NATIONAL STEWARDSHIP PROJECT

CORE GOVERNING PRINCIPLES • COMPETITIVE BIDDING AND PRIVATIZATION
BUILDING AN ACCOUNTABLE BUDGET • GOVERNMENT REORGANIZATION

EVERGREEN FREEDOM FOUNDATION • THE HERITAGE FOUNDATION • STATE POLICY NETWORK

Cover design and photo by Mark D. Hurlburt

NATIONAL STEWARDSHIP PROJECT

Bob Williams
President and Senior Research Analyst
Evergreen Freedom Foundation

Lynn Harsh
Executive Director and Senior Research Analyst
Evergreen Freedom Foundation

Amanda Jarrett
Research Analyst
Evergreen Freedom Foundation

EVERGREEN FREEDOM FOUNDATION
THE HERITAGE FOUNDATION
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Evergreen Freedom Foundation

The Evergreen Freedom Foundation (EFF) is a nonprofit, educational research organization. Its 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. 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.

The Heritage Foundation

Founded in 1973, The Heritage Foundation is a research and educational institute—a think tank—whose mission is to formulate and promote conservative public policies based on the principles of free enterprise, limited government, individual freedom, traditional American values, and a strong national defense. Heritage's staff pursues this mission by performing timely and accurate research addressing key policy issues and effectively marketing these findings to its primary audiences: members of Congress, key congressional staff members, policymakers in the executive branch, the nation's news media, and the academic and policy communities. Heritage's products include publications, articles, lectures, conferences, and meetings.

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State Policy Network (SPN) is the professional service organization for America's state-based, free-market think tank movement. Founded in 1992, SPN is the only group in the country dedicated solely to improving the practical effectiveness of independent, nonprofit, market-oriented, state-based think tanks. State Policy Network's programs enable these organizations to better educate local citizens, policymakers, and opinion leaders about market-oriented alternatives to state and local policy challenges. By collaborating with outstanding public policy groups around the country, SPN provides vital training and networking opportunities to advance the principles of economic and individual liberty on the state and local levels.

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PREFACE

THE NATIONAL STEWARDSHIP PROJECT started as a series of four publications released by the Evergreen Freedom Foundation in Olympia, Washington, in March 2000. All were designed to provide principled arguments and practical advice to policymakers on how to reform government and make it more accountable to the taxpayers. Logically enough, the authors believe reformers should start by identifying the core governing principles and the functions of government—a step many lawmakers overlook. After this, a review and reorganization of the existing functions of government is necessary, and then one can move forward to build an accountable budget for the future.

This series was first brought to my attention at the 2001 National Meeting of the American Legislative Exchange Council, the annual meeting of state legislators from across the country who share a common belief in limited government, free markets, federalism, and individual liberty. Amid the discussions of what to do about state budget shortfalls, whether tax cuts can be postponed, and what programs could be cut appeared the Evergreen Freedom Foundation's "Stewardship Series." It was so compelling in its message that I asked whether the Heritage Foundation might partner with Evergreen to compile the brief studies into one publication and re-release them to an audience outside of Washington State. Evergreen President Bob Williams very quickly said, "Yes!" And the project grew from there.

State Policy Network—the network of market-oriented state-based think tanks—agreed to be a co-sponsor of the project and help to spread this work to other institutes. The Heritage Online Services team provided on-line links to case studies from other free-market think tanks. Heritage's Coalition Relations team identified experts around the country who can provide practical advice, testimony, and assistance to reformers. And the project continues to grow. We anticipate adding links to the on-line version of this publication as we identify new case studies. We hope state think tanks will use these first chapters to build their own publications, customized with added experts in their states and drawing from local case studies that illustrate the success of reformers on the ground.

Many of our legislative allies have fought hard to hold the line on taxes and spending increases. After September 11, many state budgets took on new burdens that make it necessary to readjust priorities and review the proper role of government—at all levels. We believe that this publication and the supplemental materials added in the months ahead will be a vital resource to leaders as they move forward.

We welcome comments and recommendations for additions, and we look forward to working with reformers across the country.

Bridgett Wagner
Director, Coalition Relations
The Heritage Foundation
December 2001

CORE GOVERNING PRINCIPLES

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.

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 20 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.

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.

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."[1]

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.

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 whether government should provide the service, and then to ask how the service can best be provided. Delivery systems might need to be changed.

Evergreen Freedom Foundation 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. U.S. Constitution, Amendment X.

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 sector's.

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, or 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 that 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 whether 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 or 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 whether 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 whether direct control is essential. Cost is not the only consideration when determining whether 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 whether 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 department's 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 whether 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, Indiana

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.[2]

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.[3] (For further detailed descriptions, see Competitive Bidding section.)

Goldsmith's reform plan operates on four concepts:[4]

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

2. Correspondence with Matt Steward, Office of the Mayor of Indianapolis, December 13, 1999.
3. *Ibid.*
4. City of Indianapolis, Indiana, *The Indianapolis Experience: A Small Government Prescription for Big City Problems*, 1995, p. 2.

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."[5] He laments 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."[6] 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.

5. William D. Eggers and John O'Leary, *Revolution at the Roots* (New York: Free Press, 1995), p. 81.
6. *Ibid.*, p. 12.

> 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….[7]

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."[8]

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?"[9]

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.[10]

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.[11] "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.[12]

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, which had been created in the 1970s to deal with the energy crisis.[13]

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7. Governor George E. Pataki, *Federalism on the Hudson: The Empire Strikes Back*, Heritage Foundation *Lecture* No. 535, pp., 3, 4.
8. *Ibid.*, p. 4.
9. Governor George E. Pataki, Prepared Remarks, Committee on Government Reform, U.S. House of Representatives, April 15, 1999.
10. *Ibid.*
11. *Ibid.*
12. *Ibid.*

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.[14]

Mayor Michael White, Cleveland, Ohio

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."[15]

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.[16]

13. *Ibid.*
14. Governor George E. Pataki, *Renewing the Spirit of New York*, at *www.state.ny.us*.
15. "Revitalizing Our Cities: Perspectives from America's New Breed of Mayors," The Heartland Institute, *Policy Study* No. 185, March 1995, p. 14.
16. *Ibid.*, p. 13.

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.[17]

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.[18]

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

17. City of Cleveland, *1999 People's Budget*, p. 50.
18. *Ibid.*

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.[19]

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.[20]

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.[21]

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 as predicted. "It did not happen," said Governor Engler.[22]

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.

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19. *Ibid*.
20. Jane Ammeson, "Michigan Governor John Engler," *World Traveler*, May 1995, p. 72.
21. Personal correspondence from John Nevin, Office of the Governor of Michigan, November 17, 1995.
22. Rush Limbaugh, "Interview with Governor John Engler," *Limbaugh Letter*, April 1995, p. 6.

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,[23] and the state unemployment rate in December 1999 was at 3.6 percent—well below the national average.[24]

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

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 nine 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 had 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.[26]

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 pre-

23. *Accomplishments of the Governor*, Office of the Governor of Michigan, 1999.
24. Correspondence with Jay Wortley, Senate Fiscal Agency, Michigan, February 4, 2000.
25. Limbaugh, "Interview with Governor John Engler."
26. Gerald Seals, *Taming City Hall: Rightsizing for Results* (San Francisco: Institute for Contemporary Studies, 1995), p. 16.

ceding 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.[27]

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….[28]

Seals and the Corvallis City Council developed what they called Principles for Governing, as follows (paraphrased): [29]

- 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.

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27. *Ibid.*, pp. 4, 5.
28. *Ibid.*, p. 12.
29. *Ibid.*, pp. 92, 93.

- 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.[30]

We concur. Seals is now the County Administrator of Greenville County in South 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.[31]

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 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

30. *Ibid.*, p. 149.
31. Telephone conversation with Gerald Seals, December 1999.

would have to be challenged, Rumsfeld reminisced about a big “sacred cow” decision Congress had to make in the 1960s—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.”[32]

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.[33]

- 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.

32. Donald Rumsfeld, *Congressional Quarterly*, testimony before Congressional Committee, June 6, 1995.
33. *Ibid*.

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 that are also applicable to state government.[34]

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.

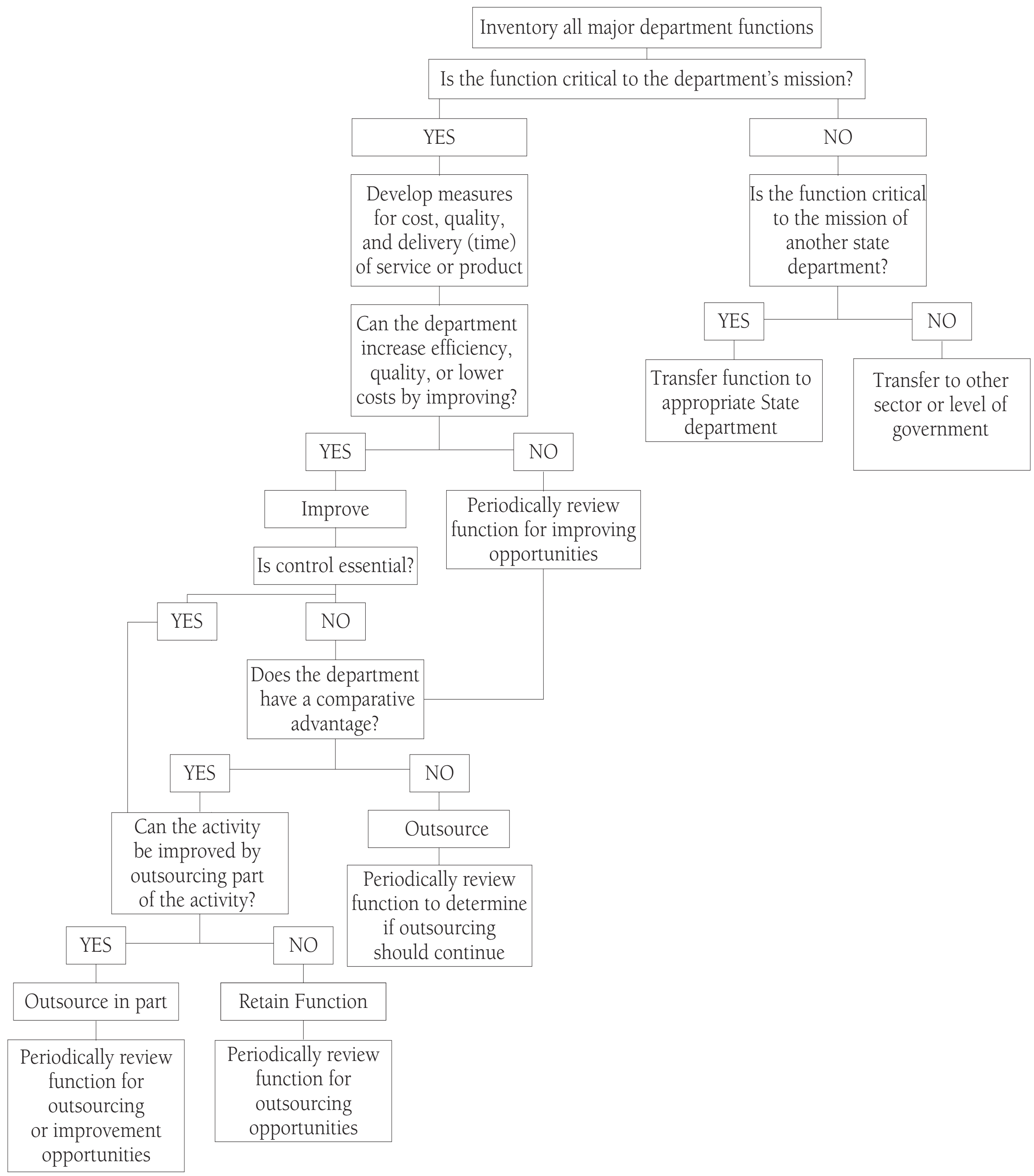
3. Insist on competition wherever possible.

4. Build in accountability.

34. *Ibid.*

Figure 1

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

COMPETITIVE BIDDING AND PRIVATIZATION

Competitive Bidding and Privatization

Mandating Results, Not Means

FACED WITH RAPIDLY INCREASING COSTS and frustrated taxpayers, government at all levels is seeking ways to better manage resources. Two mutually beneficial mechanisms used by a growing number of states and cities are "competitive bidding" and privatization.

As governments review their core missions, leaders will decide certain services are not a mission of government and can best be left entirely to the private sector. Even determination that a particular function is related to government's core mission does not mean the government can best deliver the services.

For example, lawmakers or agency directors might question why state employees must be hired to wash windows or provide grounds maintenance for state office buildings. They might decide this has nothing to do with delivering core services and can be done less expensively by a private firm, especially since the private firm will pay taxes on equipment and supplies that the public sector is exempt from paying. If agency directors or lawmakers turn window washing and grounds maintenance over to outside contractors, they have privatized the service.

Competitive bidding is different in that public employees are able to compete with the private sector to provide a service. For example, if agency directors or lawmakers determine the washing of state office building windows is part of their core mission, they could put the contract out for bid in the private sector as well as with state employees currently employed in that arena. Each would bid for the contract according to prearranged specifications and guidelines.

Competitive bidding and privatization are logical outgrowths of the government subcontracting that has been used for years. But there are differences. Foremost among them is the primary question: Should government be delivering this service in the first place? Additionally, subcontracting has been restricted to a narrow range of services and has not allowed public employees in the competitive loop.

Far more than management tools, competitive bidding and privatization are a demonstration of government's willingness to respect the people it is supposed to serve—the people who pay the bills. A strong message is communicated by government leaders when they agree to deliver quality services to taxpayers at the lowest possible cost regardless of powerful, contrary traditions.

The following is taken from *Competition and Choice in New York City Social Services*, written in 1999 by Professor E. S. Savas at the School of Public Affairs, Baruch College, City University of New York:

CONTRACTING FOR SERVICES

Governments hire for-profit and nonprofit organizations and pay them to provide services specified by the government. In the United States, governments at the local, state, and federal level have been contracting for services, usually under competitive conditions, for a wide range of activities. Contracting has been very successful, increasing efficiency and cutting costs without reducing the level or the quality of services. The summary in Table [1] shows the results of the major studies of contracting for government services. These studies were conducted in several countries and at different levels of government by a variety of independent agents.

The Los Angeles County Auditor–Controller examined all 651 contracts entered into by the County over an eight-year period for data conversion, grounds maintenance, and custodial, food, laundry, and guard services. The contracts totaled $182 million and saved the County $86 million from its original in-house cost of $268 million; that is, the in-house cost was 47 percent greater than the contract price.... A total of 2,700 positions were eliminated, or 3.6 percent of the county's total. Los Angeles then expanded its privatization program even more aggressively, and a subsequent study two years later summarized the County's ten years of experience: A total of 812 contracts costing $508 million resulted in savings of $193 million, or 28 percent; 4,700 positions were eliminated, or six percent of the total, yet this was accomplished with only a handful of layoffs. (No information is presented on the relative quality of the work or on the cost of contract administration and monitoring.) This study is particularly compelling as the county official who conducted these studies is independently elected and not part of the county administration that contracted for the services.

Table 1

Summary of Before-and-After Studies of Contracting

Contracting Agency [Source of Study]	Number of Contracts	Cost before contracting (millions)	Savings (percent)
Los Angeles County, 1979–87 [Los Angeles County Auditor-Controller]	651	$268	32
Los Angeles County, 1979–89 [Los Angeles County, Auditor-Controller]	812	701	28
U.S. Department of Defense, 1980–82 [same]	235	1,128	31
U.S. Department of Defense, 1983–84 [same]	131	132	33
U.S. Department of Defense, 1978–86 [U.S. General Accounting Office]	1,661	2,270	27
U.S. Department of Defense, 1978–94 [Center for Naval Analyses]	2,138	4,768	31
Wandsworth Borough, London, 1978–87 [Centre for Police Studies]	23	174	27
GSA Public buildings Service, FY92 [U.S. General Accounting Office]	576	N.A.	25
State of Western Australia, 1993–94 [University of Sydney]	891	324	20

Source: E.S. Savas, *Privatization and Public–Private Partnerships* (Chatham House Publishers, New York, 2000), pg. 150.

At the request of the U.S. Congress, the Department of Defense reported before-and-after comparisons of its contract for commercial services. The study covered all 285 contracts awarded during a two-year period for support activities such as data processing, food service, and audio-visual services, and revealed that the cost of this work when done in-house prior to the competitions had been 45% higher than the cost of the contract work. (Therefore, the savings were 31%.) A similar study of all 131 contracts awarded the next year showed that the contracts cost $87.5 million, but saved $43.9 million; that is, the in-house cost had been 50% greater and the savings were 33%.[1]

No data on comparative quality are offered nor are the costs of contract administration and monitoring discussed. The studies

1. E. S. Savas, *Competition and Choice in New York City Social Services*, School of Public Affairs, Baruch College, City University of New York, May 1999, pp. 2–4.

cover only the cases where contracts were *awarded;* presumably there were many cases where no savings could have been realized and, therefore, no contracting took place. Thus, one cannot conclude from these Los Angeles and federal studies that *all* in-house services cost 28% to 50% more than comparable contract work.

The U.S. General Accounting Office (GAO) examined 1,661 cost-comparison studies covering 25 major types of commercial functions performed by the Department of Defense. (This study encompassed the 416 studies (285 plus 131) discussed in the preceding paragraph.) The original cost of the in-house work was compared to the contractor bids and to lower-cost bids made by in-house units facing the threat of privatization. The GAO found that the original cost had been saved by this competitive process. This study was subsequently extended to cover eight more years, a total of 2,138 contracts; the updated data show that savings due to such competition increased to an average of 31 percent over the entire sixteen-year period. As in the case of Los Angeles County, this study was carried out by an independent agency.

The other three studies shown in Table [1] reveal similar findings. The Borough of Wandsworth, in London, introduced competition for its municipal services. About one-third of the competitions were won by the in-house work force and two-thirds by private contractors, leading to overall savings of 27 percent. A GAO study of the Public Buildings Service of the U.S. General Services Administration focused on custodial and maintenance contracts for buildings and found that savings averaged 25 percent for the services that were contracted out. The Competitive Tendering and Contracting Research Team at the University of Sydney studied contracting in the State of Western Australia and found that savings averaged 20 percent of the pre-contract cost.

What is most striking about Table [1] is how similar the results are in the United States, England, and Australia; the savings range from 20 to 33 percent. Although these before-and-after studies did not examine the quality of the contractor's work, other studies did and found no significant difference between the work performed by a government agency directly using its own employees and that of contractors selected by competitive bidding. Privatization by contracting for services clearly works. It works because it introduces competition among service providers and gives government agencies a choice among them. To survive in a competitive environment, service providers have to become efficient, innovative, and flexible, and adapt rapidly to changing circumstances.[2]

PRIVATIZATION

Conversations about privatization have been held all around the country for the past 20 years. Competitive bidding has been championed for most of this decade. Both strategies have been tried numerous times at various levels of government, and the balance sheet tips strongly in their favor. Yet the momentum to implement these strategies has been slow in building.

President Bill Clinton and Vice President Al Gore discussed privatization as a major component of their government reform efforts. In December 1994, Gore told *USA Today* his goals for government reform included three elements, the third being, "we will be bold in eliminating things that don't work, that have outlived their usefulness, that can be done better by the private sector or by the state and local governments, and in the process will save money."[3]

In January 1995, when Gore announced REGO II (Reinventing Government), he said, "we will examine the basic missions of government, looking at every single government program and agency to find and eliminate things that don't need to be done by the federal government."[4]

But turning the talk into reality has been slow for several reasons. For one thing, genuine ideological differences exist between what the electorate and their representatives view as the role of government. Some believe, for example, that it is a proper function of government to regulate and distribute hard liquor. Others say government has no business in that business. The same differences surround welfare, education, and health services, and the list goes on.

The reality is, we are so used to government's involvement in almost every aspect of our lives, it is difficult to remember when it wasn't so. While we clamor for change, it frightens us.

But the biggest reason implementation of privatization and competitive bidding strategies has been slow to start can be simply stated—public employee unions.

Little Shop of Horrors

Why *are* private contractors forbidden to wash windows in state office buildings? Why *are* state employees the only ones who can mow lawns at public sites? Shouldn't private firms be able to run the government mail rooms, maintain the computers, and procure and deliver supplies?

2. *Ibid*.
3. *USA Today*, December 13, 1994.
4. Vice President Al Gore, *Report of the National Performance Review*, September 7, 1993.

In reality, public employee unions dominate most state capitals. The word "privatization" is their call to arms. And "competitive bidding," while palatable to some union leaders, is not well understood by most union members.

Unions' objections are understandable when considered from *their* point of view. As an entity—separate from individual members—unions survive only when their membership is stable or growing. When portions of work, previously reserved only for unionized public employees, are successfully contracted to private firms, union membership eventually declines. A decline in membership equates to a decline in influence—not something to be taken lightly if you are a union leader.

Enormous pressure is then exerted on lawmakers by the union to reject any proposal that might reduce their work force. Numerous objections are raised. Unions say privatization portends serious problems such as high unemployment rates and a lack of protection for public workers. Since union leaders equate the entity's (union's) survival with that of their members, protection for the organization will be demanded in tandem with protection for their employee members.

As Audrey discovered in the play *Little Shop of Horrors*, the line "Feed me, Seymour, feed me," is not a joke when it comes to public employee unions.

States that have attempted privatization or competitive bidding strategies have run into the union buzz saw. Most legislators who support the concept find their spines turning to Jell-O when faced with union anger and demands. So far, union pressure against privatization has generally guaranteed that any bill dealing with privatization ends up more worthless than the paper it is written on.

As a result of the unions' ability to lock up most state capitals, America's big cities have been the ones leading the way in implementing privatization and competitive bidding.

But are the unions' fears for their members justified? Will their members face high unemployment, and will they lack the protection the union tries to provide?

Myth of State Employee Job Loss

Several nationwide surveys have found little evidence of unemployment among government workers after privatization and competitive bidding programs have been implemented. A survey completed by the Michigan Privatization Council discovered that 10 of the 20 most commonly delivered services were contracted out in more than half of the 25 cities surveyed in their state. Even so, excluding one town which was in receivership, very little unemployment of government workers was found. The breakdown was as follows:[5]

- 86 percent of public employees were hired by the private companies that took over the service.
- 10 percent were placed in other government positions.
- 3 percent retired.
- 1 percent were laid off.

When Lee County, Florida, put its wastewater treatment plant out to bid, the winning bidder, ST Environmental Services, came in about $7 million lower than the county staff and the next private bidder. Though these savings were great enough to finance a new water plant expansion and to add an injection well for effluent flow without any rate increases, no employees had to be laid off. The contractor agreed to take on all displaced employees and reduce the number of workers simply through attrition.[6]

AFSCME Position

It is suitable for a union to desire and work for the best wages, benefits, and protections possible for its members. That is its job. But it is the job of legislators to procure the best possible services for taxpayers at the lowest possible price. Public employees can rarely deliver that combination, generally through no fault of their own.

From our immense federal government to local assemblies in hamlets scattered throughout the Cascades, most governments are structured to ensure costly mediocrity. Individual employees are rarely ever able to alter the structure either for cost-effectiveness or excellence, but they take the brunt of voter anger. Reflect on this story printed in a pamphlet from the largest public employee union, the American Federation of State, County and Municipal Employees (AFSCME), on how this works:

> Consider the typical front-line worker who staffs the drivers license window at the motor vehicles bureau. She's the only one there—the other three windows are closed. Fifty people are waiting in line. They're looking at their watches; frustration is building. Finally, when they get to the counter, they're not mad at the governor, the mayor or the politically-appointed manager. They are mad at her.
>
> It doesn't matter that she had nothing to do with the public policy or the management structure that created the problem. It doesn't

5. *Competitive Contracting in Michigan: An Overview*, The Heartland Institute, Policy Case Study, Topic Code No. 65, November 1995, p. 2.
6. William D. Eggers, *Competitive Neutrality: Ensuring a Level Playing Field in Managed Competitions*, Reason Public Policy Institute, March 1998, p. 22.

> matter that her supervisor won't let her do anything outside of normal procedures—even if it would speed up the process. To the frustrated people waiting in line, she is responsible for the poor service.[7]

Readers of this AFSCME pamphlet, however, will not find recommendations to turn over any of their current responsibilities to the private sector to enhance efficiency. Nor will the differences between wants and needs be discussed. AFSCME frequently uses the word "need" in reference to services that they feel *must* be delivered to the public. They evidently believe it is imperative for government to continue performing all its current functions, but that it should do so more efficiently.

We disagree with the assumption that government should continue doing everything it is doing today, only in a more efficient manner. But as important as this fundamental disagreement is, AFSCME clearly pinpoints areas in need of immediate reform that can be addressed even by those who disagree ideologically on core government functions.

For example, AFSCME says, "as the need [we would say desire] for public services has multiplied, governments at every level have clung to old and outmoded management structures that stifle service delivery and inhibit the ability of front-line employees to meet the public's changing needs."[8]

AFSCME argues the benefits of giving front-line workers more training and responsibility, and greater flexibility and authority. They say, "cut inefficient hierarchies and wasteful layers of management" separating front-line workers from decision-makers.[9] We agree.

While lawmakers and the public debate the role of government, no ideological problems should stand in the way of streamlining the delivery of government services.

AFSCME developed a series of five principles they believe will change the way government does business for the better.[10] The nucleus of its proposals is to change the command-and-control management model and to put trained, empowered employees closer to the public they are serving.

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7. *Of the People, By the People, For the People: How to Make Government Work Better and More Efficiently for Everyone*, American Federation of State, County and Municipal Employees, AFL–CIO, April 1995, p. 12.
8. *Ibid.*, p. 2.
9. Implement the program retaining full policy control. Be careful to follow successful models in researching potential, determining costs, writing contracts, and monitoring contracts.
10. *Of the People, By the People, For the People*, pp. 6–11 (summarization).

Principle #1: Government must always strive to provide the highest quality services to the public.

"[P]eople pay taxes and expect quality services in return." AFSCME calls this a social contract, and to maintain it, they say, "government must constantly strive to improve quality, eliminate waste and address the changing needs of the public."

Principle #2: Treat front-line public employees and their unions as resources and partners in service delivery.

Allow workers to participate in decision-making and in designing and developing public services.

Principle #3: Create a responsive and more flattened bureaucracy with fewer layers between decision-makers and front-line workers.

"Sanitation workers and tree trimmers ask why their daily routes are devised by managers who have never been on a truck. Hospital workers can't understand why procedural rules force them to find a supervisor before cleaning an overflowing toilet."

"[T]he more layers of management, the more rules there are to follow, and the fewer resources available for the workers who actually perform the job."

Principle #4: Invest in worker training to improve the delivery of services and the quality of these services.

In a workplace devoid of numerous layers of management, workers will be asked to assume more responsibility and make broader decisions.

Principle #5: Redesigning government requires a long-term commitment and protections for workers.

Now What?

If agreement exists that ideological differences about the role of government should not stand in the way of delivering services more efficiently, we can proceed toward making it happen. How do we start in our own state?

In the 1970s, a suit was brought against Spokane Community College by the public employees union when the college tried to contract with a private firm for janitorial duties performed in a new facility. In 1977, the Thurston County Superior Court ruled in favor of the college. But the union eventually won their suit when the 1978 Washington Supreme Court ruled, "where a new need for services which have been customarily and historically provided by civil servants arises, and where there is no showing that civil servants could not provide those service, a [private] contract for such services is unauthorized."[11]

The next year, the legislature went even further and amended state law so that no contract "may be executed or renewed if it would have the effect of terminating classified employees or classified employee positions exiting at the time of the execution or renewal of the contract." This is now RCW 41.06.380 and 41.06.382.

Since then, legislators have rarely even considered the benefits of privatization or competitive bidding. In fact, legislators have found it easier to raise taxes on an angry public rather than risk antagonizing unions by discussing whether or not higher-quality services could be provided to citizens at lower costs.

This being the case, we recognize the virtual inability of our governor or legislators to communicate with public employee unions on the subject of privatization at this time. Evergreen Freedom Foundation (EFF) suggests that the governor and legislators drop most privatization ideas for now and implement competitive bidding instead.

WARNING: If competitive bidding is not implemented correctly, it would be better not to implement it at all.

COMPETITIVE BIDDING

A basic economic axiom is that competition in the marketplace improves performance or product and keeps costs down. On the other hand, government monopolies, with no competition-induced incentives, are characterized by higher prices and limited production. "Competitive bidding" acknowledges these principles while recognizing that most public employees are able to compete head-to-head with the private sector if given the opportunity. The challenge is finding a way to release worker creativity and reward initiative in government while making sure taxpayers receive the best value for their money.

A competitive bidding system would empower state employees to make decisions, to take risks, to do the best job they can. It would enable state employees to compete fairly with the private sector.

11. *Washington Federation of State Employees, AFL–CIO* v. *Spokane Community College*, 90 Wn.2d 698, 585 P.2d 474 (1978).

Competition Lowers Costs

Competitive contracting would not necessarily result in the private operation of public services. It merely requires that quality public services be provided at the lowest possible cost.

Overwhelming evidence exists showing that competition in public services can spur lower delivery costs. The Reason Foundation found the effect of competition on service delivery can generate cost savings in the range of 20 percent to 40 percent.[12]

For more than a decade, the Phoenix Public Works Department has required city units and private firms to compete to deliver a variety of public services. In 1978, garbage collection became the first service opened to competitive bidding. Initially, private trash haulers were able to win all the contracts. It took the Public Works Department several years before it became competitive with private firms. By the early 1980s, municipal workers were regularly winning contracts—39 percent of contracts put out to bid are won by public employees.[13]

The most comprehensive competition program of any large city in America exists in Indianapolis. The administration of Mayor Stephen Goldsmith has identified hundreds of competition opportunities, and over 60 city services have already been shifted into the marketplace.[14] Services opened up to competition include trash collection, printing, equipment maintenance, upkeep of municipal golf courses, street repair, and wastewater treatment operation.[15] City employees, when given time to prepare to bid competitively, have won about 40 percent of the bids, while 60 percent are won by private companies. Over the past eight years, the city of Indianapolis has saved $450 million because of competitive bidding, and this number continues to increase.[16]

In Philadelphia, Mayor Edward Rendell is aggressively pursuing a competitive process for delivering city services. Since October 1992, 46 city services have been contracted out. Competitive bidding has saved the city $38 million per year.[17]

Two cautions are in order. First, competitive bidding does not take the place of determining core functions. As we have already stated, governments at all lev-

12. Willliam D. Eggers and John O'Leary, *Revolution at the Roots* (New York: Free Press, 1995), p. 99.
13. Eggers, *Competitive Neutrality*, p. 5.
14. Henry Olsen, *The Entrepreneurial City: A How-To Handbook for Urban Innovators*, Manhattan Institute for Policy Research, 1999, p. 1.
15. "Competitive Interest," *Reason*, August/September 1993, p. 24.
16. Conversation with Matt Steward at the office of former Indianapolis Mayor Stephen Goldsmith, December 13, 1999.
17. Olsen, *The Entrepreneurial City*, p. 7.

els will likely decide that some of the services they are delivering are outside the scope of their core functions and are best left entirely to the private sector. Putting this category of services out for competitive bid rather than eliminating these functions makes no sense.

> Successful competitive bidding requires strong support from elected leaders, explicit expectations and timelines, regular review, clear and cooperative lines of authority, and appropriate timing.

Our second caution: Though our research indicates competitive bidding has generally delivered that which was expected and more, several notable failures have also resulted. Successful competitive bidding requires strong support from elected leaders, explicit expectations and timelines, regular review, clear and cooperative lines of authority, and appropriate timing. In other words, competitive bidding will fail if it is manipulated or poorly planned.

In 1996, California governor Pete Wilson proposed to privatize everything from road maintenance to the state workers compensation fund. Two years later, "his successes in privatization could be counted on one hand, with a few fingers to spare."[18] The bills that the governor introduced mostly quietly died away, and state employees sued the state a number of times to stop the administration's outsourcing contracts. Governor Wilson's only significant success took place in August 1998 with a large $929 million contract to operate the state government's telecommunication network. The Reason Public Policy Institute states that Governor Wilson's story is in many ways similar to that of Massachusetts governors William Weld and Paul Cellucci—"all three underestimated the opposition they would meet and were not willing to fight the tough battles required to convince people that privatization was the right policy choice."[19]

Competitive bidding is a powerful weapon in the fight to reduce the cost of public services. One of our nation's largest CPA firms, Touche Ross, surveyed the locales and states using competitive bidding and reported cost savings in 98 percent of the competitively contracted services. In some instances, savings were more than 40 percent.[20]

Lower costs for other government services are realized when competitive bidding begins. Duties retained by governmental divisions but subject to competi-

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18. *Privatization 1999: The 13th Annual Report on Privatization*, Reason Public Policy Institute, 1999, p. 5.
19. *Ibid.*
20. Touche Ross, *Privatization in America: An Opinion Survey of City and Governments on Their Use of Privatization and Their Infrastructure Needs*, 1987.

tive bid show improved efficiencies.

Reason says privatization can:[1]

- save taxpayers' money,
- increase flexibility,
- improve service quality,
- increase efficiency and innovation,
- allow policymakers to steer, rather than row,
- streamline and downsize government, and
- improve maintenance.

1. Bill Eggers, *Privatization Opportunities for States*, Reason *Policy Study* No. 154, January 1993, p. 5.

Competitive bidding may increase the tax base and thus boost state revenues. In contrast to government agencies, which are tax-exempt, private contractors must pay taxes on supplies they purchase, assets they own, or profits they earn. As a result of this increased revenue to government, net costs of providing contracted public services when the contract is awarded to the private sector may exceed 10 percent of the gross revenues.

Competitive bidding, which allows public employees to bid for jobs alongside private firms, has an excellent track record of allowing public employees to keep their jobs. In other words, when given the opportunity, public employees were able to streamline service delivery to the point that they were competitive with the private sector.

Competitive bidding benefits can be powerful depending on how comprehensive and robust the program is. The degree to which contractors, be they public or private, are held to high performance standards will also determine its effectiveness.

In its report on privatization opportunities for the states, the Reason Foundation listed seven advantages of privatization that we have found to be very sound (see above box). When applied to competitive bidding, we feel they are as advantageous. These should be powerful incentives for state lawmakers to review competitive bidding as an option to deliver many state government services.

Therefore, EFF recommends that the legislature develop and follow a competitive bidding program with the following components:

1. Designate a Competitive Bidding Director to carry out the goals as they will be outlined by the governor or lawmakers. This person needs to be highly visible and have direct access to the governor and lawmakers. Perhaps this is a job for the lieutenant governor.

2. **Identify government services** which would benefit from competitive bidding. These can range from support services to entire programs. The list of opportunities is long, but here is a start. In general: accounting, landscape and building design, auditing, construction, inspections, maintenance, central purchasing, computer systems design and maintenance, janitorial services, data processing, employee daycare, energy weatherization, engineering services, facility management, mail room, printing, security, archives, technical consulting, telecommunications, trash removal, etc.

   Specific to corrections: administration, maintenance, data processing, education, food service, health care, housekeeping, maintenance, rehabilitation, security, and transportation.

   Specific to K–12 education: school bus transportation, management of schools and school districts, custodial services, accounting, and "at-risk" education instruction.

   Specific to higher education: administration, book store operations, custodians, data processing, management of dormitories, food services, health care, maintenance, security, recreational facilities, and transportation.

   Specific to transportation: development and upgrades of airports, roads, and high-speed rail; rest-area maintenance (in return for letting businesses locate in rest areas, they would maintain the entire rest area and pay a user fee to the state); public transit; motor vehicle registry; and fleet operations and maintenance.

   Other:

   - Liquor sales and distribution.
   - Workers compensation system.
   - Health services including administration, clinics, community health, hospital operations, and mental health.
   - Social services including child support enforcement, welfare administration, job training, retraining, day care, and rehabilitation services.

   Important Considerations: Each opportunity will present a different set of circumstances that must be individually considered. Use the experience of other states as a guide to what has been successfully completed, what has failed, and why.

   Key questions to ask when considering projects for contracting are:

   - Is this a task or program suitable for a long-term contract, or does it need to be on a short leash?

- Can objective performance measures be determined including timelines?
- If the contract needs to be monitored, will contracting out allow this to occur? If so, how?
- Can more than one firm provide the service to ensure competition and to guarantee an option should the first firm have trouble completing the contract?
- What is the impact on current employees?
- Is the proposed competitive bidding contract legal? Do other obstacles exist that need to be removed?

3. Develop a *complete* financial analysis of the proposal. Two issues must be resolved.

   First, indirect costs such as pensions, employee benefits, maintenance and depreciation, construction, interest, etc. must be added with direct expenses when calculating the total cost of running a particular program or operation. As Hamilton County, Tennessee, discovered when trying to compare costs of operating their prison using public employees versus contracting with a private firm, it is very difficult to determine actual operating costs. In government work, many expenses for one operation can be found on the books of other agencies.

   Additionally, since private firms are not exempt from paying taxes, new or increased revenue will be generated from contracting out a service (i.e., sales taxes, property taxes, B&O taxes, user and license fees).

4. Educate the public and build coalitions for support.

5. Build bridges with public employee unions by developing an incentive program. Resistance from the public employees and the pressure they exert on lawmakers is one of the main reasons many privatization or competitive bidding attempts have been unsuccessful. Contracts can stipulate that private firms, if selected in the bidding process, must give government employees first consideration when hiring. Since private firms need experienced workers in order to succeed, they are generally willing to do this. Consider employee buyouts, one-time bonuses, and other incentive options. Keep in mind, overall public employee job loss will be minimized through attrition.

   An example of how this works is Indianapolis, where the work force has been substantially reduced, primarily through attrition. Mayor Goldsmith says,

> [T]here is the notion that competitive bidding is all anti-union and the unions will oppose it. There is great union anxiety because there is a change in the status quo. But if the union believes the future economic health of the city is important to its long-term success, and if the public manager understands that the middle manager is more of a problem than the unions themselves; and if they understand you can create value by delayering, and downsizing the control mechanism of government, I really believe you can create an environment where the unions can be players in this process. We are down 30 percent in two and one-half years yet few union workers have lost their jobs. So this does not have to be an anti-union activity.[21]

6. **Implement the program retaining full policy control**. Be careful to follow successful models in researching potential, determining costs, writing contracts, and monitoring contracts.

Crucial to success is obtaining support from leadership strong enough to withstand the initial union opposition. Having said that, treat the union as a partner in the competitive bidding process.

SUCCESS STORIES

Before launching into a new endeavor, it's always easier 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. We have included one of their stories.

Bangor Naval Submarine Base

Some of the Evergreen Freedom Foundation staff took a personal tour of the Johnson Controls operation at Bangor Naval Submarine Base in 1995. We came away from the meeting feeling that our tax dollars were being spent very efficiently and economically at Bangor.

Two of Bangor's largest and most controllable costs (as with most sizable organizations) are maintenance and facility operations. To help reduce overhead, the Navy at Bangor implemented what they call "outsourcing" (competitive

21. *Revitalizing Our Cities: Perspectives from America's New Breed of Mayors*, The Heartland Institute, *Policy Study* No. 185, March 1995, p. 7.

bidding) and hired a well-known company called Johnson Controls to provide maintenance and operations.

Outsourcing allows an organization to focus its energy on its primary duties with disregard for more routine matters.

Outsourcing evolves from the practice of subcontracting. It is the ability to integrate all aspects of facility management, including staff and management, usually at a lower cost and with higher quality than otherwise would be achieved.

Outsourcing allows an organization to focus its energy on its primary duties with disregard for more routine matters. The reduced costs and higher standards generally accompanying outsourcing save money for taxpayers as well.

The primary duty of the Naval Submarine Base at Bangor is to maintain U.S. submarines. The primary duty of Johnson Controls is to relieve the Navy of cumbersome duties that do not directly benefit the defense of our nation. These duties include the management of engineering services, railroad locomotives, transportation services, and custodial services. It also contracted for the maintenance of vehicles, heavy equipment, motor-generators, alarm systems, and pavement and grounds. In addition, it provides machinery and fabrications; ships, food, and mail services; pest control; refuse collection; family housing maintenance; fire protection; and other services as needed.

The goal at Johnson Controls is to satisfy the Navy with higher quality at lower costs, and ultimately to renew its contract each year. Contracted services go out for bid for each year. The Navy awards contracts to firms providing the "best value," not necessarily the lowest bid. Once a contract has been awarded, an annual option exists to extend services another year.

An indispensable element of the Bangor success story is the performance-based nature of their contracting. Johnson Controls essentially bids at cost and makes a profit only if its duties merit a performance bonus. No longer is Johnson Controls entitled to a profit regardless of the quality of its performance.

The government is still realizing the benefits of the competitive nature of this contract. In a recent 10-year contract awarded for FY1998–FY2007, Johnson Controls' bid price included reductions of nearly $2 million a year over past contracts, saving the government over $19 million in 10 years. In addition, Johnson Controls' price included reductions in each of the option periods to account for anticipated efficiencies which had not yet been identified. These reductions were priced at five man-years per year, or more than $10 million over the 10-year contract. Thus, even though the contract was already held by Johnson Controls, the competitive pressures asserted by having to compete in a market have resulted in savings to the government of nearly $30 million on this 10-year contract alone.[22]

Since more of the Navy's work today requires tighter specifications and higher risks, outsourcing has become even more beneficial. Johnson Controls attributes its success in part to its ability to utilize industry experts. These experts are employed at a central location and look after similar Johnson Controls operations. An innovation at one location is recognized and considered at other locations.

An additional benefit has been improvements made on-site and paid for by Johnson Controls. For example, the boiler hatches at the steam plant at Bangor were modified at the expense of Johnson Controls to significantly reduce its maintenance costs. Johnson Controls ultimately benefits by having lower costs, and the Navy benefitted from an upgrade they didn't pay for. This achievement would likely have been lost had marketplace incentives been absent.

The bottom line for the Navy is a better-run Naval Base. For the taxpayer, less money is spent for increased, higher quality services.

State of Virginia

Virginia is the first state to contract with a private laboratory to analyze DNA collected from blood samples. The $9 million, three-year contract was awarded to Bode Technology Group, based in Northern Virginia.

Bode Technology uses a new testing process which allows profiling on much smaller pieces of DNA. Using this new technique, Virginia's pre-privatization backlog of 200,000 samples waiting to be analyzed is estimated to be eliminated within three years.

Though the cost of this privatization was substantial, the ultimate savings cannot be calculated. As many crimes had been solved during just the first 10 months of the privatization as had been solved during the state program's first five years. "The head of the Division of Forensic Science is quoted as saying that 'if you prevent future crimes, that saves countless dollars to law enforcement.'"[23]

State of Pennsylvania

Pennsylvania recently contracted with a Pittsburgh firm called FreeMarkets to help it save money in purchasing goods for the commonwealth. The state regularly places bids out for the purchase of paint for roads and highways, aluminum for license plates, and numerous other goods. Using FreeMarkets'

22. Johnson Controls, Bangor Submarine Base, 1999.
23. *Competition Watch*, Commonwealth Competition Council, Vol. 4, No. 3 (September 1999).

software and services, the state may place up to $20 million worth of bids out for contract. FreeMarkets actively seeks out and makes cold calls to suppliers they think might be interested in bidding.

The state will pay the firm $225,000 for this service and hopes this new system will generate competition that results in 15–18 percent savings. In the first day alone, a new aluminum supplier was found, which saved the state 10 percent or $220,000.

FreeMarket's chief executive, Glen Meakem, believes that similar possibilities exist throughout Pennsylvania's counties and local governments.[24]

San Diego County, California

County administrators in San Diego County have decided to use a managed competition process for services put out for bid, allowing the in-house units to bid for contracts against the private sector.

Two service competitions were held in 1998. The fleet maintenance contract, a nearly four-year contract, was won by the in-house unit, which bid $1.4 million lower than the lowest private bidder. This cut costs by 14 percent of $1 million per year. A private bidder won the county's competition to provide alternate public defender and dependency services, cutting costs by $235,000 per year.

County administrators are evaluating other possible competitions such as the county's information technology service, county workers' compensation agency, correctional health services, road maintenance, and revenue and recovery services. Currently, San Diego County is saving nearly $17 million per year and experiencing more competitive and improved county services.[25]

City of Indianapolis, Indiana

Like state governments, most municipalities in America are faced with rising costs, frayed infrastructures, ongoing and costly negotiations with major employee unions, unfunded federal mandates, and increasing unwillingness on the part of taxpayers to keep footing the bill.

A brief glimpse at how this big city helped solve its problems through competitive bidding of services may be very instructive.

> We have to find ways to produce more value for our citizens with new methods. The old structures won't work…. [A] 21st century city has to be a city with new governance. A key component of

24. *Pennsylvania Privatization Monitor*, Allegheny Institute for Public Policy, Vol. 3, No. 6 (April 1999).
25. *Privatization 1999*, p. 10.

> new governance has to be competition or privatization if you want to be successful.[26]

So stated Stephen Goldsmith, mayor of Indianapolis, a forerunner in implementing widespread competitive bidding to deliver public services.

Believing that the marketplace is a better place to deliver goods and services, Goldsmith initiated a far-reaching effort to allow private-sector companies to compete against government workers to provide services and manage city assets.

Mayor Goldsmith carefully distinguishes his competitive bidding efforts from privatization endeavors. While Goldsmith believes the private sector should provide services outside the scope of government's core functions, he supports the ability of government workers to compete with the private sector in delivering the core municipal functions.

"[A] monopoly is inefficient by definition," says Goldsmith. "The market is a better referee for value and money than I am."[27]

When we increase taxes dramatically, accumulate wealth, and with that wealth have only public ownership of assets and say only public employees can produce these services, then we are essentially saying that in that in these areas, socialism—or at least government ownership of assets—is better than capitalism. We believe otherwise.[28]

Indianapolis's competitive bidding process has resulted in reduced costs and better service for the residents. More than 60 services have been put up for competitive bid, saving residents $450 million.[29] The budget is balanced and reduced by $10 million, the non-public safety work force has been reduced by one-third, and 100 more officers are on the streets, all the while undertaking the largest infrastructure improvement in the city's history. All of this was accomplished without raising taxes.

At the same time, Indianapolis added more private-sector jobs than ever before—nearly 47,000.[30]

Goldsmith notes that private companies are generally more efficient, innovative, and customer-oriented than government. He points out that while the private sector scrambles to nurture a satisfied customer base by providing quality products at competitive prices, government becomes less responsive and more

26. *Revitalizing Our Cities*, p. 4.
27. *Ibid*.
28. *Ibid*.
29. Office of the Mayor of Indianapolis, December 1999.
30. Stephen Goldsmith, introduction to Henry Olsen, *The Entrepreneurial City*, Manhattan Institute for Policy Research, 1999.

expensive. Because the private sector faces stiff competition, firms will go out of business if customers don't like the goods and services they offer.

Government, on the other hand, has tied up the delivery of a wide range of services and the management of assets. This creates a situation worse than a monopoly since government cannot go out of business—at least not without the unthinkable happening.

And this begins Goldsmith's description of the fundamental concepts behind the need for competitive bidding. We quote his comments as follows:[31]

Government Cannot Go Out of Business.

> "Every citizen of the U.S., like it or not, is a customer for government services—and a new customer is born every eight seconds. Poorer Americans, especially, are customers for government services and cannot afford to go elsewhere."

Government Controls Revenue.

> "If more money is needed to provide a given service, government can and will raise taxes to pay for it. While the private sector has to persuade people to make purchases, government simply takes dollars. General Motors would never close a plant if it could seize the assets of people who do not buy its cars."

Government Is Allowed To Spend More Than It Takes In.

> "While some states and cities are required by law to enact balanced budgets, most government entities are not—including the federal government. And even governments that by law must balance their budgets nevertheless avoid doing so by borrowing, deferring capital spending, and employing bookkeeping devices. Private companies, and families, can only deficit spend in the short-term before going bankrupt or out of business; government thinks it can go into debt indefinitely."

Government Delivers "Essential Services."

> "Whenever reform-minded managers or elected officials exert pressure to reduce costs, status-quo managers can mount an effective defense by pointing to the essential nature of their task. A call for budget cuts in a municipal Department of Public Safety, for example, might be met with a cry that streets will be less safe. Attempting to slow the growth of education spending might be met with such a challenge as, 'Aren't our kids worth a few extra

31. City of Indianapolis, Indiana, *The Indianapolis Experience: A Small Government Prescription for Big City Problems*, 1995, p. 3.

> dollars a month?' This is a strategy that resonates powerfully with the people, who do not have the time nor the inclination to scour budgets to see if savings are possible without cuts in service quality."

The unions, who once wanted to meet Goldsmith at high noon, have expressed approval of his reforms. This is due to the fact that, while he cut hundreds of mid-management positions, not one union worker lost a job due to layoffs. Recently, the union agreed to give back a 10 percent raise over four years in exchange for a 20 profit share on all reductions in the budget.

Goldsmith's constant references to the strength of competition in enabling cities to efficiently deliver essential services while trimming their budgets resonates by example in his city. He underscores the fact that competition does not necessarily mean privatization.

To determine whether competition is sensible in given service areas, Goldsmith's team executes what it calls the "core service" analysis. Core services (like police protection) are separated from those that are secondary (like microfilming). Indianapolis's policy is that competition is sensible when the service is not part of government's core mission.

If competition is deemed desirable, the administration performs the "Yellow Pages test." Goldsmith says,

> If the city Yellow Pages show several firms now provide services that the City is also providing, then competition is possible. The presence of private service providers also indicates that the market has established performance standards that can be written into contracts.[32]

The Department of Public Works (DPW) exemplifies the inventive spirit that pervades City departments because of these initiatives. In older days customer requests at DPW would sit around for a long time before action was taken on them. DPW now has a rapid response team associated with its customer service center. The team puts three workers on a job rather than the usual four. Their jobs no longer use two trucks, one to put up the barricades and one to do the work. Instead the crew has reconfigured the work truck so that it can take the barricades with them. The crew can now do jobs in one or two days that used to be in the service files for years. They speak the language of competitiveness and are rightfully excited about what they have accomplished.[33]

32. *Ibid.*, p. 4.
33. *Ibid.*

Numerous government reorganization success stories can be found in Indianapolis. More information can be found in the book *The Indianapolis Experience: A Small Government Prescription for Big City Problems*.[34]

34. *Ibid*.

BUILDING AN ACCOUNTABLE BUDGET

BUILDING AN ACCOUNTABLE BUDGET

DEBATING, WRITING, AND PASSING A STATE BUDGET is the primary task legislators must accomplish because the budget drives all state policies. The governor cannot spend one dollar without legislative approval. Agencies cannot spend one dollar without legislative approval. The state budget is the single most important piece of legislation that our lawmakers pass each biennium.

Think about it: If lawmakers are unhappy about the direction of a particular state agency, they can zero out its budget, reduce its budget, or withhold approval until they get needed information.

We do not recommend establishing a budget process based primarily on fear, but this point needs to be stressed: The responsibility to establish efficient, cost-effective government policies belongs to the legislature. They have the power of the purse.

Good budgets are built around core principles—deciding government's predetermined functions and responsibilities and making sure those priorities are funded. This is akin to macroeconomics, and it is the framework for all policy discussions. Unfortunately, our state budgets often begin with the interior decorating—microeconomics—before the supporting walls are even built.

In our form of government, legislators only need to control one chamber, either the House or the Senate, in order to demand fiscal accountability. If the other chamber doesn't agree, the agency's budget simply may be zero-funded. A governor cannot veto a zero appropriation. The potential public-relations fallout might be severe if a persuasive case for zero-funding cannot be made. This action, however, would not likely need to happen more than once a decade for the point to be made that lawmakers will not accept sloppy stewardship of taxpayer dollars.

Background

Washington State has a two-year budget that begins on July 1 of each odd-numbered year and ends on June 30 two years later. (The 1999–2001 budget is for the period of July 1, 1999, through June 30, 2001.)

Problems

Bills are passed early in each session, tweaking and twisting policies before any agreement has been reached on defining the core functions of government—those things government is designed and funded to do. In fact that topic rarely, if ever, is discussed. The corrections department is an illustration. Are we "correcting" or "incarcerating?" Is our aim to protect the public from offenders or to protect offenders from a society that has failed them? Are offenders to be treated as "criminals" or "clients?"

When bills are passed prior to core principles being established, legislators are merely propping up or patching up agencies and programs that likely have fundamental design flaws, or may even be contrary to lawmakers' policy values. The programs are not apt to be helping the people for which they were designed.

Even if agencies or programs are accidentally complying with what lawmakers would choose as their core principles, another serious problem exists when lawmakers begin the session passing bills dealing with microeconomic details: They can be assured of overspending.

Our current system of building state budgets virtually guarantees that the microeconomic decisions will be made first, insuring an upward-spiraling budget. Prior to determining how much revenue is available and what the top legislative priorities are, attention is focused on individual programs. The early opportunity to consider the total impact of the budget against core principles is lost.

Political parties differ on core principles. This is to be expected. Some say it is impossible to implement policies around core principles unless their particular party is in total control. We do not agree.

Well in advance of crunch time, both parties should bring their core principles and related programs to the table to determine agreed-upon tenets. Everything else must be negotiated. The party whose leaders have the best handle on where they are heading—on what their core principles really are—and the party that has the numbers will win more in negotiations in the long run. What they lose this year (short run), they come back for next year…and so on. Without agreed-upon core principles, negotiations are schizophrenic from year to year and losses are heavier than necessary.

The current budget-writing process is not conducive to writing responsible, negotiated budgets. It can and should be fixed without delay.

IF IT'S BROKEN, HOW DO WE FIX IT?

It is possible to fix our broken budget process, but it will take serious commitment by lawmakers to do so. With earnest determination, lawmakers can overhaul the system prior to the next budget-writing session.

Evergreen Freedom Foundation suggests the following standards be used to accomplish the overhaul. (These recommendations are specific to Washington State but can be adapted for use in other states as well.)

1. Establish spending limits using the November revenue forecast and Initiative 601 guidelines.

   Current system: Lawmakers begin legislative sessions in January with no firm spending ceiling. They hold hearings and pass costly bills prior to adopting a budget. Then, after the March revenue forecast is unveiled, budget writers draft their spending proposals hoping not to exceed the revenue forecast or the I-601 lid.

   In addition to being an inefficient and expensive way to run a government, current practices are also haphazard, lacking focus and priorities. It's a special-interest heyday as everybody asks for their piece of the budget pie before lawmakers even know for sure how big the pie is.

   Recommendation: By the second Monday in January of each budget-writing year, the house originating the budget should pass a resolution setting the spending limit and the amount of money to be put in reserve. (We recommend building to a 5 percent reserve with excess going back to taxpayers.) This would be a short resolution that would require the governor and the legislature to commit together to a simple budget. The overall total would provide the framework for the 11 major functions (e.g., K–12, Higher Education, Human Services, etc.) into which state spending is now divided. No other legislation authorizing spending tax dollars or appropriating public funds would be considered until the overall budget resolution was passed.

   This resolution would bring the House, Senate, and governor into the process right from the beginning. A spending ceiling would be agreed upon for the 11 major categories of spending and could only be overridden by a two-thirds vote of the entire legislature. As policy committees debate programs within the 11 major categories, they would know exactly how much money is available.

2. Build the budget using core principles and decision packages.

   The first question when building a budget around core principles is not "Where will we find the money?" but "Does this request or program match our core principles?"

Recommendation: Having asked and answered the core principles question, and having followed suggestion number 1, policy committees now have a spending ceiling enabling them to establish priorities in the public hearing process. Currently, many public hearings are a waste of time. Bureaucrats and lobbyists do little more than attempt to justify increased expenditures. If they are doing a good job, they ask for more money and more people. If they are doing a lousy job, they ask for a lot more money and a lot more people. The legislative fiscal staff is rarely directed to dig into agency budgets or to thoroughly examine existing state programs to look at core principles, strategies, and outcome measures.

The transportation budget should be included with the general budget. Currently, the House and Senate Transportation Committees develop their own policy and the transportation budget separate from other legislative business. This is an unhealthy anomaly. The transportation committees should help set policy like every other standing committee, but the budget should be part of the Appropriations and Ways and Means Committees.

No one legislator should be permitted to write the state budget (more or less) single-handedly as happened in the 1999 session. Most lawmakers were surprised to discover the large spending increases they approved after the 1999–2001 budget. To this day, the principal author of the last budget has been unable to provide documentation of where the revenue (money) will come from to fund the $45.2 billion budget approved.

When agency directors provide testimony in legislative hearings, their job is to defend the governor's budget request. Anything granted less than the amount requested by the governor is decried as a cut. During hard economic times, when the newspaper headlines say these "cuts" will force senior citizens to street corners with tin cups, it is difficult to remember that a reduction of an increase is not a cut. For example, if the governor requests a 20 percent increase in an agency's budget and receives only 10 percent, that is a 10 percent *increase*, not a 10 percent cut. A "cut"—rare creature that it is—represents an *actual reduction* in spending from the previous year.

During the public hearing process, legislators can easily get lost in the trees and miss the forest. When requests are made for start-up or additional funds to meet a particular need, legislators, members of the public, and agency directors seldom ask the question, "Is this a proper function of state government?" If uncertainty exists, or if lawmakers are unhappy with the presentation, the general rule of thumb is to give them less than they asked for instead of saying "no!"

Agency directors should be required to justify their previous spending levels and say specifically how new money requested will be used. This seldom happens now. Budget writers choose to allocate funds to agencies using what is called maintenance level. Here's how the maintenance level works.

Budget writers give agencies two-year budgets. To determine how much money to give agencies for the next two years, budget writers and their staffs look at how much money an agency spent in the *second year* of the previous two years (biennium). They generally double that figure for the next biennium. Creative agency managers, therefore, split their two-year budgets unevenly, making greater expenditures in the second year of the biennium since that amount will be doubled. Few lawmakers analyze inflated second-year budgets, and most agencies count on this when formulating their new budget requests. No incentives exist for agencies to do a good job while saving taxpayer dollars.

Lawmakers are not encouraged to question the maintenance level, and most don't. As a result, agencies move right into the next biennium with little in-depth review to see whether money was properly spent from the previous budget.

In recent decades, Washington State has prospered and state coffers have been full. During times like these, little incentive exists for lawmakers to thoroughly examine state spending. As a result, we find very few examples of House or Senate budget hearings in the past 18 years that have focused on thoroughly examining state spending. Legislators cannot always depend upon the two major oversight committees, LEAP (Legislative Evaluation and Accountability Program) and JLARC (Joint Legislative Accountability and Review Committee), for this type of examination. These committees were formed to evaluate only what the legislature tells them to evaluate. This often results in studies of single agencies but rarely in a comprehensive overview of the full budget.

Most of the major state budget decisions are made by a few legislators and staff behind closed doors. The majority of legislators are never shown a visible set of realistic options (decision packages) that they could use to set priorities for the state. Since the budget is the key piece of legislation that establishes the state's priorities, this is a major opportunity lost. As a result of not being a part of the "big budget picture," lawmakers often spend inordinate amounts of time negotiating matters of little relative importance rather than making significant policy decisions.

EFF recommends a decision-package system be utilized similar to that used by the Department of Social and Health Services (DSHS) in 1981. At that time, DSHS faced budget cuts estimated to be 5 percent to 6 percent of their budget (real cuts, not a reduction of an increase). Top managers decided to highlight 40 percent of the DSHS budget in a "visible bank" of potential cuts. They used a three-point prioritization program to determine where the cuts should be made.

Managers defined the mission for each program, prioritizing major components. These priorities established the guidelines and criteria for budget-cutting decisions. Cuts in "priority three" services were generally acceptable. "Priority two" cuts would reduce the department's effectiveness, and "priority one" cuts would destroy its purpose.

EFF recommends this system be used by every major state agency. By bringing the agencies and their managers into the process, budget decisions would be made in a fair, orderly, and effective manner. This will not only help reduce any budget imbalance (deficit), but will also force agencies to prioritize the use of limited resources in accomplishing their goals.

3. Establish criteria for drafting all legislation.

   Much of the legislation passed each year lacks clear legislative intent and measurable performance standards. This results in misconstrued activity, no activity, or court action as agencies try to determine exactly what the legislature had in mind.

   In addition, bills with a fiscal impact should duly note the consequences and should not be passed out of the originating committee until the fiscal impact has been reviewed.

   Finally, all bills should be written in legally binding language. By this we mean the following definition given by the Attorney General's office: "each sentence [in the budget] should lay down the law in some respect; either authorizing an expenditure amount for a certain purpose or purposes; limiting or conditioning an expenditure; affixing responsibility; or, in certain cases, mandating expenditures."[1]

4. Require a supermajority to pass budgets and alter pension enhancements.

   The Senate currently requires a supermajority (60 percent vote) on the floor to amend the budget. The House should adopt this rule, and both the House and Senate should require a supermajority to pass budgets or pension enhancements.

   Why? Past experience has shown that most legislators lack fiscal discipline, and if there is any money available, or if they think more will be forthcoming, they spend it.

1. Washington State Attorney General's Office, personal correspondence with then State Representative Bob Williams, 1985.

Also, since budget writing is left to committee staff, fiscal analysts, and overcommitted legislative leaders, the remainder of the legislative body rarely understands the entire process. Legislative budget leaders ask their members to support whatever position they have taken, including when they tamper with the pension system. Although it expedites the process, it puts a damper on innovative ideas that may come from less "seasoned" members. It inhibits proper prioritization of scarce resources.

Requiring a 60 percent vote to pass budgets or pension enhancements would force more members to understand the budget. Since this is the most important piece of legislation a lawmaker will consider, we think this would be a healthy improvement.

5. Provide for accountability.

Because of the problems already mentioned, the legislature needs to have effective legislative oversight capability. Each major item in the budget should contain clear and precise performance goals stated in measurable terms for various programs. Agencies will then understand legislative expectations, and legislators can and must hold them accountable for performance. Until this is done, all the talk about legislative oversight is just that—talk.

EFF also recommends a thorough evaluation of the duties of JLARC and LEAP. Their roles have not been examined in years and need to be revised to enhance both the latest in technology training and accountability outcomes.

Fixing the budget process can be accomplished if the above five standards are adopted. They are essential starting points. But several key components still must be employed to end up with a good budget. They are:

- Make budget cuts wisely—scrape barnacles. Spending tax dollars wisely will necessitate the elimination or reduction of some state-funded programs. When budget cuts of this nature are made, the temptation is to "ease the pain" through phase-outs, across-the-board cuts, or incremental decreases. This is a bad idea and will almost always ensure reductions will never be made.

  State-funded programs are like weeds; unless the roots are pulled up, they will grow back—with renewed vigor. When programs are zero-funded, their constituencies disappear or move to another wallet. When programs are reduced, constituencies use the reduction as a battle cry to man the torpedoes to restore funding. As long as programs stay on the books, spending cuts can easily be restored.

It has been said that it is more fun to launch a new ship than to scrape barnacles off the sides of an old one. Likewise, it is more fun to unveil a new government program than to scrap an old one. In addition to being hard work, budget cutting can be politically explosive. It is always more powerful to present a child in a wheelchair who will supposedly be helped by a new program than for opponents to show a child in a wheelchair who will supposedly be hurt by program cuts.

- Be aware of tactics that torpedo good budgets. The following are some of the most common:

    1. Essential or beloved services are eliminated first. Recent examples include the threat of closing state parks and rest areas and ignoring desperately needed transportation improvements.

    2. More dollars than necessary are requested for popular programs so the funds can be shifted to help pay for less-protected programs.

    3. "Accountability" language is used to justify new or extra expenditures: "An extra $1.7 million for a statewide student database will help us be more accountable."

    4. Revenue is produced internally for programs whose budgets have been cut, such as when General Administration charged vendors a fee for doing business with them.

    5. Trading up: "I don't really think this program should exist, but Representative Everyman really needs it, and we don't want to embarrass him."

    6. It's only a million dollars!

    7. Programs are taken "off budget," such as student tuition at our higher education institutions or particular K–12 funding.

    8. Small start-up costs are highlighted, and carry-forward expenses are minimized or not discussed.

We recommend the following budget-cutting principles:

- Do not depend on one-time revenue sources (like selling assets) to pay for core government services. Use that money to close out programs, reduce unfunded pension liability, increase endowment funds, etc.

- Do not dip into cash surpluses to add new programs.

- Provide tax cuts from money saved by reducing the cost of government, not by temporarily shifting real costs elsewhere.

- When the economy expands, invest in productivity improvements that help deliver core services—things like employee training and new equipment.
- Secure legislative approval of unexpected income (Unanticipated Receipts). Each year more than $100 million in federal and non-general fund dollars (vouchers, etc.) is authorized for expenditure by the governor without the benefit of legislative approval or appropriation. Far too often, these gubernatorial authorizations lock in future expenditures, providing pressure to continue programs not authorized by the legislature. A legislative committee, rather than the governor, should be set up to approve unanticipated receipts, emergency expenditures, and appropriations transfers within agencies. The governor should not be allowed to make expenditures of unanticipated revenue if those expenditures have "carry-forward" costs or make future commitments.
- Use competitive bidding. As a result of a 1978 court ruling, state agencies are forbidden to accept bids or "contract out" for necessary services, even if it would save taxpayer dollars and provide a quality product. The ruling stated that the state civil service statutes require all work traditionally performed by civil service employees to continue to be performed by those employees, even if contracting out for the work would be more cost effective.[2] Those statutes dealing with "outside contracting" should be amended to permit competitive-bidding language. This will enable lawmakers and state employees to spend the public's money in the most responsible and cost-effective way possible.
- Limit the number of state employees. In the early 1990s, under Governor Gardner, more than 23,000 state employees were added to the payroll, a 32 percent growth rate far exceeding the population growth rate of 12 percent during that time.[3] Governor Lowry stopped this tremendous increase in 1994–96. Now Governor Locke intends to add more than 10,000 employees to the payroll in his first term. To ensure control is maintained no matter who is governor, lawmakers should limit the number of state employees per 1000 population. The American Legislative Exchange Council (ALEC) released a study in 1994 showing Washington State public employees averaged 15.2 percent higher salaries and benefits than the private sector.[4] Lawmakers should review current levels to determine whether this is still occurring. State employees (as a category) often receive twice the salary

2. *Whington Federation of State Employees* vs. *Spokane Community College*, 90 Wn.2d 698, 585 P.2d 474 (1978).
3. Washington State Office of Financial Management, *The 1993 Data Book*, p. 46.
4. Wendell Cox and Sam Brunelli, *America's Protected Class III*, American Legislative Exchange Council, April 1994, p. 10.

increases the legislature thought they authorized due to step increases, promotions, and regrading of positions.

- Take care of infrastructure needs. Rosemary Booth Gallogly, deputy budget officer of Rhode Island, says, "It's more glamorous to do new things than to fix something old. You don't do a ribbon cutting when you repave your driveway and fix the chimney."[5] It's true, infrastructure maintenance does not lend itself to exciting press releases, but postponing upkeep is dangerous. Failure to take care of the state's infrastructure will repay legislators with a vengeance.

- Publish an official state budget. Legislators are currently spending $61,800,000 in tax dollars per day.[6] But believe it or not, a plain-English official state budget showing exactly how this money is being spent is not published. When the legislature finally adopts a budget, they make a sudden rush to adjourn and go home. We can't blame them for being weary and ready to go back to their "real" life. But a result of this mad dash is the absence of a detailed official state budget. A budget document published in legally binding language that includes the key assumptions used to allocate funds (e.g., caseloads, number of state employees authorized, dollars to be spent on health care) does not surface for months. In the meantime, agencies do not have a clear picture of what they are expected to deliver, in what time frame, and with how much money.

  Details such as how many employees the state expects to hire, how many it currently has, or how much the state is paying its employees should be available in a published document. Detailed breakdowns of health care expenditures and expectations should also be available.

One of the best tools to use in developing a responsible and efficient state budget is performance-based budgeting.

BUILDING PERFORMANCE-BASED BUDGETS

It is an understood maxim: Whether in commerce, organizations, or institutions, performance improves when accountability is required. But, for some reason, applying meaningful accountability measures to state government operations is viewed as punishment rather than motivation.

5. Katherine Barrett and Richard Greene, "State of the States 1995, Tick, Tick, Tick," *Financial World*, September 26, 1995, p. 39.
6. Total Washington State budget for 1999–2001 of $45.2 billion divided by 731 days equals $61.8 million per day.

Voters have clearly spoken their minds regarding government accountability. They want wasteful spending practices to stop. They want to be assured their money is being spent efficiently by elected officials.

One of these statewide elected offices bears the title of State Auditor, leading one to assume that the primary function of that office is to perform audits on state-related matters. Washington's state auditor, however, is prohibited from conducting what are called "performance audits"—assessing the economy, efficiency, and effectiveness of state agencies as outlined in their legislatively directed missions. It is the only state in the nation to levy such a prohibition on its auditor.

In 1993, Washington State Auditor Brian Sonntag took a detailed and thoughtful look at how we provide—or don't provide—accountability. He noted weaknesses in the current system, most of which have not changed in the intervening years. Some of his findings follow:[7]

- "Policymakers, public officials and program managers lack the information they need to gauge the success of their efforts and to adjust policies and programs when needed."
- "The state's budgeting system does not link spending with statewide priorities and performance."
- "Systems for assuring accountability in state government are not integrated, do not take advantage of modern management techniques and do not contribute adequately to the optimum use of scarce resources."
- "State government is obsessed with controlling how things should be done—regulating processes and controlling inputs—rather than focusing on outcomes and results."
- "State government does not have an effective means of abandoning obsolete programs and services."
- "Levels of government (federal, state and local) do not work in harmony in delivering programs or services."
- "At the state and local levels mandates are handed down without resources to carry them out."

We concur with Sonntag's findings and believe these same weaknesses still exist today.

7. Brian Sonntag, Washington State Auditor, *State of WA Plan for Reengineering State Government*, November 22, 1993, pp. 3,4.

Sonntag and his staff do an excellent job of tracking the *accounting practices* of state agencies, boards, and commissions. However, this is a far cry from the *performance audits* they are forbidden to do.

To help provide accountability measures and to satisfy a restless public, the legislature created the Washington Performance Partnership. Their mission is as follows: "the state of Washington expects to be the most effective and best performing state government in the United States, measured in terms of quality of customer service, accountability for cost effective services and productivity."[8]

The partnership was intended to bring together public officials, employees, and citizens to initiate strategies aimed at dramatically reforming the way state government operates. However, little bipartisan legislative support was offered, and as a result, the Partnership followed the path of its highly publicized predecessors—the Efficiency Commissions, Governor's Blue Ribbon Commissions, etc.—providing lots of fanfare but few results.

At least two ways exist to demonstrate to the public that taxpayers are getting their money's worth from state government.

1. **Require** state government to implement performance-based budgeting as law mandates. Agency directors should issue public reports on how well they have used their budgets to meet performance standards.

2. **Permit** the state auditor to conduct performance audits.

To be most effective, these recommendations require state government to first define its core functions as discussed previously in *Stewardship Series #1: Core Governing Principles*. After all, what difference does it make how well an agency is performing a particular function if that function is not something they are supposed to be doing in the first place?

WHAT ARE PERFORMANCE-BASED BUDGETS?

Each major item in the budget should contain clear and precise goals that are realistic and explicit expectations of outcomes or results. These outcomes or results are called performance measures and specify in quantifiable terms what an agency or program is expected to achieve. They should be easily understood and agreed to by those who will judge the success of agencies and programs, such as legislative standing committees, and by those who will be held accountable, such as agency program managers.

8. RCW 43.88.B.005.

Ideally, the process begins with the agency program managers developing performance measures. To accomplish this, managers consider the legislative intent for each program as well as the governor's budget directions. The performance measures must include baseline data for making comparisons, descriptions of how the measures relate to the agency's strategic plan, and identification of outputs produced by, and outcomes resulting from, each program.

These measures must be approved by the head of each agency and the governor, or the governor's budget director. The process is complete when the legislature ratifies or changes each agency's performance measures in the biennial budget.

Performance budgeting must focus on outcomes and should use a few selected indicators for measurement. For example, in social services, the important outcomes are changes in people's lives that occur if a policy or program is working as designed.

In contrast, the current system too often measures performance based on criteria such as the number of employees, how many phone calls an agency receives, how many miles are driven, the number of children classified in a certain manner, the number of welfare clients, etc. These are essentially "input" measurements and rarely evaluate whether or not the program is working and is worth continuing.

A performance-based budgeting model changes the entire focus of state government. Instead of asking, "How many people are we serving?" the question becomes, "How well are we serving the people?"

Performance-based budgeting makes sense. Even the current law indicates the need for a change. It says, "The current operating budget process for state government has been generally based on the presumption of continuing current service levels and giving careful consideration only to marginal changes. It is not well understood or supported by the public or state government policymakers."[9]

Remember, these comments were made regarding the existing method of state government operations. The law goes on to mandate that,

> Beginning no later than the 1997–1999 biennium, the state operating budget and the process used to develop that budget shall, to the fullest extent possible and based on the recommendations of the council [Performance Partnership Council (see above)], be redesigned to reflect an effective state-wide system of performance measurement….[10]

9. RCW 43.88 B.040.

Unfortunately, the law has not been effectively implemented, so EFF would go one step further and ask the governor to mandate through his 2001–03 Budget Instructions that all agencies *must* develop performance measures to receive continued funding.

Once a performance-based budget system is built, performance audits can be completed. Performance audits measure the economy, efficiency, and effectiveness of programs. They are an independent third-party review of an agency's accomplishments and the degree to which they have achieved the predetermined performance measures. There are three types of performance audits:

- *Performance measure audits,* which determine the adequacy of systems used for measuring, reporting, and monitoring performance. Such audits also determine whether the agency or program has reported performance measures that are valid and reliable, and whether the reported results are being achieved.
- *Economy and efficiency audits*, which determine whether the agency or program is using its resources economically and efficiently. These audits focus on the causes of any inefficiencies or uneconomical practices as well as whether the agency or program has complied with significant laws and regulations in acquiring, protecting, and using its resources.
- *Program audits*, which look at the extent to which desired outcomes or results are being achieved, the causes for not achieving intended outcomes or results, and compliance with significant laws and regulations that apply to the program.

Performance audits are meaningless without performance-based budgeting. Think about the sequence: If agencies do not have performance measures, what is being audited? For example, if legislators are interested in how well OSPI is running the school busing program, they need all three of the above audits, called a *comprehensive performance audit*, to fully determine results. The state may be very efficient in writing rules and regulations for busing, but the regulations may be totally ineffective, or overly prescriptive, thereby impeding efficiency and driving up costs.

A useful way to diagram relevant factors for performance in a performance measurement system is to use an outcome sequence chart. Figure 2 is based on material by United Way of America.

Performance budgeting and performance audits would enable taxpayers and legislators to determine what they are receiving for the money spent. Programs failing to live up to their objectives can be altered or terminated. Programs that work can be rewarded and continued.

10. RCW 43.88 B.040.

Figure 2

Logic Model (Outcome Sequence Chart) for Human Service Program

INPUTS →	ACTIVITIES →	OUTPUTS →	OUTCOMES
Resources • money • staff • volunteers • facilities • equipment and supplies	Services • shelters • training • education • counseling • mentoring	Products • classes taught • counseling sessions conducted • educational materials distributed • hours of service delivered • participants served	Intermediate • new knowledge • increased skills • changed attitudes or values ↕ • modified behavior ↕ • improved condition •altered status

Source: Adapted from *Measuring Program Outcomes: A Practical Approach* (Alexandria,Va.: United Way of America, 1996), p.3. Reprinted by permission, United Way of America. Taken from Harry P. Hatry, *Performance Measurement: Getting Results* (Washington, DC: Urban Institute Press, 1999), p.24.

The U.S. General Accounting Office describes what NOT to do:

> The U.S. General Accounting Office noted in June 1998 that the federal Head Start program provides a number of performance standards that are actually program regulations defining local government activities, *not outcomes*. Grantees must adhere to these regulations in operating their programs. The GAO report goes on to say: "HHS ensures local government quality by monitoring and enforcing compliance with these regulations." But monitoring for compliance provides incentives for compliance; *it may or may not produce effective services*. To the extent that such a compliance perspective continues to be the primary program emphasis, the real intent of managing-by-results and outcome-based performance measurement will be heavily diluted. The GAO report identifies this limitation and notes that HHS "in the next few years" intends to provide information on real program outcomes-such as the gains made by participating children and their families in vocabulary, literacy, and social skills and the extent to which families have become economically and socially self-sufficient.

Source: U.S. General Accounting Office, Head Start: Challenges in Monitoring Program Quality and Demonstrating Results, GAO/HEHS-96-186, June 1998, esp. pp. 3 and 11. Taken from Harry P. Hatry, Performance Measurement: Getting Results (Washington, DC: Urban Institute Press, 1999), 16.

What we are suggesting is not radical or new. Some of our recommendations merely speed up implementation of current law.

Performance audits are being conducted in every other state in the nation. The legislature should authorize the Washington state auditor to begin the process here at home right now.

WHAT OTHER STATES ARE DOING

Florida

Former Florida Governor Bob Graham created a policy accountability system in 1981. By 1986, performance agreements contained 182 measures spread among 11 agencies. Governor Graham reviewed quarterly reports personally with each agency head. If designated goals had not been met, remedial actions were proposed.

But from 1986 to 1992, things deteriorated. Florida's agencies developed performance measures on their own. No one paid any attention to whether the targets were realistic or appropriate.

In November 1992, 83 percent of the voters approved a constitutional amendment requiring performance measurement and productivity programs. *Financial World* magazine considers Florida's performance measurement system the most promising.

The Office of Program Policy Analysis and Government Accountability (OPPAGA) is an office of the Florida legislature created to provide objective analysis of state policies and to ensure government accountability. The following is taken from their Performance Based Budgeting Report in 1998 and Policy Analysis in 1999.

> Florida is now past the mid-point in a seven-year effort to change the way that it funds government programs. While performance-based program budgeting is being implemented for most state activities, it has not been applied to state agency administrative and support functions.
>
> Excluding administrative and support functions from performance-based program budgeting is problematic for two reasons. First, it limits government accountability because the Legislature lacks a means to assess whether agencies are being efficient and effective in their administrative and support functions. Second, the Legislature lacks a consistent way of assessing how much money should be appropriated to administrative and support functions.

Establishing specific performance expectations for agency administrative and support functions through performance-based program budgeting will allow agencies to identify ways to optimize their internal administrative and support resource allocation. Measures could also provide the Legislature with information that it could use to analyze agency operations and assess the potential for shifting resources from indirect administrative and support activities to direct program services.[11]

In Fiscal Year 1998–99, 55 state programs administered by 20 agencies are operating under [performance-based program budgeting] PB^2…. OPPGA also has published program evaluation and justification reviews covering the 13 programs that have operated under PB^2 for at least two years. These evaluations provide the Legislature with independent, unbiased information on the success of these programs in meeting performance expectations and have identified $57.3 million in potential savings.[12]

The Legislature established a policy to fund all workforce development education programs based on performance. Starting in July 1999, school districts and community colleges will receive at least 15% of their workforce education funds based on performance. The Legislature created "Performance-Based Incentive Funding" in 1994 to provide financial incentives to community colleges and school districts for offering successful training programs in high skill, high wage occupations. During 1996–97, school districts earned approximately $4.9 million and community colleges earned approximately $7 million from this incentive funding initiative.[13]

The usefulness of PB^2 information for budgeting decisions could be improved if agencies requesting changes in the resources they receive can show how they anticipate these changes to affect program performance…. For example, the Department of Highway Safety and Motor Vehicles requested 25 additional positions for the Florida Highway Patrol in Fiscal Year 1998–99 and justified this request on the basis that additional officers were needed to patrol the turnpike. However, the department did not indicate how the new positions would affect its ability to achieve its PB^2 performance standards for seat belt compliance rates and accident and death rates on patrolled highways. By requiring agencies to link their proposed budget changes to their PB^2 measures, the Leg-

11. OPPAGA *Policy Analysis Report* 99–01, August 1999, pp. i–ii.
12. OPPAGA *PB^2 Status Report*, Fiscal Year 1998–99, Report No. 98–45, p. 4.
13. *Ibid.*, p. 6.

> islature could better assess how the increased investment of public funds would produce more services or better results.[14]

Oregon

In 1989, Oregon published "Oregon Shines," a strategic vision of where the state should be in the year 2010. The legislature established the Oregon Progress Board, headed by the governor, and gave it the task of developing a set of tangible measures to gauge whether the state was moving toward these goals.

To track how Oregon is doing in achieving the "Oregon Shines" goals, the Progress Board has adopted 92 measures of success called Oregon Benchmarks. Examples of these benchmarks include measures such as per capita infant mortality, vehicle miles traveled, and water quality. The 92 benchmarks are divided into seven categories: Economy, Education, Civic Engagement, Social Support, Public Safety, Community Development, and Environment.[15]

> For the first time, the Progress Board is assigning an overall grade for each benchmark category. Generally, these grades are low…. These low grades do not mean that the Progress Board believes Oregon is headed in the wrong direction. Clearly, in certain areas, like employment dispersion and teen substance abuse, Oregon is heading away from the year 2000 targets. For the most part, however, the grades indicate that the pace of change is simply slower than hoped for.[16]

It is important to note that Oregon has not tied its benchmarks to its budget system.

Texas

Several Washington State legislators have followed the progress of the Texas Performance Review (TPR) over the past few years. The first Texas performance review, *Breaking the Mold*, arose from a $4.6 billion gap between state revenues available for the 1992–93 biennium and the cost of maintaining current services. The review was completed in July 1991 and examined 195 areas of state government operations, making 975 recommendations to improve its effectiveness and efficiency. It ultimately saved the state $2.4 billion.

In 1993, TPR completed its second major review of Texas state government and released *Against the Grain: High Quality, Low-Cost Government for Texas*. This report, which analyzed nearly 200 different subject areas within state gov-

14. *Ibid.*, pp. 10–11.
15. Oregon Progress Board, *Achieving the Oregon Shines Vision: The 1999 Benchmark Performance Report Highlights*, March 1999, p. 2.
16. *Ibid.*

ernment and offered about 460 specific recommendations for the legislature, consisted of about 95 percent new proposals that were not discussed in *Breaking the Mold*. *Against the Grain* generated nearly 130 related bills in the 1993 legislative session, and legislation enacted as a result of *Against the Grain* increased Texas's general revenue by more than $3.8 billion (about 85 percent of TPR's suggested savings) during fiscal 1994 and 1995.

TPR's third major report, *Gaining Ground: Progress and Reform in Texas Government*, was issued in November 1994. *Gaining Ground*'s complete package of recommendations was expected to generate $1.9 billion in general revenue and $2.1 billion in all funds over fiscal 1996 and 1997.

In their performance review manual, Texas officials say,

> The usefulness of TPR's methods is not limited to Texas state government. In the years since its creation, TPR has served as a model for review efforts in other Texas agencies and other state governments. In addition, TPR provided guidance and support to the National Performance Review headed by Vice President Al Gore. [Members of the Texas Performance Review team are] convinced that any government can adapt TPR's methods and procedures to make its operation more cost-efficient and more effective.[17]
>
> In 1991, the Texas Legislature passed a "Strategic Budgeting" law, which requires statewide strategic planning on a five-year basis, including individual plans for each agency. The 1993 Legislature approved the use of strategic planning requirements (including goals, objectives, and strategies) as the basis for state budgeting, resulting in the present system of performance budgeting. Appropriations are tied directly to agency goals. Program outcomes, outputs, and efficiencies are measured and reported. Expected performance levels are included in the General Appropriations Act. Performance rewards and penalties are authorized to encourage the achievement and maintenance of the performance measures.[18]

Now, five performance reviews later,

> The Texas Legislature has adopted proposals from the five statewide reviews which have freed up a total of $8.6 billion in state general funds since 1991. This total represents nearly 70 percent of all amounts proposed by the five statewide reviews.[19]

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17. Texas Performance Review, *Home Improvements: A Manual for Conducting Performance Reviews*, at *www.window.texas.gov/tpr/*.
18. Texas Performance Review, *Challenging the Status Quo, Link Employee Pay to Performance*, 1999, p. 2.
19. Andy Liebler, Texas Comptroller of Public Accounts, December 14, 1999.

Minnesota

Beginning in FY 1994–1995, Minnesota's budget has been developed around a performance-based model. State budget decisions are determined in part by measurable outcomes and results. The state measures progress by issuing an annual report on Minnesota Milestones. Following are a few descriptive quotes from the report.

> Minnesota Milestones was created in 1991 by Governor Arne H. Carlson as an early model for outcome measurement to hold government accountable for results. It is used by government agencies, businesses, nonprofit organizations, local communities and individuals to understand where the state is headed. Some organizations use it for developing their own performance measurement systems.[20]

> The report uses 70 progress indicators to determine whether the state has moved closer to 19 wide-ranging goals for Minnesota's people, economy, community life, government and environment. For example, progress toward the goal of health is gauged by such indicators as health insurance coverage, life expectancy, premature death and infant mortality. The 1998 report shows that Minnesota has outpaced the nation in economic growth and standard of living, has improved academic achievement, multiplied outdoor recreational opportunities, improved the health of its people and expanded support for those in need.

However, on some goals the state has not fared as well in the 1990s. The environment, while generally of good quality, is under mounting pressure. More families are facing acute problems. The economies of some urban and rural areas remain under stress. Fewer people are exercising their right to vote.[21]

The first series of well-documented performance reports were issued in 1994 and had a strong impact on the 1996–97 biennial budget. A recent state survey found that 86 percent of senior managers are using the state's program-measurement systems to manage their operations.[22]

Note: In our opinion, some of the criteria used to create the performance measures listed in this section are inappropriate roles for government to assume. Still, lawmakers, agency officials, and the public can see expectations and debate the relevance of each. This surpasses most states where lawmakers,

20. *Minnesota Milestones 1998: Measures That Matter*, Introduction, at *www.mnplan.state.mn.us/press/*.
21. Ibid.
22. Brian Sonntag, Washington State Auditor, *Advocating Accountability*, 1993 report, p. 23.

agency directors, and the public frequently haven't a clue about what is going on and why.

CONCLUSION

Accountability in state government operations is essential not only for fiscal integrity, but also to ensure that the various missions of state agencies are realized. However, accountability measures will be relatively meaningless unless they are wrapped around core principles.

It should also be remembered that front-line employees can help drive change or frustrate it. Legislative standing committees need to work closely with state employees and other public and private interest groups in establishing meaningful performance measures.

GOVERNMENT REORGANIZATION

GOVERNMENT REORGANIZATION

"State government could operate better if its structure more closely paralleled those of private firms."

The legislature "is restricted in its ability to pinpoint specific responsibility" for the programs and policies it authorizes.

"The organization of Washington State government adversely effects productivity."[1]

THE WORDS ABOVE WERE WRITTEN IN 1966, 34 years ago after the Governor's Advisory Council spent two-and-a-half years reviewing Washington state government.

Since 1953, at least 12 major government reorganization studies have been completed resulting in more than 500 pages of proposals. Most of the recommendations have never been fully implemented, but this is not because the deficiencies leading to the commissioning of 12 reports have been eliminated.

One major roadblock to implementing various reorganization plans is the temporary nature of elected officials versus the permanency of the bureaucracy. Legislators come and go according to the wishes of the electorate, leaving the bureaucracy to run the place.

In fairness to staff, however, legislators do not always make their wishes crystal clear, leaving staff uncertain as to the nature, gravity, or practicality of various reform proposals.

Washington State's two decades of financial prosperity have also served as an impediment to implementing reorganizational proposals. It is difficult for politicians to pass controversial reform measures when the economy is good.

Most of the 12 studies reached similar conclusions regardless of which administration commissioned it. Common findings include: 1) too many independent agencies, boards, and commissions exist, and the governor should have

1. *The Governor's Advisory Council on State Productivity*, 1966.

more managerial authority over them, and 2) government is too remote—separated from public accountability by too many layers of bureaucracy.

The public is often confused about how Washington state government functions and who is accountable for its operation. They would be surprised to find how little is under the direct control of the governor. For example, the governor's office gets many inquiries on K–12 education and higher education, yet the governor has little direct control over those functions. Only 42 of the 110 agencies report to the governor. For this reason, past governors have found it very difficult to implement management efficiency across state government agencies.

For example: Former Governor Lowry did an excellent job controlling the growth of the number of state employees and reducing travel for those agencies under his control. But other agencies such as the Superintendent of Public Instruction ignored his requests for efficiency and economy.

Little if any accountability exists for many vital functions of state government carried out by executive officers of independent boards or agencies (i.e., Superintendent of Public Instruction, State Printer). Those individuals don't report directly to the governor and in some cases are not even subject to Senate confirmation.

> Before long these commissions have a life of their own, transcending the particular crisis for which they were established.

Yet it seems each legislature creates new agencies, boards, and commissions. Sometimes agencies, boards, and commissions are created for symbolic reasons, other times because of hot issues such as education, health care, economic development, and the environment. Before long, these commissions have a life of their own, transcending the particular crisis for which they were established.

Here's how it works. A *need* is discovered. Somebody with authority, perhaps a legislator or agency director, advocates on behalf of the *need*, voicing the necessity for leadership on the issue. New programs, services, and staff are funded to meet this *need*.

In the next budget cycle, employees of the new program testify about its success but warn of *increasing needs* and related problems they have discovered. The program will require more money. The legislature, reluctant to expand the program's budget without additional oversight, creates another agency or commission to coordinate the first one. New offices are leased in regional sites, and personnel are hired to staff the offices.

By the time the next budget is written, a raft of new legislators has been elected who know little or nothing of the program's origin or mission. The program and its various cousins become part of the establishment.

And there you have it, multiplied many times over, year after year.

MAKING GOVERNMENT REORGANIZATION WORK

Long-term, bipartisan political commitment will be part of what is necessary to implement meaningful government reorganization programs. This is very difficult to accomplish since political parties often have disparate agendas. Regardless of the differences, agreement should be sought on the following:

- Examine all state government operations to determine whether they are the proper function of government, or whether they should be accomplished by the individual (family) or private organizations. Ask the question, "Is this a core function of government?"
- If the function is determined to properly belong to government, is it best left to local government?
- If it is a state government function, how can it be accomplished economically, efficiently, and effectively?

Policymakers will not all agree on the previous questions, but it is important to come as close to agreement on as many items as possible. Legislators will be surprised to find many of their "other party" colleagues in agreement on numerous components of the bigger picture.

Once the role-of-government questions have been asked and discussed, certain principles should be brought into play.

1. Service to the public should be at the core of all activities. Services must be delivered economically and efficiently. The intent should be clearly specified and limited by the law.
2. For the most part, reorganization efforts should be bipartisan unless this is impossible to accomplish.
3. Changes must be genuine, not cosmetic. Simply changing agency names and personnel is not satisfactory.
4. Front-line employees should be treated as resources and potential partners in service delivery.
5. Results, not effort, should be measured.

The following reorganizational standards should be followed:

- Plan clear and direct lines of authority between the governor and those agencies for which the governor is responsible.
- Provide for accountability to the general public through direct gubernatorial appointment and Senate confirmation of agency executive officers.
- Structure government to enable citizens to easily maneuver through it.
- Structure agencies for flexibility and adaptability.
- Adopt reasonable spans of control for executives.
- Provide public access to advisory groups.
- Clearly define agency missions.
- Eliminate program or function duplications.

Because so many previous efforts have been made to reorganize government—Blue Ribbon Commissions, Cost Control Task Forces, Management Control and Cost Reduction Programs, Efficiency Commissions, etc.—Evergreen Freedom Foundation recommends legislators and the governor set up a process for reorganization and specify the expected outcomes. We recommend:

1. The legislature pass a constitutional amendment giving the governor expanded power to reorganize those areas directly under his/her control. In Washington, this involves about 40 percent of the general fund–state budget. This first activity will provide models for later reorganization efforts.
2. When step one is accomplished, the legislature should pass a constitutional amendment allowing the governor to reorganize the rest of the executive branch subject to a veto by the legislature. Under this proposal, the governor would propose reorganization plans to the legislature. That would become law unless rejected by a majority vote of either house during the session in which they were submitted. This proposal would allow the governor to concentrate on the real issues of reorganization. All levels of public education (K–12, community colleges, four-year colleges) should be part of this effort.
3. All statewide, elected officials should prepare strategic plans for their offices that are directly related to the constitutional framework, laws, and intent that created them. This should be followed up with performance measures linked to their strategic plans, along with specific designs to improve the efficiency, effectiveness, and economy of each. Any of the nine statewide elected offices determined to no longer be a core function of government should be eliminated. The legislature should also review the need

for each statewide elected official remaining separately elected as opposed to some being appointed by the governor.

The legislature will likely have a visceral reaction to what seems like giving the governor expanded powers. But we must remember the purpose of the separation of powers between the legislative and executive branches of government. The internal check and balance occurs when the legislature retains control over making laws and writing the budget and the executive (governor) is able to effectively administrate and oversee policy. The legislature is not to micromanage administration, and the governor is not to make law without the consent of the legislature.

One possible way to overcome legislative resistance to giving the governor more power to reorganize state government would be to limit gubernatorial veto power. The same constitutional amendment allowing the governor to reorganize government could eliminate the governor's power to veto a section of a bill, thus conforming the governor's veto power to that which exists in the vast majority of states. This would be similar to a bipartisan bill introduced in the 1987 Washington State legislature (HJR 4208).

A look at the attached Organization Chart of Washington State Government illustrates the difficulty any governor has, and will have, managing resources efficiently and effectively. More than two-thirds of the state budget is not under the governor's span of control, yet the governor is held accountable for performance. For example, job training services are under multi-jurisdictions, and the governor has little control over the various programs. The separately elected superintendent of public instruction has some authority over job training programs. Boards of regents and boards of directors of colleges and universities (not directly accountable to the governor) also have jurisdiction. A Workforce Training and Education Coordinating Board (accountable to a gubernatorial appointee) and other training programs are spread through various agencies. And the list goes on.

Transportation fares no better. Some programs are under direct control of the governor; some are under a board appointed by the governor; others are under the authority of a separately elected official.

The following are things that should *not* be done when reorganizing government:

1. Do not make across-the-board budget cuts. This is a mentally and politically lazy method of budget reductions penalizing *necessary* services in equal proportion to frivolous, unnecessary programs.

2. Do not confuse *support* functions with *line* functions when evaluating the financial or organizational bottom line of programs. Line workers are chock-full of stories of unnecessary or burdensome support functions.

3. Do not let good intentions obscure bad results. When an agency or program is failing, do not give it more money to try harder. This usually veils fundamental problems in design or mission, and more money will only exacerbate the problem.

Unquestionably, reorganization of state government is needed to improve services to the public and to reduce costs. Dozens of duplicative or overlapping programs and services are provided by state agencies. In many cases, streamlining state government would enable those receiving services to be treated as individuals with needs rather than numbers lost in a maze of government bureaucracy. In other cases, accomplishing the task means government should hand the program over to local government or the private sector.

1999-2000 Organization Chart

Washington State Government

Legislative Branch

Senate   House of Representatives

- Joint Legislative Audit and Review Committee
- Legislative Transportation Committee
- Legislative Ethics Board
- Legislative Evaluation and Accountability Program
- Office of the State Actuary
- Joint Legislative Systems Committee
- Redistricting Commission

Executive Branch

Judicial Branch

Supreme Court

- Court of Appeals
- Superior Courts
- District Courts
- Municipal Courts
- Supreme Court Clerk
- Supreme Court Commissioner
- Administrator for the Courts
- Office of Public Defense
- Law Library
- Reporter of Decisions
- Commission on Judicial Conduct

Agencies Managed by Statewide Elected Officers

Commissioner of Public Lands
- *Department of Natural Resources*
- *Forest Practices Board*

Insurance Commissioner

Treasurer
- *Public Deposit Protection Commission*
- *State Finance Committee*

Lieutenant Governor

Governor
- Office of the Governor
  - *Puget Sound Water Quality Action Team*
  - *Salmon Recovery Office*
  - *Office of the Family and Children's Ombudsman*
  - *Governor's Office of Indian Affairs*

Attorney General
- *Executive Ethics Board*

Superintendent of Public Instruction
- *Board of Education*
- *Academic Achievement and Accountability Commission*

Auditor

Secretary of State
- *Productivity Board*

Agencies Managed by Governor-appointed Executives

Environment and Natural Resources
- Department of Ecology
- Department of Agriculture
  - *commodity commissions*
- Interagency Committee for Outdoor Recreation
  - *Salmon Recovery Funding Board*
- Pollution Liability Insurance Program

General Government
- Office of Financial Management
- Department of General Administration
- Department of Revenue
- Department of Personnel
  - *Personnel Resources Board*
- Department of Retirement Systems
  - *Employee Retirement Benefits Board*
- Department of Information Services
- Lottery Commission
- Department of Financial Institutions
- Military Department
- Public Printer
- Office of Administrative Hearings
- Board of Accountancy

Transportation
- State Patrol
- Department of Licensing
  - *occupational regulatory boards*
- Traffic Safety Commission

Health and Human Services
- Department of Social and Health Services
- Department of Labor and Industries
- Department of Employment Security
- Department of Health
  - *occupational regulatory boards*
- Department of Corrections
- Department of Veterans' Affairs
- Council for the Prevention of Child Abuse and Neglect
- Health Care Authority
  - *Public Employees' Benefits Board*
- Department of Services for the Blind

Education
- School for the Blind
- School for the Deaf
- Workforce Training and Education Coordinating Board

Community and Economic Development
- Department of Community, Trade, and Economic Development
  - *Energy Facility Site Evaluation Council*
- Office of Minority and Women's Business Enterprises
- Commission on Asian Pacific American Affairs
- Commission on African-American Affairs
- Commission on Hispanic Affairs
- Arts Commission

Agencies Under Authority of a Board

Environment and Natural Resources
- Fish and Wildlife Commission
  - *Department of Fish and Wildlife*
- Parks and Recreation Commission
- Environmental Hearings Office
  - *Pollution Control Hearings Board*
  - *Shorelines Hearings Board*
  - *Forest Practices Appeals Board*
  - *Hydraulic Appeals Board*
- Conservation Commission
- Columbia River Gorge Commission
- Growth Management Hearings Boards
  - *Eastern Washington*
  - *Central Puget Sound*
  - *Western Washington*
- Board of Natural Resources

General Government
- Personnel Appeals Board
- Liquor Control Board
- Public Employment Relations Commission
- Board of Tax Appeals
- Public Disclosure Commission
- Board for Volunteer Firefighters and Reserve Officers
- Gambling Commission
- Horse Racing Commission
- Utilities and Transportation Commission
- Investment Board
- Statute Law Committee
  - *Code Reviser*
- Municipal Research Council
- Economic and Revenue Forecast Council
- Caseload Forecast Council
- Pension Funding Council
- Forensic Investigations Council
- Citizens' Commission on Salaries for Elected Officials
- State Capitol Committee

Transportation
- Transportation Commission
  - *Department of Transportation*
- Board of Pilotage Commissioners
- Marine Employees' Commission
- Transportation Improvement Board
- Freight Mobility Strategic Investment Board
- County Road Administration Board

Health and Human Services
- Human Rights Commission
- Indeterminate Sentence Review Board
- Board of Industrial Insurance Appeals
- Criminal Justice Training Commission
- Sentencing Guidelines Commission
- Health Care Facilities Authority
- Board of Health

Education
- Higher Education Coordinating Board
- Governing Boards of Four Year Institutions of Higher Education
  - *University of Washington*
  - *Washington State University*
  - *Central Washington University*
  - *Eastern Washington University*
  - *Western Washington University*
  - *The Evergreen State College*
- Board for Community and Technical Colleges
- Boards of Trustees
  - *Community Colleges*
  - *Technical Colleges*
- Spokane Intercollegiate Research and Technology Institute
- Library Commission
  - *State Library*
- Higher Education Facilities Authority
- Washington State Historical Society
- Eastern Washington State Historical Society

Community and Economic Development
- Convention and Trade Center
- Housing Finance Commission
- Economic Development Finance Authority

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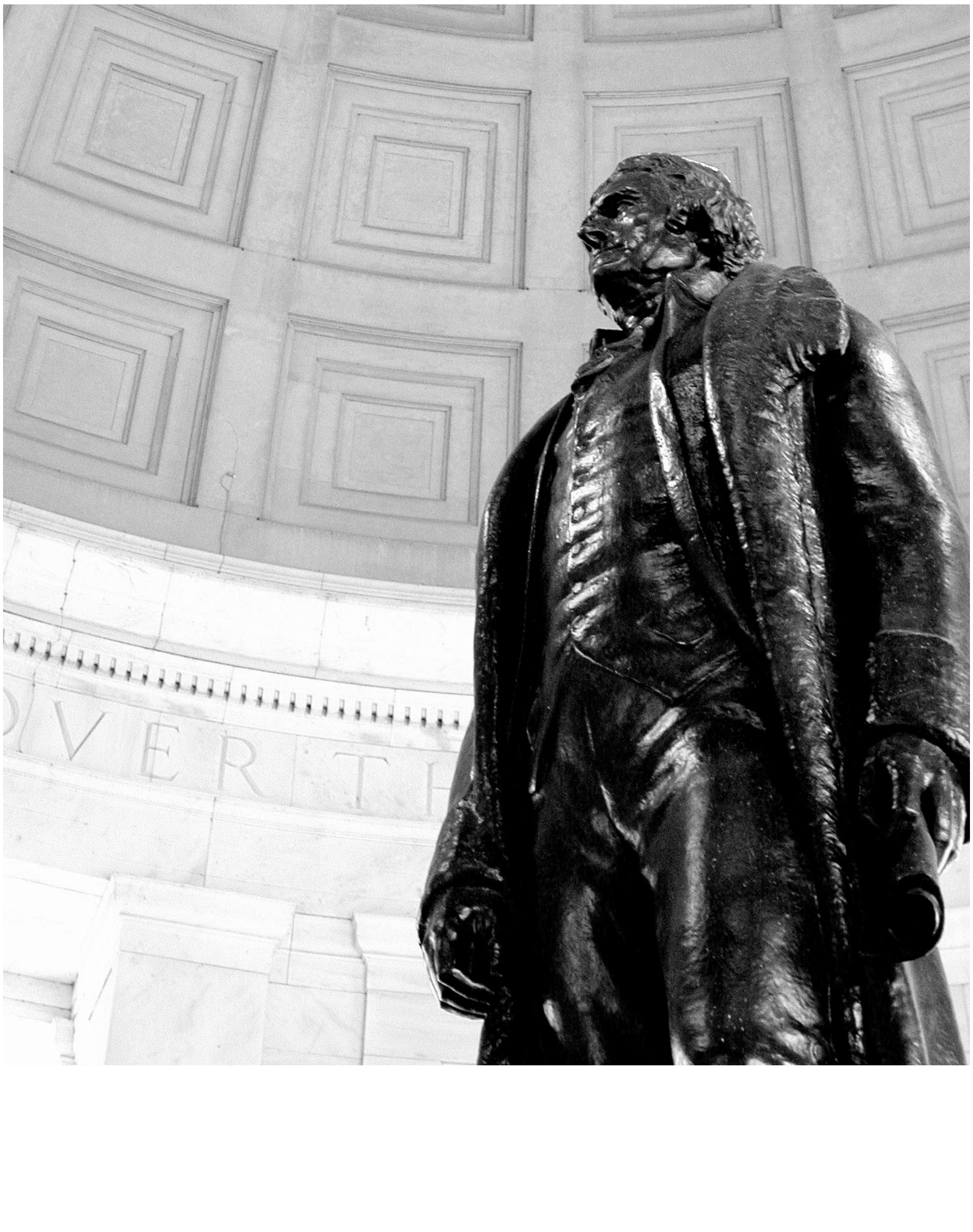

RESOURCES

Damon Ansell
Vice President for Policy
Americans for Tax Reform
1920 L Street, NW, Suite 200
Washington, DC 20036
Phone: 202-785-0266
Fax: 202-785-0261

William W. Beach
John M. Olin Senior Fellow in Economics and Director, Center for Data Analysis
The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002
Phone: 202-608-6206
Fax: 202-675-1772
E-mail: bill.beach@heritage.org

Paul Beckner
President
Citizens for a Sound Economy
1250 H Street, N.W., Suite 700
Washington, DC 20005
Phone: 202-783-3870
Fax: 202-783-4687
E-mail: pbeckner@cse.org

John E. Berthoud
President
National Taxpayers Union
108 North Alfred Street
Alexandria, VA 22314
Phone: 703-683-5700
Fax: 703-683-5722
E-mail: jberthoud@aol.com

James H. Broussard
Chairman
Citizens Against Higher Taxes
P. O. Box 343
Hershey, PA 17033
Phone: 717-867-5491
Fax: 717-867-6124
E-mail: caht@aol.com

Jon Charles Caldara
President
Independence Institute
14142 Denver West Parkway, Suite 185
Golden, CO 80401
Phone: 303-279-6536
Fax: 303-279-4176
E-mail: jon@i2i.org

John F. Cogan
Senior Fellow
Hoover Institution
Stanford University
Stanford, CA 94305
Phone: 650-723-2585
Fax: 650-723-1687
E-mail: cogan@hoover.stanford.edu

Laurence Cohen
Senior Fellow
Yankee Institute for Public Policy
117 New London Turnpike
Glastonbury, CT 06033
Phone: 860-633-8188
Fax: 860-657-9444
E-mail:104415.1625@compuserve.com

John Colyandro
Executive Director
Texas Conservative Coalition
P.O. Box 2659
Austin, TX 78768
Phone: 512-474-1798
Fax: 512-482-8355
E-mail: john.colyandro@txcc.org

Bob Corkins
1618 East 686 Road
Lawrence, KS 66049
Phone: 785-969-2489
E-mail: boblcorkins@earthlink.net

Wendell Cox
Principal
Wendell Cox Consultancy
P.O. Box 841
Belleville, IL 62222
Phone: 618-632-8507
Fax: 810-821-8136
E-mail: wcox@publicpurpose.com

Thomas J. DiLorenzo
Professor of Economics
Loyola College
4501 North Charles Street
Baltimore, MD 21210
Phone: 410-617-2755
Fax: 410-617-2118
E-mail: tdilo@aol.com

Becky Norton Dunlop
Vice President, External Relations
The Heritage Foundation
214 Massachusetts Avenue, N.E.
Washington, DC 20002
Phone: 202-546-4400
Fax: 202-675-1753
E-mail: bndunlop@heritage.org

Bill Eggers
Senior Fellow
Manhattan Institute
1627 K Street, NW
Washington, DC 20006
Phone: 202-223-1813
E-mail: wdeggers@
manhattan-institute.org

Michael Flynn
Director, Policy and Legislation
American Legislative Exchange
Council
910 17th Street, NW, 5th Floor
Washington, DC 20006
Phone: 202-466-3800
Fax: 202-466-3801
E-mail: flynn@alec.org

Robert Franciosi
Senior Research Fellow
Goldwater Institute
500 East Coronado Road
Phoenix, AZ 85004
Phone: 602-462-5000
Fax: 602-256-7045
E-mail: rfranciosi@
goldwaterinstitute.org

Steve Goldsmith
Chairman, Center for
Civic Innovation
Manhattan Institute for Policy
Research
52 Vanderbilt Avenue
New York, NY 10017
Phone: 212-599-7000
Fax: 212-599-3494

Grant Gulibon
Senior Policy Analyst
The Commonwealth Foundation
3544 North Progress Avenue,
Suite 102
Harrisburg, PA 17110
Phone: 717-671-1901
Fax: 717-671-1905
E-mail: gulibon@
commonwealthfoundation.org

Paul Guppy
Vice President for Research
Washington Policy Center
4025 Delridge Way, SW, Suite 210
Seattle, WA 98106
Phone: 206-937-9691
Fax: 206-938-6313
E-mail: pguppy@washingtonpolicy.org

Lynn Harsh
Senior Researcher and Executive Director
Evergreen Freedom Foundation
P.O. Box 552
Olympia, WA 98507
Phone: 360-956-3482
Fax: 360-352-1874
E-mail: lharsh@effwa.org

Jake Haulk
President
Allegheny Institute for Public Policy
835 Western Avenue, Suite 300
Pittsburgh, PA 15233
Phone: 412-231-6020
Fax: 412-231-6037
E-mail: jake@alleghenyinstitute.org

Thomas Hinton
Director, State Relations
The Heritage Foundation
214 Massachusetts Avenue, N.E.
Washington, DC 20002
Phone: 202-608-6045
Fax: 202-675-1753
E-mail: tom.hinton@heritage.org

Charles Hobbs
721 Arrowhead Road
Klamath Falls, OR 97601-1985
Phone: 541-850-2612
Fax: 541-885-7454
E-mail: cjhobbs@cdsnet.net

Scott Hodge
Executive Director
Tax Foundation
1250 H Street, N.W., Suite 750
Washington, DC 20005
Phone: 202-783-2760
Fax: 202-783-6868
E-mail: shodge@taxfoundation.org

Randall G. Holcombe
Professor of Economics
Department of Economics
Florida State University
P.O. Box 2180
Tallahassee, FL 32306
Phone: 850-644-7095
Fax: 850-644-4535
E-mail: holcombe@coss.fsu.edu

John MacDonald Hood
President
John Locke Foundation
200 West Morgan Street, Suite 200
Raleigh, NC 27601
Phone: 919-828-3876
Fax: 919-821-5117
E-mail: jhood@johnlocke.org

Lance T. Izumi
Co-Director, Center for School Reform
Pacific Research Institute
1414 K Street, Suite 200
Sacramento, CA 95814
Phone: 916-448-1926
Fax: 916-448-3856
E-mail: izumi58@aol.com

Jeff Judson
President
Texas Public Policy Foundation
P.O. Box 40519
San Antonio, TX 78229
Phone: 210-614-0080
Fax: 210-614-2649
E-mail: jmjudson@tppf.org

Greg Kaza
Executive Director
Arkansas Policy Foundation
111 Center Street, Suite 1610
Little Rock, AR 72201
Phone: 501-537-0825
Fax: 501-375-4171
E-mail: gregkaza@yahoo.com

David Keating
Senior Counselor
National Taxpayers Union
108 North Alfred Street
Alexandria, VA 22314
Phone: 703-683-5700
Fax: 703-683-5722
E-mail: ntu@ntu.org

Raymond J. Keating
Chief Economist
Small Business Survival Committee
55 Union Avenue
Center Moriches, NY 11934
Phone: 631-878-3109
Fax: 631-878-3129
E-mail: rkeat614@aol.com

Brian T. Kennedy
Director
Golden State Center for
Policy Studies
1127 11th Street, Suite 206
Sacramento, CA 95814
Phone: 916-446-7924
Fax: 916-446-7990
E-mail: britrav@aol.com

Daphne Kenyon
President
The Josiah Bartlett Center
for Public Policy
7 South State Street
P.O. Box 897
Concord, NH 03302-0897
Phone: 603-224-4450
Fax: 603-224-4329
E-mail: jbartlett@conknet.com

Matthew Lathrop
Director, Commerce and Economic
Development Task Force
American Legislative Exchange
Council
910 17th Street, NW, 5th Floor
Washington, DC 20006
Phone: 202-466-3800
Fax: 202-466-3801
E-mail: mlathrop@alec.org

Brett A. Magbee
Executive Director
Oklahoma Council of Public Affairs
100 West Wilshire Boulevard,
Suite C-3
Oklahoma City, OK 73116
Phone: 405-843-9212
Fax: 405-843-9436
E-mail: bamagbee@yahoo.com

John McClaughry
President
Ethan Allen Institute
4836 Kirby Mountain Road
Concord, VT 05824
Phone: 802-695-1448
Fax: 802-695-1436
E-mail: eai@ethanallen.org

Ed T. McMullen, Jr.
President
South Carolina Policy Council
1323 Pendleton Street
Columbia, SC 29201
Phone: 803-779-5022
Fax: 803-779-4953
E-mail: etm@scpolicycouncil.com

Maurice McTigue
Distinguished Visiting Scholar
Mercatus Center
3401 North Fairfax Drive, Suite 450

Arlington, VA 22201-4433
Phone: 703-993-4930
Fax: 703-993-4935
E-mail: mmctigue@gmu.edu

Thomas Mead
President
Maine Public Policy Institute
2 Christensen Lane, Suite 9
Kennebunk, ME 04043
Phone: 207-967-8996
Fax: 207-967-8999
E-mail: tom@maineinstitute.com

Paul T. Mero
President
The Sutherland Institute
111 East 5600 South, Suite 202
Salt Lake City, UT 84107
Phone: 801-281-2081
Fax: 801-281-2414
E-mail: pmero@
sutherlandinstitute.org

Harry Messenheimer, Ph.D.
Executive Director and Senior Fellow
Rio Grande Foundation
P.O. Box 2015
Tijeras, NM 87059
Phone: 505-924-1516
Fax: 505-243-1700
E-mail: hmessen@nmia.com

Adrian T. Moore
Executive Director
Reason Public Policy Institute
3415 South Sepulveda Boulevard,
Suite 400
Los Angeles, CA 90034
Phone: 310-391-2245
Fax: 310-391-4395
E-mail: adrianm@rppi.org

Edwin H. Moore
President
The James Madison Institute
P.O. Box 37460
Tallahassee, FL 32315
Phone: 850-386-3131
Fax: 850-386-1807
E-mail: emoore@jamesmadison.org

Grover Norquist
President
Americans for Tax Reform
1920 L Street, N.W., Suite 200
Washington, DC 20036
Phone: 202-785-0266
Fax: 202-785-0261
E-mail: gnorquist@atr.org

Henry Olsen III
Executive Director,
Center for Civic Innovation
Manhattan Institute for
Policy Research
52 Vanderbilt Avenue
New York, NY 10017
Phone: 212-599-7000
Fax: 212-599-3494
E-mail: holsen@
manhattan-institute.org

Duane Parde
Executive Director
American Legislative Exchange
Council
910 17th Street, NW, 5th Floor
Washington, DC 20006
Phone: 202-466-3800
Fax: 202-466-3801
E-mail: dparde@alec.org

Robert W. Poole, Jr.
Founder
Reason Foundation
3415 South Sepulveda Boulevard,
Suite 400
Los Angeles, CA 90034

Phone: 310-391-2245
Fax: 310-391-4395
E-mail: bobp@reason.org

Don Racheter
President
Public Interest Institute
600 North Jackson Street
Mount Pleasant, IA 52641
Phone: 319-385-3462
Fax: 319-385-3799
E-mail: racheter@
limitedgovernment.org

Brian Riedl
Grover M. Herman Fellow in Federal
Budgetary Affairs
The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002
Phone: 202-546-4400
Fax: 202-544-5421
E-mail: brian.riedl@heritage.org

E. S. Savas
Professor of Public Policy
Baruch College
City University of New York
17 Lexington Avenue
New York, NY 10010
Phone: 212-802-5909
Fax: 212-802-5903
E-mail: prisect@aol.com

Thomas A. Schatz
President
Citizens Against Government Waste
1301 Connecticut Avenue, N.W.,
Suite 400
Washington, DC 20036
Phone: 202-467-5300
Fax: 202-467-4253
E-mail: tschatz@cagw.org

Tracie Sharp
President
State Policy Network
6255 Arlington Boulevard
Richmond, CA 94805-1601
Phone: 510-965-9700
Fax: 510-965-9600
E-mail: sharp@spn.org

Michael W. Thompson
President
Thomas Jefferson Institute
for Public Policy
9035 Golden Sunset Lane
Springfield, VA 22153
Phone: 703-440-9447
Fax: 703-455-1531
E-mail: mikethompson@erols.com

David G. Tuerck
Executive Director
Beacon Hill Institute
Suffolk University
8 Ashburton Place
Boston, MA 02108
Phone: 617-573-8750
Fax: 617-720-4272
E-mail: dtuerck@beaconhill.org

Ronald Utt
Senior Research Fellow,
Thomas A. Roe Institute for
Economic Policy Studies
The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002
Phone: 202-608-6013
Fax: 202-544-5421
E-mail: ron.utt@heritage.org

Richard Vedder
Professor of Economics
Ohio University
Haning Hall
Athens, OH 45701
Phone: 740-593-0142

Fax: 740-593-0181
E-mail: vedder@ohiou.edu

Bridgett G. Wagner
Director, Coalition Relations
The Heritage Foundation
214 Massachusetts Avenue, N.E.
Washington, DC 20002
Phone: 202-546-4400
Fax: 202-544-0961
E-mail: bridgett.wagner@heritage.org

Bob Williams
President
Evergreen Freedom Foundation
P.O. Box 552
Olympia, WA 98507
Phone: 360-956-3482
Fax: 360-352-1874
E-mail: effwa@effwa.org