

# Stewardship Series #1



## Core Governing Principles



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# **Stewardship Series**

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## **The Evergreen Freedom Foundation**

The Evergreen Freedom Foundation (EFF) is a non-profit, educational research organization. The Foundation's mission is to advance individual liberty, free enterprise 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.

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# Core Governing Principles

Successful government reformers have discovered the necessity of determining what we call “core governing principles.” Core principles come from a person’s or a party’s understanding of the role of government. Only after core principles have been defined and forwarded does managerial and organizational excellence matter. Laboring to develop systems to deliver the goods more efficiently is hardly significant unless it is understood what is being delivered and why.

As a practical example, why should the Department of Social and Health Services be reorganized to more efficiently manage particular services if it has already been determined that those services are better handled outside the agency altogether?

The debate is whether to prune and fertilize or pull. Those who believe core functions of government are found wherever government can flourish and grow (meaning needs are present) will want to prune and fertilize that which exists. Pruning makes what already exists healthier, grow faster and look better. Others think government is like a once-beautiful plant that has invaded the space of others (moving beyond its core functions). In this case, restoring government’s beauty and that of its surroundings means government’s roots must be pulled out of every space save that of its own.

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1. Determine the core functions of government at each level.
  2. Be bold! Demonstrate decisive, courageous leadership.
  3. Insist on competition wherever possible.
  4. Build in accountability.
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A concrete issue that illustrates this point is the federal government’s role in transportation. Washington state taxpayers send 18.4 cents per gallon of gas tax to Washington D.C. so Congress can direct how it is spent and decide how much to send back to us. This distorts the project selection process, which often leads to scarce funds being used for lower priority projects. The congressional practice of earmarking “high priority” projects is one example of the federal government upsetting states’ prioritization of highway needs.

Among the other shortcomings of the current system is the fact that federal aid comes with various strings attached. Federal requirements such as the Davis-Bacon Act (prevailing wages), “Buy America” and minority/women/small business set-asides, diminish the purchasing power of federal highway dollars.

Washington state has its own version of these costly requirements. Even if freed from federal regulations, the state’s transportation projects will continue to be overpriced. Minimizing the federal role, however, would call attention to the state’s parallel requirements, which often escape serious scrutiny, in part, because of an attitude of “Why bother if federal requirements apply?” If the state’s *federal* cousins were yanked out by their roots, it might cause costly *state* requirements to become the targets of unsympathetic taxpayers.

Further, when federal funds cover the majority of a project, state officials are often tempted to construct more costly facilities than they would if restricted to state funds. Eliminating these “free” federal funds will cause expectations that state and local agencies select more cost-effective projects. If these expectations are not met, the agencies and the elected officials to whom they answer must be held accountable.

The Federal Highway Administration and the General Accounting Office conclude that the core federal highway programs such as interstate maintenance and federal lands programs could be funded for less than 3 cents per gallon of our current 18.4 cent federal gas tax. If federal non-core transportation responsibilities were devolved back to the states, our state would be able to keep 15.4 cents more per gallon of the gas tax to use on what state officials determine are much needed transportation improvements and maintenance.

Ultimately we get back to these questions: What are the core functions of government? Should we do *more with less* or *less with less*? These issues are legitimate topics of debate for political parties in a free society. Until they are answered, legislators in both parties will be tinkering around with ideas and programs which, if they hold any value, will be temporary in nature.

## **THE CONSTITUTION AND CORE PRINCIPLES**

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. Winners of the original debate believed government existed to bring cohesiveness, legitimacy and protection to a nation declaring itself sovereign. They were clearly 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 particular federal powers for the specific purposes of providing: protection from foreign invasion, domestic peace, justice under the law, necessary and clearly defined public works, and foreign and federal relations.

The Founders also enumerated express limitations on federal government including the Tenth Amendment 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 respectively, or to the people.”<sup>1</sup>*

States and local governments were to preside over civil and domestic affairs and were to 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.

***20 Powers of Congress***  
***U.S. Constitution, Article I, Section 8***

*“The Congress shall have Power*

1. To lay and collect Taxes, Duties, Imposts and Excises,
2. to pay the Debts and
3. provide for the common Defense and general Welfare of the United States; but all Duties, Imposts and Excises shall be uniform throughout the United States;
4. To borrow Money on the credit of the United States;
5. To regulate Commerce with foreign Nations, and among the several States, and with the Indian Tribes;
6. To establish an uniform Rule of Naturalization, and uniform Laws on the subject of Bankruptcies throughout the United States;
7. To coin Money, regulate the Value thereof, and of foreign Coin, and fix the Standard of Weights and Measures;
8. To provide for the Punishment of counterfeiting the Securities and current Coin of the United States;
9. To establish Post Offices and post Roads;
10. To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries;
11. To constitute Tribunals inferior to the supreme Court;
12. To define and punish Piracies and Felonies committed on the high Seas, and Offences against the Law of Nations;
13. To declare War, grant Letters of Marque and Reprisal, and make Rules concerning Captures on Land and Water;
14. To raise and support Armies, but no Appropriation of Money to that Use shall be for a longer Term than two Years;
15. To provide and maintain a Navy;
16. To make Rules for the Government and Regulation of the land and naval Forces;
17. To provide for calling forth the Militia to execute the Laws of the Union, suppress Insurrections and repeal Invasions;
18. To provide for organizing, arming, and disciplining, the Militia, and for governing such Part of them as may be employed in the Service of the United states, reserving to the States respectively, the Appointment of the Officers, and the Authority of training the Militia according to the discipline prescribed by Congress;
19. To exercise exclusive Legislation in all Cases whatsoever, over such District (not exceeding ten Miles square) as may, by Cession of Particular States, and the Acceptance of Congress, become the Seat of the Government of the United States, and to exercise like Authority over all Places purchased by the Consent of the Legislature of the State in which the Same shall be, for the Erection of Forts, Magazines, Arsenals, dock-Yards and other needful Building; – And
20. To make all Laws which shall be necessary and proper for carrying into Execution the foregoing Powers and all other Powers vested by this Constitution in the Government of the United States, of in any Department or Officer thereof.”

## REVIEWING GOVERNMENT PROGRAMS

Once core governing principles are determined, each department needs to examine all programs under its jurisdiction as they relate it to the department's core principles. Functions determined not to be part of the department's core mission should be eliminated or transferred to another department where the function is core.

The next step is to review each activity to determine how they can be performed better, faster and cheaper. The real challenge for each manager is to determine how they can more efficiently provide services to the taxpayer. The manager must be willing to look at the service provided and the clients served, first to determine if government should provide the service, and then to ask how the service can best be provided. Delivery systems might need to be changed.

EFF recommends that a department should provide a service directly only if its delivery supports the department's mission, *i.e.*, the service is a core responsibility and the department can provide the best quality and service on a cost-effective basis.

We recommend that each activity be sorted into one of four categories: retain, improve, outsource, or transfer.

### **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. These services often include the use of police powers, the collection and use of restricted data and the direct control of finances.

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 also consider retaining the core 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.

### **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.

Once the performance of the program is outsourced, 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 are no compelling public policy interests to providing them (*i.e.*, operation of a municipal golf course). These activities should be transferred to the private sector, the nonprofit sector, another level of government, another department, or discontinued.

#### **Review all activities**

EFF suggests all department managers inventory each major activity in their department and determine, activity by activity, whether or not it is a core function integral to the accomplishment of the department's mission. 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. Inventory all major activities and list the statutory authority for each activity.
2. Determine if the activity is essential. Department activities that neither directly support the department's mission nor serve compelling public interests should be discontinued or transferred to a department whose mission 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.*

3. Determine whether the activity should be transferred to another department. Some activities that are secondary to the mission of one department may be essential to the mission of another. These activities should be transferred to the latter.

If the activity is not essential to any government mission, 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 (i.e. *use of police powers*) *must be done by government, irrespective of who might provide the most cost-effective service.*
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, i.e., *central records management, computer operations, freeway maintenance.*

The debate between ideologies lies in determining what the core functions should be. It has always been so. But as the saying goes, the proof is in the pudding.

So, we will serve up some of the pudding by presenting discussions and strategies of successful government reformers. These strategies will work for governments at any level.

## **HOW DID THEY DO IT? SUCCESS STORIES FROM THE EXPERTS**

### ***Mayor Stephen Goldsmith, Indianapolis***

How much does it cost to fill a pothole? A seemingly simple question asked by former Indianapolis mayor, Stephen Goldsmith. But no one knew. In 1992, this spurred former Mayor Goldsmith and many city employees to quickly find out exactly how much it costs to fill a pothole and perform other city services.

After he became mayor, Goldsmith immediately did 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 also created a private-sector, entirely volunteer advisory group called SELTIC (Service, Efficiency, and Lower Taxes for Indianapolis Commission). SELTIC’s purpose was not to create studies but to analyze government services by asking these two questions. Should government be involved in this arena? 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? The volunteer SELTIC group evolved into a more passive role after 1994 as Enterprise Development staff were able to assume more of the project workload. Indianapolis has now saved \$450 million as a result of this approach, and the fiscal tally continues to increase.<sup>2</sup>

*Goldsmith allows union line workers to cut unproductive overhead to compete (such as reducing extra layers of management),..*

Activity-based costing enables Indianapolis to open up service delivery to the competitive bidding process. City employees are asked to bid against the private sector if they want to keep doing business with the city. Goldsmith allows 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 – win about 40 percent of contracts put out for competitive bidding.<sup>3</sup> (For further detailed descriptions, see Competitive Bidding section.)

Goldsmith’s reform plan operates on four concepts:<sup>4</sup>

1. “People governed least are governed best. Government exists to serve. Period. It should provide only those services that 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 it should be 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.”

Goldsmith’s core strategy is competition. He believes 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. The former mayor believes government can only do certain things well and that the private sector is ultimately more qualified to solve personal, family and community needs.

Goldsmith says, “Over time, governments have essentially taken the place of the private leadership of neighborhoods.”<sup>5</sup> He laments that this causes communities and families to lack the desire or will to solve their own problems.

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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.”<sup>6</sup> 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.

### **Governor George Pataki, New York**

In a stunning 1994 election upset, former state representative, George Pataki, became governor of New York. He inherited imposing challenges. The Empire State had become a leader in taxes, regulatory burdens, welfare spending, and crime. Job loss was high and hordes of young people were moving out of the state.

In trying to explain how New York State could have arrived at such a miserable position, Pataki articulated the differences between his philosophy of governing and those of his predecessors. He said, “They [liberals] honestly believed government was some great benevolent force that, in the hands of an enlightened elite (namely themselves), could be just as nurturing and helpful to society as the family.

“In the days of hope and opportunity, we had tremendously strong families...all of us helping and caring for each other. What a contrast that is to the family instability and the outright social mayhem fostered by intrusive government and a state welfare system. ...”<sup>7</sup>

Pataki says his government policies and actions send value-laden messages – messages that “reaffirm our common belief in the importance of keeping families intact, in values like hard work and individual responsibility, and in the sense of pride and self-worth to which every human being is entitled.”<sup>8</sup>

Governor Pataki addressed the House Committee on Government Reform in Washington D.C. in 1999. In his prepared remarks addressing the issue of taxes, Pataki said:

“It all comes down to one simple question: Whose money is it anyway?”<sup>9</sup>

Since Pataki became governor in 1994, New York has cut taxes 36 times, returning \$19 billion to the taxpayers. When all the tax cuts on the books take full effect, this number is expected to reach over \$52 billion.<sup>10</sup>

When he took office, Pataki inherited a \$5 billion budget deficit. Now, New York has eliminated the deficit and replaced it with four straight budget surpluses, the latest of which totaled \$1.8 billion.<sup>11</sup>

“Our mission in New York four years ago,” Governor Pataki said, “wasn’t to lead the nation in cutting taxes. Our mission was to restore freedom. To truly fulfill that mission, we knew that – in addition to cutting taxes – we had to eliminate the layers of unnecessary bureaucracy that those taxes created in the first place.

“We knew we had to significantly reduce the size of the big, overbearing government bureaucracy that was intruding into the daily lives of our people. After all, that big government didn’t just disappear when I took office. It was still there, turning out rules and regulations like never before.”<sup>12</sup>

Today, the size of New York government has been reduced by approximately 20,000 positions – most of that through early retirement incentives and transfers. In 1995, New York abolished an entire government agency – the Department of Energy, that had been created in the 1970s to deal with the energy crisis.<sup>13</sup>

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*“We believe in a government that expands personal freedoms, not hinders them, and allows honest and responsible citizens to enjoy the benefits of their hard work.”*

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On New York government core principles, Pataki comments: “Our core principles are simple. We believe in a government that expands personal freedoms, not hinders them, and allows honest and responsible citizens to enjoy the benefits of their hard work. We believe New York is a place where private enterprise and entrepreneurial spirit can thrive and prosper; where those who need a helping hand not only receive it, but are permitted to lift themselves to a better life.

“We believe in a New York in which families feel safe in their communities and people live with hope and confidence. Above all, we believe in raising state government’s standards to meet the greatness of its people.

“Our nation was born from a revolutionary spirit grounded in the notion that government’s rightful role is as a servant of the people and not their master; I believe in that spirit, and I believe the people of New York possess it as much today as they did in the days of our founding.”<sup>14</sup>

### **Mayor Michael White, Cleveland**

In the 1950s, Mayor White’s boyhood hometown of Cleveland had a population of nearly one million people. In 1994, Cleveland’s population had dwindled to slightly more than half that amount. “Where did all those people go?” Mayor White asked. “They made a choice. [They] decided they had a choice and left. They left for a better quality of life, a better bundle of services.”<sup>15</sup>

Mayor White said the rule had always been, “We run your governments, we provide you services and you pay for it no matter what. When it snows in October and we don’t get to it in November, you will pay for that. If we are a day late, and a dollar short, and one plow too little, you will pay for that.”

“...A number of us are waking up to some new realities. You are no longer our prisoners; you have choices, choices of what public services you are going to buy and whom you are going to buy them from.”<sup>16</sup>

Mayor White says the decision of citizens to vote with their feet when faced with increasing taxes and decreasing quality of life has put healthy pressures on cities, including Cleveland.

To revitalize his city, White instituted what he calls “Cleveland Competes.” The program has five approaches to greater efficiencies.<sup>17</sup>

1. Simplifying the bureaucracy of City government and making government more accountable, and responsive to the citizens;
2. Developing and rewarding an entrepreneurial attitude among City managers and employees;
3. Identifying and utilizing technological improvements to reduce the cost of City operations;
4. Developing partnerships between the private and public sectors to reduce the cost of City operations; and
5. Seeking bids from private contractors to provide some City services.<sup>18</sup>

Mayor White’s policies seem to be having a positive effect. Below are some of the highlights of Cleveland Competes programs:

### **Payroll System Restructuring**

Before Cleveland Competes adopted the project of restructuring the city’s payroll system, the payroll process was time consuming. Payroll checks were handled manually and the payroll system was on an obsolete and costly mainframe computer. The city installed a network of minicomputers rather than replacing the mainframe system producing a one-time savings of \$603,000. A private service was contracted to process many payroll functions.

### **Waste Collection and Street Resurfacing**

The competitive bidding process was applied to downtown waste collection and street resurfacing. City local labor unions beat private sector bids and found ways to empty receptacles more efficiently, bringing the cost to empty each receptacle down from \$35 each to \$12.70 – a 64 percent savings.

### **Vacant Lot Program**

The city of Cleveland teamed up with “Clean-land, Ohio” for the 1996 Resident Vacant Lot Maintenance Pilot Program. Under this program, more than 100 city residents were given responsibility

to maintain 400-plus vacant city lots in 13 city wards. With city residents overseeing the smaller lots, the Cleveland officials were able to focus on larger lots that were more difficult to maintain. As a result, the city saved money, improved overall service, and paid residents for a job well done.

### **Police Civilianization**

Civilians now hold approximately 220 of the positions previously held by police. These officers were reassigned to field operations where they can directly serve the public in the capacity for which they were uniquely trained. This resulted in a savings to the city of over \$21 million since 1995.<sup>19</sup>

Mayor White says he is not happy that his city is considered to be on the cutting edge of reform. He says the amount they have accomplished in relationship to how far they have to go makes him dissatisfied. And White may have some problems due to the fact that he has not yet clearly articulated what he thinks city government's core functions are. But White is far ahead in terms of vision, determination and courage, and, as a result, Cleveland is slowly returning to health.

### **Governor John Engler, Michigan**

When John Engler was elected Governor of Michigan in 1991, he inherited a financial mess. State government was running a deficit of almost \$1.8 billion and unemployment was well above the national average.<sup>20</sup>

To help remedy these problems, Engler set several changes in motion. His administration axed one department, cut the state payroll by 6,000 (a reduction of nearly 7 percent in two years), and used the line-item veto to cut \$1.7 billion from the budget. Engler also cut off welfare payments to 70,000 able-bodied adults. These adults are now on private payrolls.<sup>21</sup>

Social welfare activists were furious and predicted death and destruction for thousands of people. They set up a tent city called Englerville underneath the governor's office window and dogged Engler wherever he went. Public opinion polls showed his re-elect numbers had dropped to 19 percent. But by his second year in office, the landscape had changed as people noted Michigan had not fallen into the abyss predicted. "It did not happen," said Governor Engler.<sup>22</sup>

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*"...voters are willing to stand behind leadership that has the courage to confront the issues."*

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Engler went to work on the next round of reforms. He eliminated property taxes for school financing and substituted a tax package that resulted in a net annual tax decrease of \$700 million.

Under John Engler's leadership, taxes have been cut 26 times, and the state's Rainy Day Fund now exceeds \$1 billion. Statewide, more than half of all able-bodied welfare recipients are working and earning a paycheck,<sup>23</sup> and the state unemployment rate in December 1999 was at 3.6% – well below the national average.<sup>24</sup>

Engler believes reforming government requires bold leaders. He says, "...voters are willing to stand behind leadership that has the courage to confront the issues."<sup>25</sup>

Readers should note that Governor Engler, whose re-elect numbers had dropped to 19 percent during the beginning of his reform efforts, was reelected in 1994 by a comfortable 62 percent of the electorate, and again in 1998 by 63 percent.

***City Manager Gerald Seals, Corvallis, Oregon***

(Now County Administrator of Greenville County, South Carolina)

It was 1987 and the Corvallis City Council needed help. Property taxes had more than doubled in 9 years with projections of another 83 percent increase in the next five years. The city budget had grown 132 percent during the same period, the number of city employees had increased by 74 percent, and water and sewer rates increased by 109 percent. In the meantime, per capita incomes of Corvallis taxpayers had increased by only 59 percent.

During the three previous years, serious crimes reported to police increased by 21 percent, while arrests had decreased by the same percentage – 21 percent. Emergency medical services faced a budget shortfall of nearly 50 percent, and Corvallis had received a \$30 million Superfund cleanup bill from the feds.

The city’s library was too small and needed major repairs. The 27.6 million Capital Improvement Plan was unfunded. To frost the unpalatable cake, the city’s three labor union contracts were due to expire within 15 months.<sup>26</sup>

All in all, a dismal, but common set of circumstances.

The Corvallis City Council knew what it wanted and needed to do and they hired Gerald Seals to make it happen.

During the next six years, City Manager Gerald Seals, the City Council, and city staff implemented what they called “rightsizing” city government. The results of their strategy: Beginning in 1988 each budget was less than the preceding one; taxes were reduced by 10 percent; major crime was down by 11 percent; productivity increased by 10 percent; employee salaries were up 35 percent; and the budget was cut from \$83 million to \$43 million.<sup>27</sup>

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*“Our bosses, the citizens, have spoken. Austerity is neither bad nor out of the question. ...”*

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How did this transformation occur? Seals credits the “rightsizing,” reform strategy, saying he prefers it to what is commonly called “downsizing.” Seals says “rightsizing” is examining the proper functions of city government, looking at the citizen’s needs and expectations, and improving service delivery.

He concluded there were five contributing factors to city government’s out-of-balance growth: consultants; a lack of commitment to excellence; lack of leadership; memorandums, meetings and conflict avoidance; prestige; and the need for self-worth.

Citizens, angry about increased taxes and decreased services, had voted down a series of tax-increase proposals statewide. The infamous Measure 5, a tax-limitation constitutional amendment had passed.

In response, labor unions and other special interests were urging the elimination of the most visible and necessary services first in order to show the taxpayers the error of their ways.

But Seals did not agree with this strategy. He said, “Our bosses, the citizens, have spoken. Austerity is neither bad nor out of the question. Rather than rely on fortuity, decry fiscal restraints, or disparage an ‘unrealistic public,’ city leaders recognized and acknowledged city government’s challenges and weaknesses and decided to use the voter’s direction as an opportunity to transform city government. ...”<sup>28</sup>

Seals and the Corvallis City Council developed what they called Principles for Governing as follows (paraphrased):<sup>29</sup>

- Flatten the organizational structure.
- Focus on cost-effective, customer-oriented services.
- Insist on problem-solving management with high expectations.
- Invest in employee training and development.
- Drive organizational efforts through strategic, long-term planning (as opposed to crisis management).
- Anticipate and eliminate recurring fiscal uncertainty and budget crises.
- Deliver services using established priorities #1, #2 and #3: priority 1 being core services with direct benefits; priority 2 being facilitation of direct service delivery activities; and priority 3 being mandated activities, functions, and services performed only at mandated levels.
- Assess overlapping and underperforming activities, services and functions as candidates for absorption, privatization, compacting, consolidation or elimination.
- Revamp the job classification system. Compensation is to be based on skills. Compensation will keep pace with inflation, but will remain midrange competitive with surrounding market.
- Eradicate the “use it or lose it” mentality.
- Emphasize the use of personal computer technology.
- Push for teamwork, high-performance and customer-service principles.

However wonderful “rightsizing” may be, it takes more than a theory to pull off successful government reform. Seals says, “I believe in all of the managerial theories and innovations: empowering, downsizing, total quality management, team building, and reengineering. What I do not believe, however, is that government will successfully respond to citizens with off-the-shelf solutions and management fads. There is simply no substitution for leadership.”<sup>30</sup>

We concur. Seals is now the County Administrator of Greenville County in S. Carolina where on two occasions he has given a tax credit to the people and set in place a business plan resulting in a no tax increase pledge through 2005. Gerald Seals says that his views on rightsizing government that are found in his book *Taming City Hall: Rightsizing for Results* still apply today.<sup>31</sup>

### **Donald Rumsfeld**

After spending nearly 20 years as a member of Congress, the White House Chief of Staff, and Secretary of Defense, Donald Rumsfeld moved into the private sector where he spent the next 25 years as the CEO of two of America’s most successful companies.

In a June 6, 1995 testimony before several Congressional subcommittees, Rumsfeld addressed the reorganizational principles that would be necessary to balance the federal budget by the year 2002. Discussing the sacred cows that would have to be challenged, Rumsfeld reminisced about a big “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 understanding 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.”<sup>32</sup>

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**.<sup>33</sup>

- **“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 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.” (*EFF estimates our state percentage would be at least 40 percent.*)

- **“Don’t Micromanage.”**

Rumsfeld has three specific recommendations for Congress which are also applicable to state government:<sup>34</sup>

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.”

## CONCLUSION

Examining the programs and principles behind the reform programs we have just discussed leads one to several inescapable conclusions. Common threads weave their way in and out of each plan.

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

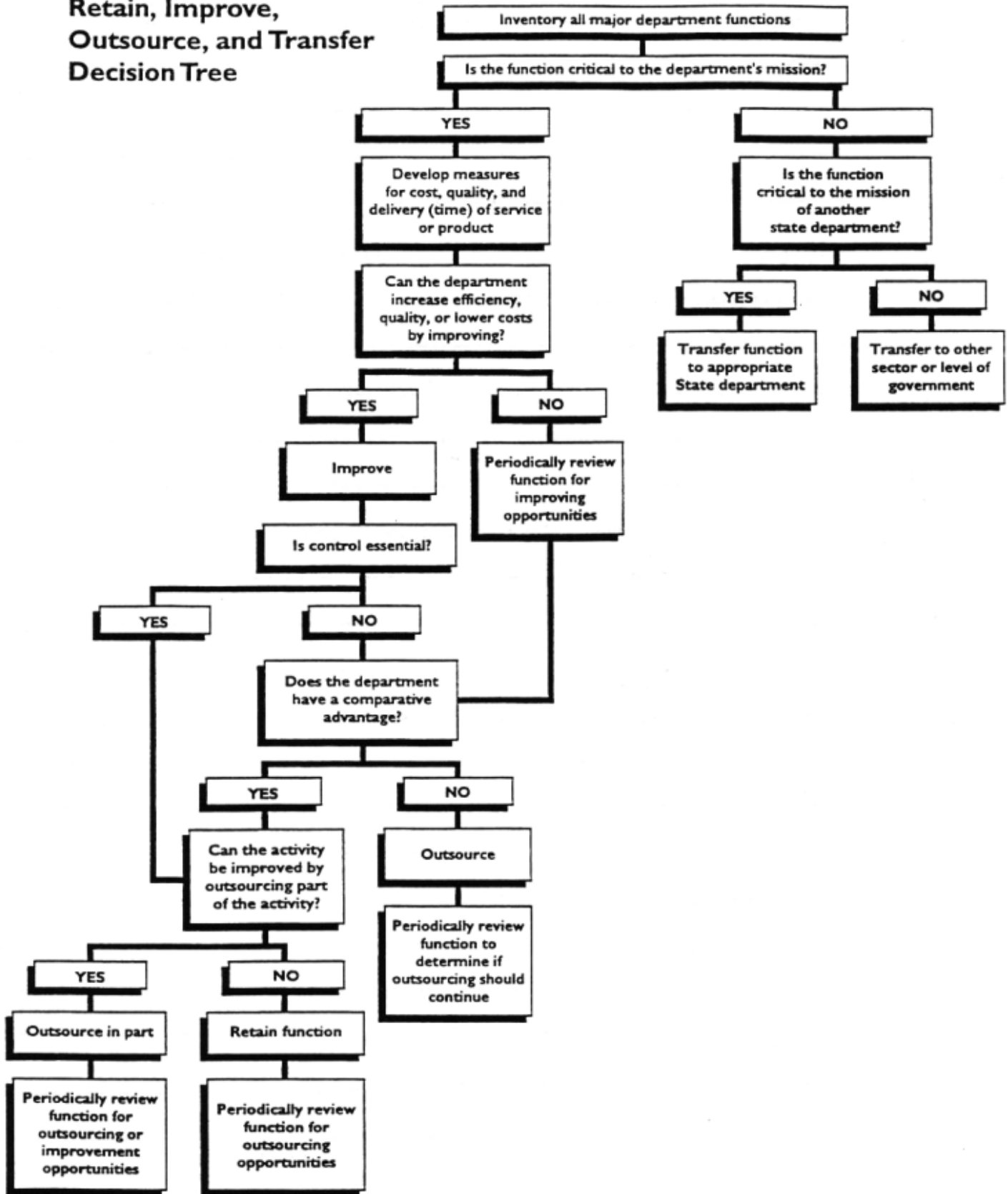
## *Endnotes*

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21. Personal correspondence from John Nevin, Office of the Governor of Michigan, (Nov. 17, 1995).
22. Rush Limbaugh, "Interview with Governor John Engler," *Limbaugh Letter* (April 1995), 6.
23. *Accomplishments of the Governor*, Office of the Governor of Michigan, (1999).
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26. Gerald Seals, *Taming City Hall: Rightsizing for Results* (San Francisco: Institute for Contemporary Studies, 1995), 16.
27. *Ibid.*, 4,5.
28. *Ibid.*, 12.
29. *Ibid.*, 92,93.
30. *Ibid.*, 149.
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33. *Ibid.*
34. *Ibid.*

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:**

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**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)

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**Summary Pro-Con Arguments of Implementing the Proposed Action:**

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**Estimated Fiscal Impact of Implementing Proposed Action:**

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**Legal Impediments to Implementing Proposed Action:**

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**Estimated Time Frame to Implement Proposed Action:** \_\_\_\_\_

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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

