

The Stewardship Project

Determining Core Functions

Priorities of Government

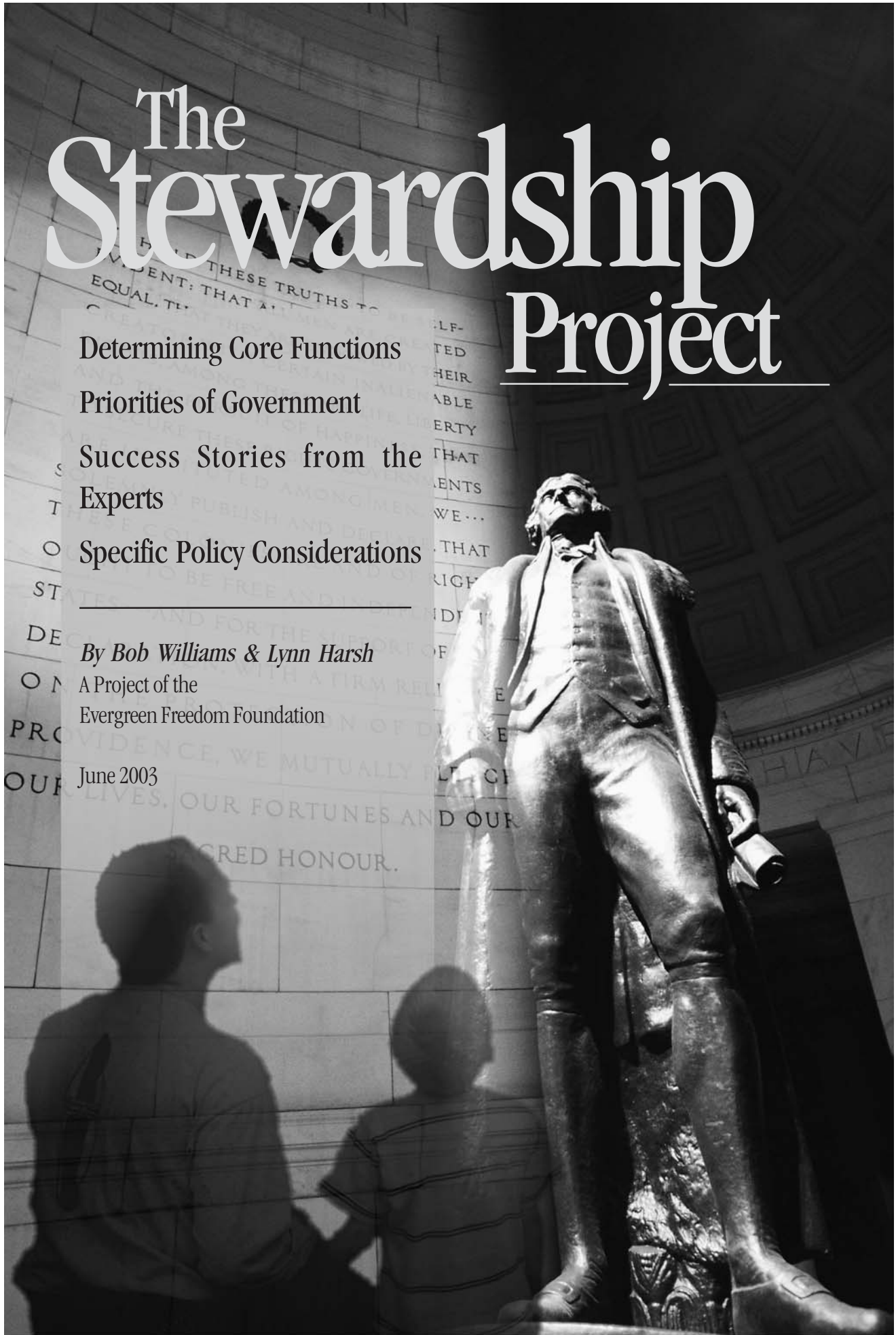
Success Stories from the Experts

Specific Policy Considerations

By Bob Williams & Lynn Harsh

A Project of the
Evergreen Freedom Foundation

June 2003



About *The Stewardship Series*

The *Stewardship Project* handbook is for officials—elected or otherwise—who manage the legal and financial affairs of citizens. It is designed to assist taxpayers in determining whether or not the people they have placed in power to manage their affairs are doing a good job. The handbook is chock-full of principles to ponder and practical tools to use. It will ask and help answer these questions:

- What is the role of government?
- What are the essential services government must provide to fulfill its purpose?
- How will we know if government is doing a good job?
- What should all of this cost?
- How will we prioritize potential budget cuts?

About the Evergreen Freedom Foundation

The Evergreen Freedom Foundation (EFF) is a non-profit, educational research organization based in Washington state. The Foundation's mission is to advance individual liberty, free enterprise and limited and responsible government. EFF staff conduct research and publish analysis and policy alternatives in the areas of state budgets; governance and citizenship; and health, education and welfare reform.

The Evergreen Freedom Foundation neither solicits nor accepts donations from public sources. All programs and activities are funded by private donations from thousands of concerned individuals and numerous private foundations.

Nothing in this publication should be construed as an attempt to aid or hinder the passage of any legislation.

For more information contact:

Evergreen Freedom Foundation
PO Box 552
Olympia, WA 98507
(360) 956-3482
www.ewfa.org

Preface

Stewardship

The act of managing another's property or financial affairs.

In the last election, many of our country's 24 newly elected governors campaigned on a platform of balancing their state budgets without increasing taxes, while simultaneously pledging to spend more money on education, health care and the environment. This might have been possible in the 90s when the economy was booming. Increased revenue from a hot economy permitted governors to have the best of both worlds—more money to spend while holding tax increases to a minimum.

Unfortunately, few governors and legislatures used the extra revenue of the 90s to establish sufficient rainy-day reserves for one-time, necessary infrastructure expenditures. Instead lawmakers increased the size and cost of government, and thus the burden on families and businesses. It seemed the good times would never end.

The results were predictable. On the revenue side, a slight whiff of economic trouble and the shaky foundation began to crumble. And we've had more than a whiff of trouble since 2000.

Financial bow waves from previous years' spending commitments added to promises made in the existing biennium loomed large. Lawmakers in most states spent the first two years of the new century draining rainy-day funds, freezing new hires, and in many cases selling part or all of future tobacco funds (tobacco securitization). Fees and "sin" taxes were increased in many states, while spending for corrections, schools, colleges, local aid, child care, and Medicaid was decreased or frozen.

Washington state suffered more than most. The seemingly endless technologi-

cal boom went bust, resulting in one of the highest unemployment rates in the nation and what the governor's budget office categorized as a \$2.5 to \$3 billion budget deficit. (In reality, state revenue was up six percent from the previous biennium.) Economic forecasters believe it is unlikely that Washington state will experience recovery until 2004-05, and even then, it will be a slow climb out.

Since business and national economic cycles are normal and predictable, how could so many states get themselves in this pickle?

History lessons

Preceding the economic boom of the 90s many states faced budget problems. Fiscal analyst Steve Moore, in an October 2002 study for the American Legislative Exchange Council (ALEC), reviewed data from that period to determine what worked and what didn't. Some governors took strong and often controversial actions. John Engler (Michigan); George Pataki (New York); Frank Keating (Oklahoma); Zell Miller (Georgia); and Christine Todd Whitman (New Jersey) decided not to raise taxes to meet revenue declines; in fact, they cut taxes. They also used that time of crisis to push through various reform packages.

All of those governors were re-elected, but what happened to their state economies?

Moore wrote: "In sum, the fiscal lessons of the 1990s confirm nearly two decades of academic research. State tax policies can have a profound impact on the relative economic performance of the states. States with low and falling tax burdens—especially falling income tax burdens—outperform states with high and rising tax burdens. Most importantly,

Since business and national economic cycles are normal and predictable, how could so many states get themselves in this pickle?

however, states that attempt to balance their budgets with higher tax rates are likely to lose jobs and businesses and thus create even larger long-term structural deficits.”

Governors nationwide began 2003 facing a slowing economy and collective deficits of nearly \$60 billion. What lessons can we learn from the past, and what innovative solutions can we adopt for the 21st century?

Washington’s Governor Locke has broken with conventional thinking about how to build a state budget. He has combined time-honored, but long forgotten governing principles, with modern application to advance one of the most innovative solutions in the country. This *Stewardship Project* handbook will explore both the principles and their application.

1

Determining Core Functions

A lesson from history

Successful government reformers have discovered the necessity of determining what we call “core governing principles.” Core principles are determined by a person’s or a party’s understanding of the role of government. Defining core principles is the crucial first step toward responsible governing because delivering services efficiently and effectively is hardly significant unless government knows what it is supposed to deliver and why.

By way of illustration, the debate is whether to “prune and fertilize” or “pull.” Those who believe core functions of government exist wherever government can flourish and grow (meaning wherever needs are present) will only be interested in pruning and fertilizing: this usually makes a plant grow faster and look better. Others see government as a once-beautiful plant that has overgrown its boundaries (moved beyond its core functions). They are looking to pull government’s roots out of every space they have invaded, save their own. So the question is:

Do we do *more with less* by making government efficient at the tasks it currently performs and using savings to pay for new programs?

OR

Do we do *less with less* by decreasing the scope of government, streamlining programs, and returning savings to the taxpayers?

The issue of determining the core principles and functions of government has been hotly debated since our country was a mere glimmer in our Founders’ eyes.

Thomas Jefferson probably framed the debate best when he said:

Men by their constitution are naturally divided into two parties. First, those who fear and distrust the people, and wish to draw all powers from them into the hands of the higher classes. Secondly, those who identify themselves with the people, have confidence in them, cherish and consider them as the most honest and safe, although not the wise depository of the public interest.

Winners of the original debate believed government existed to bring cohesiveness, legitimacy and protection to a nation declaring itself sovereign. They were repulsed by a government that would take its citizens’ wealth, exploit its people, and send its youth into wars birthed from ego and vice. They knew a free nation needed a strong, but restricted government; therefore, they were stern in their warnings about limiting government’s power.

The Founders established twenty specific federal powers for the named purposes of providing protection from foreign invasion, domestic peace, justice under the law, necessary and clearly defined public works, and foreign and interstate relations. They also placed limitations on federal government through the Tenth Amendment to the Constitution, which protects states from federal intrusion beyond constitutional confines:

The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the states respec-

Delivering services efficiently and effectively is hardly significant unless government knows what it is supposed to deliver and why.

In a broad sense, what should government do, and from what should it stay away? What essential services must government deliver to successfully fulfill its proper functions?

tively, or to the people. States and local governments were to preside over civil and domestic affairs and provide for the administration of laws according to their own governing constitutions. Except for the powers precisely expressed in our U.S. Constitution, the federal government was to leave the states alone. Forced uniformity among the states was never envisioned as desirable or necessary.

These principles first hammered out in America's youth are still fresh today. Successful modern-day government reformers say these concepts have been indispensable to them when trying to determine the core functions of federal, state and local governments.

In a broad sense then, what should government do, and from what should it stay away? What essential services must government deliver to successfully fulfill its proper functions? The answers to these questions form the basis for determining the core functions of government at all levels. This is Step One for building responsible budgets.

Every state constitution, which lawmakers swear to uphold, contains language that cannot be ignored when building a framework for fleshing out core government functions. In Washington state, for starters, legislators must consider the very first Article and Section in the Constitution:

All political power is inherent in the people, and governments derive their just powers from the consent of the governed, and are established to **protect and maintain individual rights**. [emphasis added]

Getting practical— new tools

Only by carefully considering the proper role of government can legislators and governors do a good job protecting individual rights while providing essential services to taxpayers in an efficient, cost-effective man-

ner. This is not an “anti-government” philosophy; rather it is ensuring that what government is supposed to do, it will do well. Furthermore, great savings can be obtained if legislators and agencies do not spend time determining how a particular function can be performed better, faster and cheaper if it is not a core function of government.

In Washington state, Governor Locke and his fiscal team used this approach and developed what they call Priorities of Government (POG). They identified ten core functions under POG:

1. Increase student achievement in elementary, middle and high schools.
2. Improve the quality and productivity of the workforce.
3. Deliver increased value from post-secondary learning.
4. Improve the health of Washingtonians.
5. Improve the condition of vulnerable children and adults.
6. Improve economic vitality of businesses and individuals.
7. Improve the mobility of people, goods, information and energy.
8. Improve the safety of people and property.
9. Improve the quality of Washington's natural resources.
10. Improve the cultural and recreational opportunities throughout the state.

We do not agree with many of the governor's ten priorities for government: some appear to be more of a political statement than a core function of government. In fact, it would be hard to find any activity government currently does that would not fit under one of the ten priorities.

The process Locke and his budget team used to develop them, however, is a giant step in the right direction. They asked the right questions, developed a logical process to determine the answers and prioritized spending accordingly. They created a *new set of tools* that can and should be used by both political parties as a starting point for healthy discussion.

Terms are very important. For example, most of the ten priorities use the word “improve.” What does that mean and how will it be measured?

It is also important to consider whether government needs to actually deliver the services included in each priority identified, or simply ensure that the goals of the priority are accomplished. Priority three, for example, states: “Deliver increased value from post-secondary learning.” Can government really deliver this, or should it read: “Ensure increased value from post-secondary learning”?

Priority number two states: “Improve the quality and productivity of the workforce.” If this is government’s job—and we would argue it is not—wouldn’t it be moot if priorities one and three were accomplished?

What about priority number six: Is it really government’s job to improve economic vitality of businesses and individuals, or should it just provide the climate in which vitality is more likely?

Regardless of how readers of this document would answer those questions, it should be clear that using a process like POG gives legislators a legitimate place to begin debate, ratification or modification. And that’s the hard part, not just because legislators come from varying ideological persuasions, but because the state’s core functions will serve as the litmus test for the hundreds of agencies, boards, commissions and programs currently funded. If an agency or program is not advancing one of the agreed-upon core functions of government, it should be eliminated. Programs listed in agency activity indexes should be screened against these functions.

A bipartisan ratification of agreed-upon core functions should be sought within the first few weeks of budget-writing sessions. This dramatically increases the productivity of standing committee hearings because everyone knows the terms and the budget limitations.

The brass tacks

Following are examples of process, definitions and products from other states and municipalities that developed or attempted to develop core functions. In some cases, follow-through was accomplished and the results are noteworthy. For others, it was an exercise left unfinished because of political disagreement and election reversals. We are not endorsing any particular design, but are including a variety of options so policymakers can see how the process works.

Arkansas

In 1996, our Foundation worked closely with the Arkansas Murphy Commission to author a report called *The Role and Function of State Government in Arkansas*. One of the report’s opening statements read: “When government loses sight of its mission, it can lead to serious problems. Budgets can grow without constraint, workforces can become bloated, spending can rise unchecked, taxes can continually creep upward, and the quality of essential services can decline.”

With that in mind, the Murphy Commission decided the core functions of Arkansas government were:

- to ensure safety,
- to facilitate the “rule of law” and a system of justice,
- to assure proper help is provided to individuals who legitimately cannot meet their own basic human needs,
- to assure educational opportunity exists for all citizens, and
- to act as a responsible steward of public property and the environment.

California

In the fall of 1995, former Governor Pete Wilson “asked every department to examine its mission and determine its core responsibilities.” Core responsibilities were defined as “the handful of functions that represent the agency’s and department’s essential elements or fundamental reasons for being, not a list of all the functions enumerated in the statutes.”

The Governor’s Council on Information

If an agency or program is not advancing one of the agreed-upon core functions of government, it should be eliminated.

“The key is to focus on results—what needs to be done and then doing it well.”

Technology in its 1995 report stated, “Just as California’s families focus on essentials when their budgets are tight, we want our government doing only what it *should* do, not what it *might* do [emphasis added]. We do not want government to make a function more efficient if it should not be performing that function at all. The key is to focus on results—what needs to be done and then doing it well.”(p.11)

The Council went on to say, “Government in California should first review what it is doing, rigorously consider what it should be doing, and re-engineer itself to make its operations more effective—and then more efficient—using information technology to help. In other words, if a function does not need to be performed, or if it can better be performed by the private sector, then the use of information technology or other resources to make it more efficient is not an effective use of taxpayers’ funds.” (p.12)

Further, the Council recommended that “all state programs should be designed and operated to produce results—results that meet the needs of the customer for quality, and the need of the taxpayer for low cost.”

The Council also recommended that “all government programs should focus on ensuring results by relying on the most efficient and reliable way to deliver services—whether by actually providing the service or relying on the competitive private market. State agencies can only reach this goal through system-wide review and re-engineering.” (p.13)

On February 7, 1996, Governor Wilson ordered all departments to:

- inventory all major activities of their department,
- determine activity by activity, whether or not it is a core function integral to accomplishment of the department’s mission,
- determine if the activity is essential to the mission of another state department, if it is not critical to the mission

for the department under review,

- develop performance, cost and quality measures for all core activities,
- determine if direct control is essential or if the department can obtain a comparative advantage (over alternative sources) by performing the activity itself, and
- outsource activities that cannot be performed cost-effectively by the department.

Governor Wilson summed up his guidelines with: “As we approach the 21st Century, California’s families and businesses will be served by a government that provides only essential, necessary services at the lowest cost, with the highest quality.”

Hawaii

In December 2002, a special commission developed core functions to deliver the three goals outlined in Hawaii’s State Plan. The three goals are: 1) a strong, viable economy; 2) a desired physical environment; and 3) physical, social and economic well-being.

The core functions developed by the commission to achieve the goals are as follows:

- Protect and improve public health and welfare.
- Protect and improve public safety.
- Provide public education.
- Promote a stable and strong economy.
- Protect and conserve Hawaii’s natural and cultural resources.
- Support and perpetuate Hawaiian values, culture, lands and trusts.
- Provide critical administration necessary for the operation of the above government functions.

Massachusetts

To define the proper role of government, former Governor William Weld suggested taking a cue from our Founders and the Declaration of Independence. The Declaration spells out the refreshingly straightforward reasons we need government: to secure one’s inalienable rights to

“life, liberty and the pursuit of happiness.”

Governor Weld’s first “basic precept” was that “government should only do what the private sector cannot.” If government must take responsibility, he asked that consideration be given to the level of government best qualified to do the job—federal, state, or local.

Weld’s second precept was that “Government ought not do more with less—it ought to do less with less. This is only possible for a government that has boiled its activities down to core functions.”

“Government should offer a new service only when it is essential and when the private sector cannot, or will not, provide it.”

Weld noted: “The citizen has a right to have only the government that is absolutely necessary. Or if we really wanted to be extreme, we could say, the powers not delegated to the government by the constitution are reserved to the people! We’re raiding the citizen’s paycheck to pay for all this stuff—we’ve got a moral obligation to take as little as possible.”

In his 1995 report to the citizens of Massachusetts, Governor Weld suggested the following core functions:

- Ensure Public Safety: “First and foremost, government should protect people from being injured by others or by physical disasters. Our society was founded on the principle of individual liberty. For liberty to be protected, there must be order, for in its absence we cannot be secure in our persons or in our property.”
- Help Those Who Cannot Help Themselves: “State government ought to help care for those with limited ability to care for themselves. Not those who don’t want to work—those who cannot.” Weld’s emphasis was on needy children and senior citizens, disabled adults and transitional assistance.
- Serve as Steward for Our Public Property: “State government ought to take care of those assets, including our natu-

ral resources of parks, open space, and rivers, and our built resources, like roads and bridges.”

- Ensure an Educated Citizenry: “Responsibility for education rests ultimately with parents. The state should ensure adequate funding for primary and secondary education, but should no longer monopolize its provision.”

North Carolina

The John Locke Foundation, in North Carolina, recommends the following core functions for government:

- law enforcement, courts and corrections,
- public education, with the primary emphasis on K-12 and reduced subsidies for non-teaching K-12 expenses and higher education,
- statewide highway system,
- environmental protection,
- basic anti-fraud regulatory agencies (with limited power), and
- safety net of social services for public order.

Virginia

Former Governor George Allen created a Strike Force to consider necessary government reforms that operated under the following principles (the precursor to developing core priorities):

- Good government is wise and frugal.
- Government should restrain individuals from injuring one another.
- Government should leave the people free to regulate themselves.
- Government should not take from the mouths of labor the bread it earned.

For every item in the budget, I asked two key questions: First, is this activity . . . essential for state government and taxpayers to provide? And second, is this activity more important than a tax cut for all Virginia’s working families and small businesses—or other priorities the citizens have in law enforcement, education and job creation.

—Former Governor George Allen

“The citizen has a right to have only the government that is absolutely necessary.”

—Governor William Weld

Government should be a rudder, not an engine.

Indianapolis

Former Mayor Stephen Goldsmith's reform plan of 1995 operated under four principles:

1. People governed least are governed best. Government exists to serve. Period. It should provide only those services people cannot obtain for themselves through the marketplace.
2. Government should be a rudder, not an engine. Government should not be so much an administrator as a facilitator. It should identify needs that the marketplace cannot fill, then empower people and families to fulfill those needs. It should not attempt to be Big Brother, and it should never attempt to replace the family. Government should create an atmosphere in which businesses can thrive, but it cannot replace the marketplace.
3. People know better than government. Every time government raises taxes, it makes a bold statement. It says to people, 'We know how to spend your money better than you do.' In reality, maximizing the range of choices people have in the free market—by maximizing the amount of money they keep for themselves—is the best way to guarantee health, happiness and security.
4. Government should be measured the same way every other enterprise is measured—by results. We shouldn't talk in terms of programs funded or salaries paid, but, rather in terms of neighborhoods protected and workers trained. If people aren't getting a dollar's worth of service for every dollar they pay in taxes, then government isn't helping them—it is ripping them off.

Doing things more efficiently is not the ultimate end of government. Sometimes government should just get out of the area.

—Former Mayor Stephen Goldsmith

New Zealand

In the 1980s, New Zealand was not only uncompetitive in world markets, its government was nearly bankrupt. Officials reversed the process and decided all programs and agencies would be abolished within six months unless its functions and products could meet these "burden of proof" questions:

1. Should it still be done?
2. Who should do it?
3. Who should pay for it?

All government functions were turned into self-standing businesses with chief executive officers appointed for five-year terms, which can only be terminated for non-performance. The Department of Transportation shrunk from 500 employees to 57. Farm subsidies were eliminated over an eight-month period. Taxes were cut dramatically, but revenues went up by 20 percent. The rule in New Zealand was, and still is for the most part: government should do nothing that can be done more efficiently or more cost effectively in the private sector.

Conclusion

When deciding the core functions of government, the following questions should be asked:

1. Is this a proper function of government, or is it best left to the individual, family, or charitable organizations?
2. If intervention is necessary, is it best left to local government which is closer to the people?
3. Does it further increase taxes, regulations or the size of government? If so, is this justified?

Many lawmakers are unwilling to determine core functions of government because 1) it is hard work and may take years to get right, 2) fierce philosophical battles must be waged with the end result being a compromise that may please no one, and 3) most lobbyists and other special interests hate it, because it's new and less pliable once adopted.

Still, the ultimate responsibility of lawmakers is to look taxpayers in the eye and honestly report to them that government is functioning excellently within its boundaries and its means. Starting the governing process with sound core principles ensures this possibility.

2

Priorities of Government

Debating, writing and approving a state budget is the primary task legislators must accomplish because the budget drives all policy. The governor and state agencies can't spend even one dollar without legislative approval.

Conventional thinking says lawmakers must adjust the current budget for inflation, add caseload increases, splice in a few new initiatives, and call it good for another legislative session. If revenue drops, the same conventional thinking allows for three budget balancing options: 1) raise taxes, 2) cut important services, or 3) a combination of both.

When budgets are built in this manner, without deliberative efforts to develop core governing principles first (see Chapter One), legislators become "enablers" for agencies and programs that likely have fundamental design flaws, or that may be providing services in direct conflict with lawmakers' policy values.

Even when agencies or programs "accidentally" are complying with what lawmakers would choose as their core governing principles, building budgets the conventional way assures overspending. It virtually guarantees an upward spending spiral, as individual bills are passed in committee without regard to whether or not they fit into the bigger picture.

Case study: Washington State

Washington state, like many others, began 2003-05 budget deliberations facing significant future deficits. But instead of struggling to maintain the state's existing

budget, which would force program cuts or increased taxes, Governor Locke and his budget-writing team, headed by director Marty Brown, decided to look for a better way. Locke and Brown determined to build a new state budget using *forecasted revenue*, and to wipe the chalkboard clean of previous spending assumptions. To do this, they decided they just ask and answer four very basic questions:

1. How much money does the state have?
 - What is the forecasted revenue for the next budget cycle?
2. What does the state want to accomplish?
 - What are the essential services state government must deliver to citizens?
3. How will the state measure its progress in accomplishing those goals?
 - What will success look like?
 - What measurable outcomes can be identified?
4. What is the most effective way to accomplish the state's goals with the money available?
 - If a service/program is a core function of government, what level of government should provide it?
 - How can services be provided efficiently and effectively?
 - How can market forces and competition be introduced into core functions, assuring costs are controlled and quality enhanced?

Question #1: How much money does the state have?

This is a superbly sensible question to answer before writing a state budget, but it is rarely where the process begins. In many states, standing committees meet, debate

When budgets are built without deliberative efforts to develop core governing principles first, legislators become "enablers" for agencies and programs that likely have fundamental design flaws.

Most officials will publicly embrace the notion of developing budgets around a model of more carefully prioritized spending, but most will also vigorously oppose or undermine that model in day-to-day operations.

and pass bills with little or no relevant spending framework. Asking this question allows lawmakers to understand spending limitations in advance and could enhance the importance of standing committee hearings—not to mention save time and money.

We suggest legislators take 98 percent of the revenue forecast (putting 2 percent in reserve until it reaches 5 percent of the biennial budget, at which time a tax rebate would be issued) and assign a budget amount to each policy committee. This would enable policy committees to review each of their proposals against a budget, and would hopefully end the long-standing practice in many states of policy committees passing legislation without considering its fiscal impact or priority.

Question #2: What does the state want to accomplish?

Answering this question laid the groundwork for what Washington’s Governor Gary Locke and his budget team believe to be the state’s core responsibilities—what they call “Priorities of Government” (POG). They identified the following ten goals as the state’s top priorities. These are the services they believe form the state’s core duties to citizens:

1. Increase student achievement in elementary, middle and high schools.
2. Improve the quality and productivity of the workforce.
3. Deliver increased value from post-secondary learning.
4. Improve the health of Washingtonians.
5. Improve the condition of vulnerable children and adults.
6. Improve economic vitality of businesses and individuals.
7. Improve the mobility of people, goods, information and energy.
8. Improve the safety of people and property.
9. Improve the quality of Washington’s natural resources.
10. Improve the cultural and recreational opportunities throughout the state.

Many state legislators in Washington will disagree with these core priorities. That’s fine. They should use them as a starting place for a healthy debate about the state’s responsibilities.

In some states, legislators may not wait for their chief executive to develop a list of core governing functions; they will do it themselves. And in other states it will be a joint endeavor between political parties and the two branches of government. *In all cases, the core governing principles adopted will be a negotiated product.*

While that statement may seem obvious, it is an important one to remember. Leaders of the process to determine the state’s core functions must understand the fundamentals of their own ideological beliefs; they must have thought through what the end result of state policy should look like; and they must know how to distinguish between negotiables and non-negotiables. If they are not prepared, they will bring little to the debate and do little to maintain balance in the state’s spending and goals.

Developing a meaningful set of core governing principles requires time and courage. Most officials will publicly embrace the notion of developing budgets around a model of more carefully prioritized spending, but most will also vigorously oppose or undermine that model in day-to-day operations. A model like POG puts all government spending on the negotiating table—a difficult reality for agency directors and their staff, and for policy analysts and lobbyists. It can be daunting to develop core functions in the face of differing ideological outlooks among lawmakers and obstinate “insiders” in the bureaucracy.

Once core governing functions for the state have been determined and ratified (which we believe should be done no later than four weeks after the legislative session begins), they will serve as a litmus test for the hundreds of agencies, boards, commis-

sions and programs currently funded. Agencies will be asked to submit their budgets based on delivering one or more of the state’s identified goals. If an agency or program is not advancing one or more of the state’s core priorities, it can be eliminated.

We believe legislators should adopt core functions and pass a House/Senate Concurrent resolution identifying them no later than four weeks into a legislative session. This is crucial for building a balanced and responsible budget. If legislators delay, they lose major opportunities for significant budget savings.

(For more information about determining government’s core functions, see Chapter One.)

Question # 3: How will the state measure its progress toward reaching its goals?

The next step for legislators after identifying the state’s important goals is to determine how they will measure their success in achieving those goals. To that end, Washington’s Governor Locke and his team developed measurable outcomes for each of their identified core functions and prioritized agency programs based on how effectively each would help meet those goals. These outcome measures are called “indicators of success,” and they look like this:

<i>Core Function/Goal</i>	<i>Indicators of Success</i>
1. Increase student achievement in elementary, middle and high schools.	<ul style="list-style-type: none"> • Reduced student gaps in achievement • Improved test scores • Increased high school graduation rate
2. Improve the quality and productivity of the workforce.	<ul style="list-style-type: none"> • Increased possession of skills and abilities required by employers • Increased employment rate • Increased earnings levels
3. Deliver increased value from post secondary learning.	<ul style="list-style-type: none"> • Increased % of adults completing certificates/degrees • Increased graduate/student satisfaction • Increased # of students prepared to meet workforce needs
4. Improve the health of Washingtonians.	<ul style="list-style-type: none"> • Improved index of epidemiological measures (Washington Report Card on Health) • Improved self-assessment of health • Improved access
5. Improve the condition of vulnerable children and adults.	<ul style="list-style-type: none"> • Increased % living above poverty line • Increased % living in permanent, safe home or community settings • Increased % who make progress toward self-sufficiency
6. Improve economic vitality of businesses and individuals throughout the state.	<ul style="list-style-type: none"> • Increased % of people employed • Increased % of prosperous individuals • Increased % of profitable businesses
7. Improve the mobility of people, goods, information and energy.	<ul style="list-style-type: none"> • Sufficient capacity/demand • Minimized delay and downtime • Fair and reasonable pricing
8. Improve the safety of people and property.	<ul style="list-style-type: none"> • Reduced preventable injury and loss • Increased emergency response • Increased citizen confidence of their safety in community
9. Improve the quality of Washington’s natural resources.	<ul style="list-style-type: none"> • Improved % of days with healthy air • Improved % of water bodies/sources that meet quality standards • Reduced rate of land converted to urban areas • Improved trends in fish stocks and wildlife populations
10. Improve cultural and recreational opportunities throughout the state.	<ul style="list-style-type: none"> • Increased availability/access • Increased participation • Increased satisfaction

We cannot stress enough that a careful review must be made of both the core functions of government and the indicators of success. These must be measurable.

Take, for example, number six above: “Increase the percentage of people employed.” How can legislators determine their success at increasing the percentage of people employed if they have no identified starting point? And how can they judge the worth of their spending if they have no target percentage to reach? What if employment increases by only one percent? Was that worth the cost, or should legislators have determined beforehand what their opportunity costs and targets were? A more meaningful outcome measure would be: “Increase the percentage of people employed to 96 percent of those eligible in state.”

The same rules should be applied to other broad indicators above like “Increase the percentage of profitable businesses,” and “Increase the percentage of prosperous individuals.” These must be well-defined to be meaningful and useful, not broad and vague.

Question #4: What is the most effective way to accomplish the state’s goals with the money available?

Lawmakers must decide whether the core functions they have agreed upon can be accomplished within forecasted revenue. While the first three questions in the POG process are about developing meaningful goals, the last is about using market forces and competition to deliver those goals effectively and efficiently without compromising cost and quality.

To restate a previous point, Washington Governor Gary Locke’s 2003-05 budget proposal assumed no new tax increases beyond currently forecasted revenue. This meant the governor’s team had to prioritize its spending. Team members had to identify the state’s most important activities, as well as the least important, to determine how to spend available resources as effectively as possible to accomplish the state’s core goals. This is what they came up with:

<i>High Priorities (Purchased)</i>	<i>Low Priorities (Not purchased)</i>
A bigger investment in early childhood education.	Most current non-basic education programs—including class size reduction.
Targeted spending of K-12 resources—aimed at improved achievement and accountability.	Continued incarceration
Major increase in higher education enrollments; linkage of new funding to changes in governance, credit transfer and course articulation.	Consumer protection activities and regulation of professional services.
Increased investment in public health systems.	Many advocacy groups and commissions.
Greater connection between employer needs and the workforce systems.	Workers’ compensation payments to the permanently disabled.
Expanded preservation of Washington’s natural resources.	Much of Basic Health Program and other medical coverage.
Tort reform.	
Additional new highway construction projects.	
Major reforms to regulatory processes.	
Greater targeting of all resources.	
Consolidation of funds and programs.	

To make this process functional, each state agency must develop what it believes to be its mission as established by law. Once its mission is defined, it must outline the goals and objectives necessary to accomplish its mission. Each of these activities should be categorized as *high, medium* or *low* priority, and performance indicators should be identified. The agency's budget request should reflect those priorities and guidelines.

Once agencies have completed this analysis of their mission and goals, legislative standing committees should review the mission statements, goals, objectives and performance indicators for all agencies under their jurisdiction to determine whether or not they comply with the core functions of government adopted in the joint resolution. They should carefully review agency priorities and budget requests.

This is when legislative standing committees should debate the "make or buy" issue. As lawmakers review agency goals, they should consider whether government must actually *deliver* the various services necessary to accomplish those goals, or whether government's duty is to simply *ensure that the goals are accomplished*.

Testimony should be requested from state agencies and other interested parties on how they propose to meet each goal and how they would answer each question.

Consider, for example, Washington state's K-12 education system. Governor Locke and his team decided the top priority is to "increase student achievement in elementary, middle and high schools." If legislators determine they agree with the governor (and most do), they should move to the next step of determining how the state can most effectively accomplish its education goals within forecasted revenue, and how market forces and competition can be used to do so. Rather than holding hearings on new mandates and programs, the K-12 Education Committee could hold

hearings to carefully review current programs and determine what value they are adding to students' education. They will then have the information they need to determine priorities and build an effective budget.

Conclusion

The POG model developed by Washington's governor asks the right questions, provides a logical process for determining the answers and prioritizes spending accordingly. It provides a logical place to begin meaningful debate. Cash-strapped states will find that a process like POG greatly increases spending efficiency and economy.

Of course, the different political and economic climates in the states mean timelines for adopting such a model will vary in every state. This is perfectly understandable, but a caution is in order: For a model like POG to work, it must be applied to the entire budget, not only the carefully selected, politically manageable portions.

That said, it may only be possible for lawmakers to tackle one large agency first, to demonstrate to themselves and their colleagues how the process works. It may be a strategic decision used to keep the process viable while political changes are underway. This type of segmenting will create vocal enemies inside the targeted agency and among certain lobbyists, while giving other agencies time to build a war trench around themselves. This is not the most favorable option, but if it is the only possible one, a vigorous public relations team must work side-by-side with the restructuring process.

If, in addition to the POG process, independent, comprehensive performance audits are part of the normal legislative procedure, accountability to taxpayers can be more readily assured.

*As lawmakers review agency goals, they should consider whether government must actually **deliver** the various services necessary to accomplish those goals, or whether government's duty is to simply **ensure that the goals are accomplished**.*

Budgeting using POG

Old Formula



400+ Agencies
Current programs
and spending levels



Inflation and
caseload increases



Budget
(Without regard to
existing revenue or
forecast)

New Formula

Core Principles

- 1-----
- 2-----
- 3-----
- 4-----
- 5-----
- 6-----
- 7-----
- 8-----
- 9-----
- 10-----



400+ Agencies



Prioritize
agencies
and
programs
within
existing
revenue



Budget
(balanced within
existing revenue)

3

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

"Heaven forbid that the Naval Academy would have to buy milk from the private sector like everyone else."

—Donald Rumsfeld

If a program or agency is outmoded and inefficient, phasing out its funding over a period of years will not make it less so. Why inflict on these programs the “death of a thousand cuts?”

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.

If a program or agency is outmoded and inefficient, phasing out its funding over a period of years will not make it less so. Why inflict on these programs the “death of a thousand cuts?”

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).

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 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-

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.

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.

4

Specific Policy Considerations

It should be no surprise that most state agencies are expensive to run and, to varying degrees, inefficient. State budgets are built around decades of funding one annual or biennial budget on top of another, with seldom a glimpse backwards regarding original legislative intent, opportunity costs/benefits and actual results. Rarely are state agency directors required to justify their budget requests using the yardstick of what was originally proposed and funded versus what was actually accomplished and for what cost. Most unusual of all is a standing committee whose members evaluate opportunity costs/benefits: that is, weighing the benefits that could have been achieved with the taxpayer money allocated to a particular program if it were available for something else against the benefits actually obtained with that same funding.

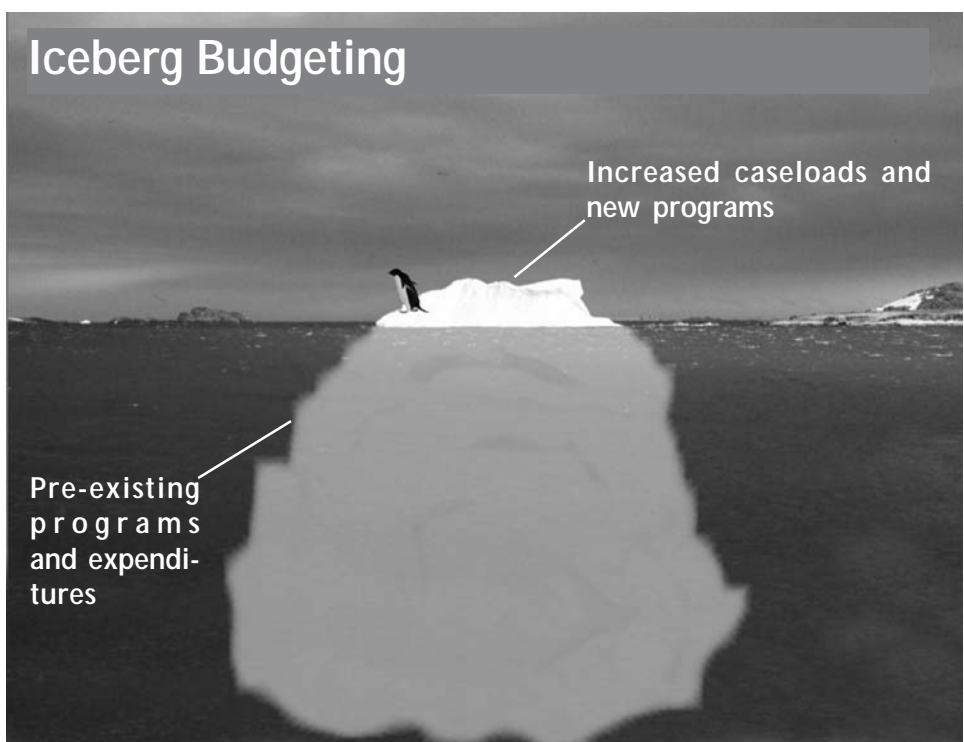
Complicating the issue is the sheer number of decisions lawmakers face in the compressed, tension-filled time frame that is allocated to most legislative sessions. In addition, most legislators, who cannot be experts in everything, defer to the expertise of lobbyists and agency staff to paint the whole picture, even when their gut tells them something is wrong with that picture.

It is startling to observe committee sessions where legislators operate without the benefit of objective and accurate data—data that provide a frame of reference for steering state agencies in the intended direction. Com-

plex objectives and large budgets send chills up the spines of too many legislators, who then feel they have no choice but to continue funding the status quo.

Reducing the size and cost of government depends on stopping this debilitating process.

Following is a short list of “basics” to consider when reviewing the budgets and results of the agencies that make up major budget drivers in most state governments. It is not meant to be a comprehensive review; in most cases, more detailed analysis will be required to get to the bottom of specific concerns, but it is a logical place to begin. (Most standing committee decisions are project oriented and are often isolated from the bigger picture.)



Iceberg budgeting: Most legislators only review the tip for cost savings.

K-12 education

1. Does your state use an allocation model to fund K-12 (the legislature allocates money but local school districts have the ability to use funds for other purposes) or is it an appropriation model where the district must use the funds for the specific purposes approved by the legislature?

2. What do your incentives accomplish? Are they perverse? For example: If a student qualifies for remedial education, do incentives exist to move the child to higher academic standards or will the child remain in the programs because of the incentive to the district for additional funding?

3. How are “students” defined? In some states homeschooled students who take one science course are counted as full-time students.

4. Does your state funding formula use average daily attendance or a head count once or twice each year? The once-or-twice-each-year formula encourages inflated attendance numbers.

5. What percentage of the K-12 budget is from federal sources and what is the cost of compliance in order to get the dollars. (Some federal programs may cost more than the dollars they bring in.)

6. Trend information should be gathered for at least a decade in the following areas:

- the overall K-12 budget adjusted for inflation
- revenue sources
- number of students
- the per student annual allocation
- number of staff by category (and definitions of categories): certificated teachers, classroom teachers, administration, additional staff
- salaries and total compensation paid to the above people
- percentage of total allocation spent on classroom teachers
- the ratio of classroom teachers to other staff
- class size (dividing the # of students by the # of classroom teachers)

- overall academic performance
- performance of specialized programs such as bilingual, gifted and special education
- percentage of students enrolled in specialized programs
- percentage spent on what is defined as “basic education”
- graduation rate (in Washington state the average graduation rate is 68%; 50% for minorities)
- percentage of total per pupil allocation that makes it to the school building/classroom
- percentage of students enrolled in remedial classes in higher education institutions-to include community colleges. (In Washington state, more than half the students who graduate from a public high school and attend a community or technical college must enroll in remedial reading, writing, or math courses to prepare them for college-level studies.)

Other considerations/questions

- What is the average teacher compensation?
- What is the average length of service for teachers in your state?
- How many teachers are approaching retirement age?
- How has the money allocated for specific reform endeavors been spent? (*i.e.* class size reduction, increased beginning teachers salaries, etc.) What are the results?
- How are specialized education programs defined and evaluated?
- How much property, developed and undeveloped do your public schools own, and what is its value?
- How many schools are listing as failing under the federal No Child Left Behind Act?
- Does your state have legal impediments to cost-effective management of schools? For example, Massachusetts and Washington have very restrictive language on contracting out services.
- Does your state use innovative private sector partnerships to construct school

facilities. For more information see <http://www.effwa.org/pdfs/Construction.pdf>.

- Do your state's collective bargaining laws limit the financial flexibility and accountability of locally elected school boards?
- Has your state's K-12 system been subjected to a comprehensive, independent performance audit?

Higher education

- What are the four-year graduation rates for the higher education institutions in your state? (In Washington state, it is 26%.)
- What is the primary purpose of each institution? Teaching, research, both?
- What does the staff work load look like in regard to the defined mission of each school?
- What is the average student/professor contact hours per week, and how is "contact" defined? (In Washington state, the average is around 10 hours weekly, including prep. time.)
- How do you subsidize out-of-state graduate and under-graduate students, and does the state receive a refund when a student does not complete the degree?
- How much property does each institution own, developed and undeveloped, and what is its value?

Claims Management

Does your state have a good system of controls over claims management? Claims management includes state, federal and employer dollars used to fund programs such as welfare, child care, medical assistance, unemployment insurance, workers compensation, etc. In Washington state this amounts to more than \$10 billion per year, yet the state auditor has found that the state has no system in place to verify eligibility of recipients and no internal controls to ensure that dollars are not being wasted. In our state, a mere 5 percent savings by tightening up eligibility and reducing fraud

would save taxpayers and employers \$500 million a year.

Welfare

- What are the caseload trends for the past ten years? How does your caseload experience compare to states that have implemented significant welfare reform (i.e. Oregon and Wisconsin)?
- Do you have a good system to verify eligibility?
- How are your benefits described? Low or high?
- How are your sanctions described? Strong or weak? Are they full-family, graduated or partial?
- Do you contract out any services?

Medical Assistance

- What are your eligibility levels and how do they relate to the rest of the country and neighboring states? For example some states provide coverage at 150% of the poverty level and other states up to 250% of poverty level.
- How do you verify income levels?
- Do you provide coverage to illegal aliens?

Corrections

- Do you deport non-violent illegal aliens upon conviction?
- Does your state allow competitive bidding for prison construction; operations, health and dental care, alcohol and drug treatment and mental health services?

Tort Liability

Does your state have limits on who can sue the state and does the legislature have any control over judgments? For example some states have eliminated joint and several liability (the deep pockets concept where if the state were 5% liable they could end up paying 100% of the judgment). Other states have said judgments over a certain amount (i.e. \$1 million) must be subject to legislative appropriations.

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

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.

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.

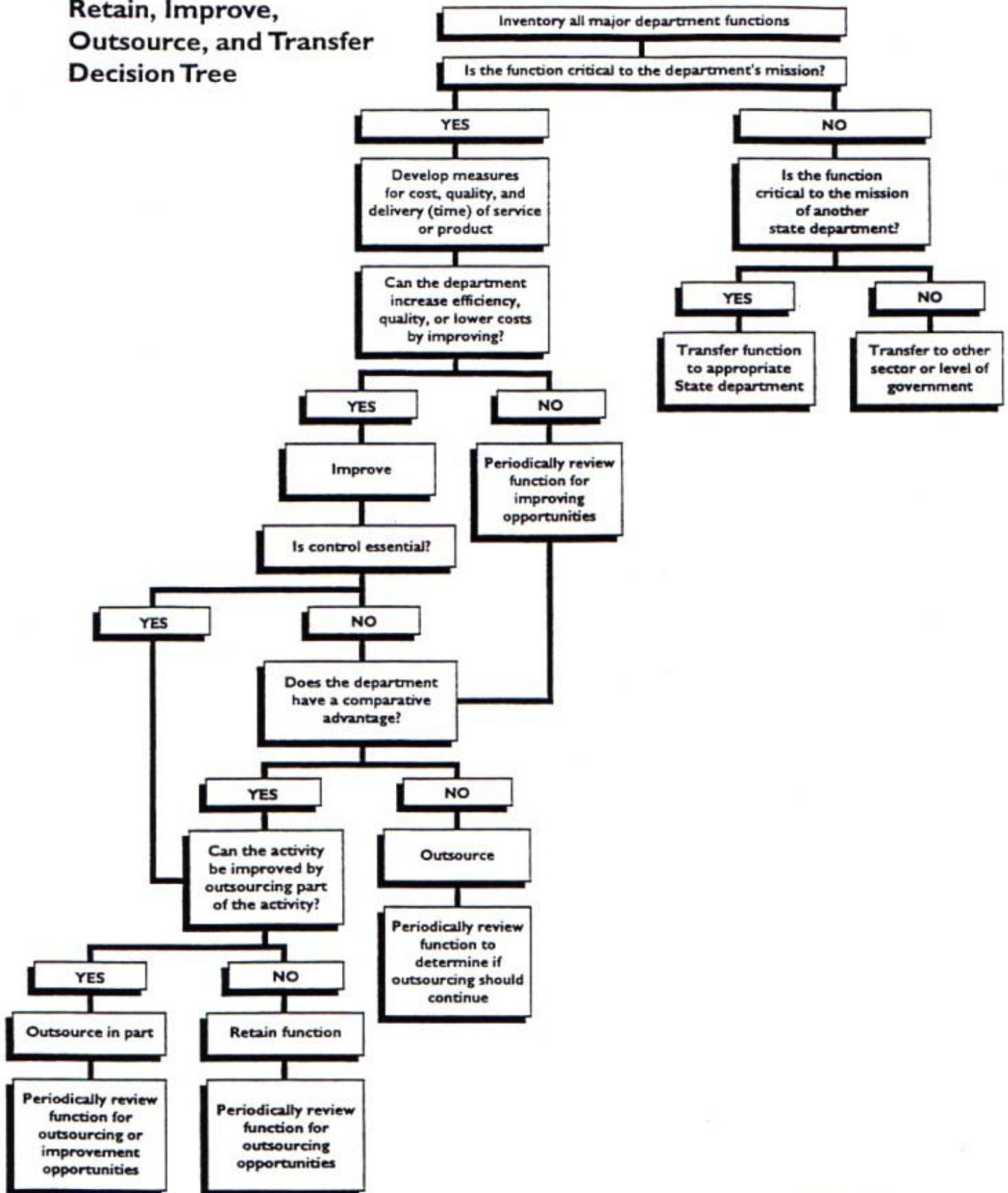
5. Determine if the department can improve its operations. Performance of virtually every activity can be improved. Departments can restructure their organizations, consolidate services, streamline processes, increase employee effectiveness or adopt better equipment and technology.
6. Determine if direct 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: _____



Department _____

Contact Person _____

Contact Phone Number _____

Department Activity Matrix

After completing an Activity Proposal for each major department activity, summarize your strategic goal choice (Retain, Improve, Outsource or Transfer) in the matrix below.

Activity	Retain	Improve	Outsource	Transfer



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