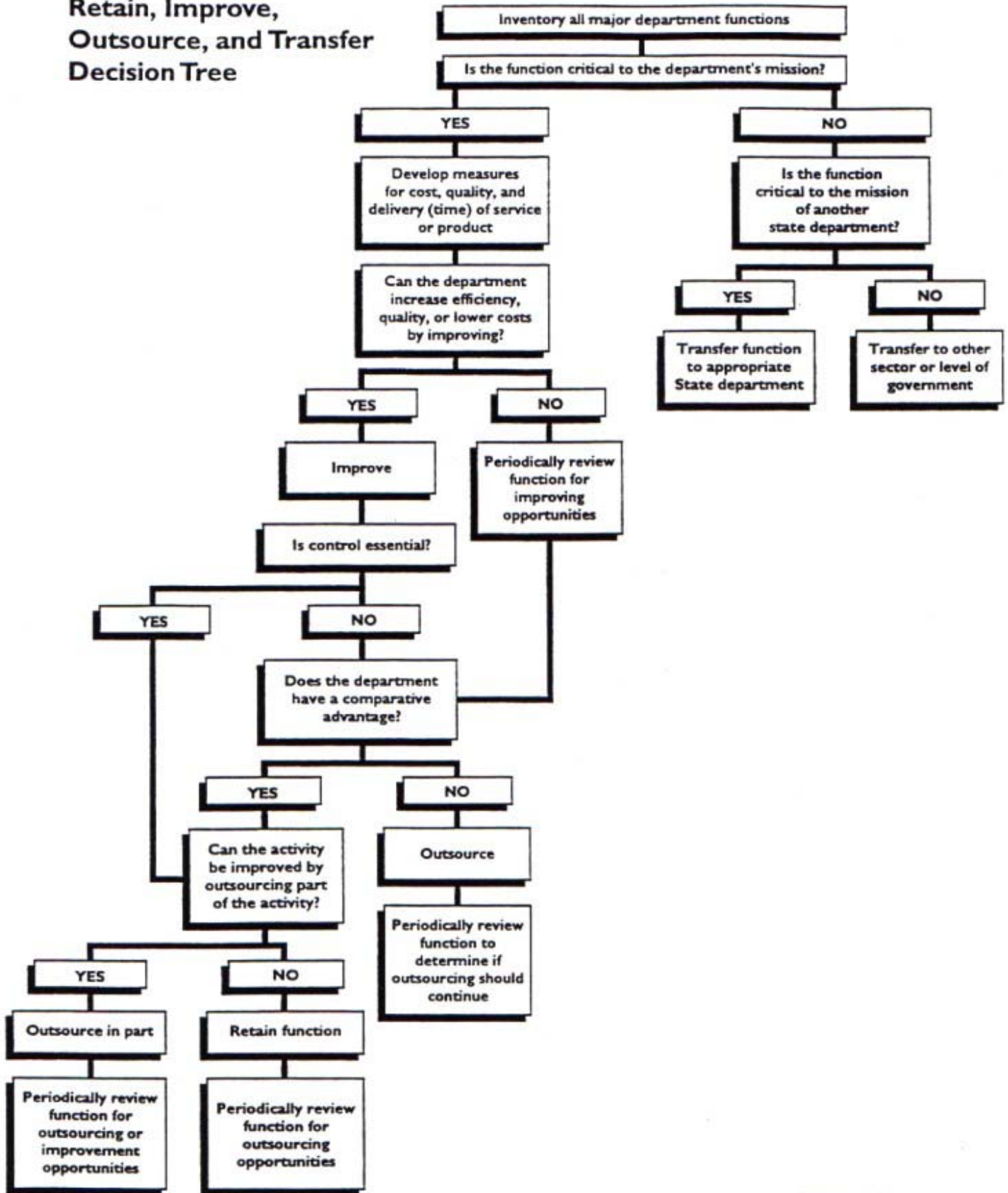
5. Determine if the department can improve its operations. Performance of virtually every activity can be improved. Departments can restructure their organizations, consolidate services, streamline processes, increase employee effectiveness or adopt better equipment and technology.
6. Determine if direct control is essential. Cost is not the only consideration when determining if government is the best provider of a service. Some activities (use of police powers) must be done by government, irrespective of who might provide the most cost-effective service.

Legislators should review the detail related to what services are delivered, who benefits, how much these services cost, and what results (outcomes) are expected to be achieved.

7. Determine if the department is the best provider of the service. Even if it is determined that government is currently the best provider of service, management should periodically review its departments operations to ensure that state government remains the best provider. Changes in law, technology or other circumstances may make the private sector, nonprofit sector or another level of government a more appropriate provider at some future time.
8. Determine if part rather than all of the activity should be outsourced. Often, substantial parts of various department activities are appropriately outsourced even though outsourcing of the whole of a particular activity may be inadvisable.

Figure 2

Retain, Improve, Outsource, and Transfer Decision Tree



Department _____

Contact Person _____

Contact Phone Number _____

Activity Proposal

Provide the following information for **each** major department activity. A separate activity proposal should be completed for each activity. Please duplicate as many copies of the worksheets as needed.

Activity:

Proposed Action: (circle one) Retain Improve Outsource Transfer

Priority of Implementing Proposed Action: (circle one) High Medium Low

Summary of Proposed Action: (If Retained, summarize the department's comparative advantage in providing the service)

Summary Pro-Con Arguments of Implementing the Proposed Action:

Estimated Fiscal Impact of Implementing Proposed Action:

Legal Impediments to Implementing Proposed Action:

Estimated Time Frame to Implement Proposed Action: _____



B

Budget Studies

As of June 5, 2003

Arizona

Goldwater Institute –
www.goldwaterinstitute.org

- 42 Ideas for a Free and Prosperous Arizona. January 24, 2003.
- Does Spending on Higher Education Drive Economic Growth? May 12, 2003.

California

Pacific Research Institute (PRI) –
www.pacificresearch.org

- California by the Numbers. January 2003.

Georgia

Georgia Public Policy Foundation –
www.gppf.org

- Leaner State Budget a Better Fit. 2003.

Illinois

Illinois Taxpayer Education Foundation

- The Big “Budget Crisis” Lie. January 2003.

Iowa

Public Interest Institute –
www.limitedgovernment.org

- How Iowa Government Can Reduce Spending. January 2003.
- Iowa’s State Budget: Spending Our Way to a Crisis. October 2002.

Maryland

Maryland Public Policy Institute –
www.mdpolicy.org

- The Maryland Budget: A State of Crisis. 2003.

Massachusetts

Pioneer Institute –
www.pioneerinstitute.org

- Massachusetts’ structural budget imbalance

Michigan

Mackinac – www.mackinac.org

- Proposed Budget Reductions for the Michigan Department of Agriculture. January 21, 2003.
- Recommendations to Strengthen Civil Society and Balance Michigan’s Budget. March 2003.

Nevada

Nevada Policy Research Institute –
www.npri.org

- Nevada’s Proposed 2003-2005 Budget: Review and Analysis. April 2003.

North Carolina

John Locke Foundation –
www.johnlocke.org

- The Freedom Budget. April 2003.
- Perspective on NC Budget: Spending is a Problem, Not Lack of Tax Revenue. January 23, 2003.
- Changing Course V. May 2002.

Ohio

Buckeye Institute –
www.buckeyeinstitute.org

- Grinding to A Halt. September 2002.
- Medicaid Reform. March 2003.
- Income Tax Progressivity in Ohio. April 2003.
- 10 Ideas for Improving Ohio’s Fiscal Health. 2003.

Pennsylvania

Commonwealth Foundation –
www.commonwealthfoundation.org

- Rightsizing State Government. February 2003.

Texas

Texas Conservative Coalition Research Institute – www.txcc.org/tcc_resources.html

- A Roadmap to Responsible Reform. January 16, 2003.

Texas Comptroller of Public Accounts – www.window.state.tx.us/etexas2003

- Limited Government, Unlimited Opportunity. January 2003.

Vermont

Ethan Allen Institute

- Helping Albert (Development Disability Report). March 25, 2003.

Washington

Washington Policy Center – www.wips.org

- A Policy Guide for Budget Reform Strategies for Improving State Government Services and Reducing the Deficit. January 2003.

Evergreen Freedom Foundation – www.ewffa.org

- Determining Core Government Functions. January 2003.
- School Construction: Building a Better Schoolhouse. December 2, 2002.

Wisconsin

Wisconsin Policy Research Institute – www.wpri.org

- Reforming Wisconsin's Budget for the Twenty-First Century. April 2003.

Other Resources

American Legislative Exchange Council. www.alec.org

CATO Institute. www.cato.org

e-Texas Performance Reviews. www.window.state.tx.us/tpr/tpr.html

Evergreen Freedom Foundation, budget studies and articles. www.ewffa.org

The Heritage Foundation. www.heritage.org

National Association of State Budget

Officers. www.nasbo.org

National Conference of State Legislatures. www.ncsl.org

National Governors Association. www.nga.org

Reason Foundation. www.reason.org

Reason Public Policy Institute, Privatization Center. www.privatization.org

Stateline.org. www.stateline.org

U.S. Department of Health and Human Services, welfare data.

www.acf.dhhs.gov/news/stats/index.html