

Talking About Budgets, a New Strategy: Putting Performance First Geoff Segal

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Too often our movements focus is on the “no” i.e., what not to do. We need to change our paradigm, and rather than say “no” we need to give elected officials and our customers something to rally behind, something to vote for, and something to say “yes” to. That yes is performance. We can all agree that if government is going to make an investment (i.e., spend our money) it should produce measurable results.

Some have given up on trying to contain the growth of the state budgets. By stating as a given that we have a "structural imbalance" between revenues and obligations, the advocates of more taxes have attempted to shift the debate from "should taxes be raised" to "which taxes, and how much, should they be increased." (Note: with the improving fiscal climate these issues and questions aren't always raised) In doing so they have chosen to ignore the size and rate of growth of the state budget. Either we are funding many things that are not core functions of state government, or we are funding our core functions beyond the proper level.

It's time that we asked our governments to operate like we do. They should be bound by the same principles that our families live by. When a family comes to the painful realization that its spending and income are out of whack, they have to prioritize and make tough decisions. We certainly don't get to print more money!

THE DEBATE

Some argue that there are only two choices – either raise taxes or drastically cut vital services. Indeed, dooms-dayers suggest that without new taxes, emergency rooms will overflow, children won't get educated, and firefighters and police officers will get laid off. These FUDers (fear, uncertainty, and disaster) fail to see that the alternative, raising taxes, is also not ideal. It too negatively impacts the high quality of life we have to come to expect and enjoy.

The mantra here – “Pay More, Get Less”

I believe there is a third way. I believe that if government changed the way it operated, became more performance orientated and focused on its core missions that not only will any state make it through the budget crunch without raising taxes but that the a more effective and efficient government will increase quality of life.

Here, we're talking about “Getting More, Paying Less!”

BUDGET AND SPENDING REFORM

Legislatures need to base their funding decisions on performance – not intentions. We should talk about actual performance – how have state programs and spending fared? Are they bringing the results they promised or were intended to accomplish?

Every civic-minded citizen wants two things fiscally from state government:

(1) adequate funding of the core functions of state government -- education, transportation and safety -- and, (2) a fair and balanced tax system that raises no more revenue than necessary, while not dampening economic vitality. The bottom line however, is that citizens want performance – in my experience citizens don't mind paying taxes when they see benefit from them (i.e., they are achieving their mission). Knowing this there are some guiding principles that can help make tough decisions easier.

Suggested reforms:

- Suspend low priority and ineffective programs – stop paying for programs that either don't work or that aren't important
- Avoid across the board cuts – if there needs to be spending reductions, they need to be targeted so as not to negatively impact quality of life.
- Consolidate state agencies, boards, and commissions – if you look hard enough there are opportunities out there
- Divest surplus assets – look for excess land and building space that could be sold. Leasing vs. owning might also make better sense.
- Subject public services to competition – end monopoly provision of services and bring the powers of competition to state government.

LETTING PERFORMANCE DRIVE THE BUS

In order to determine how government programs perform we should establish a three prong evaluation. That evaluation will consider the programs relevance, its performance, and its management efficiency.

President Bush initiated a similar review of the federal government. Each year, dozens of programs have been recommended to be cut or receive reduced funding because of failure to demonstrate performance or results. In addition, Indiana Governor Mitch Daniels has initiated a similar review program in Indiana.

Here are some things to consider under each prong:

- **Relevance:** A program that is not as important a priority as other competing needs, or is duplicative of other government, non-profit or private programs.
Purpose: Does the program address a specific interest, problem or need that is clearly identified and immediately pressing

Appropriateness: Does the program represent a critical, essential role for state government to play?

Impact: If the program were eliminated would no other parties wholly or in part mitigate the loss of the program?

Uniqueness: Is the program designed to make a unique contribution that is not duplicative of other federal, state, local government programs or private and non-profit programs?

Growth: Has the program's budget grown over the past 10 years in a manner consistent with the growth in the need it is designed to address?

- **Performance:** A program that does not have an impact or does not produce an appropriate level of performance results.

Outcomes: Does the program have specific, Long-term performance measures focusing on outcomes?

Progress Toward Outcomes: Does the program have a limited number of annual performance measures demonstrating progress toward Long-term goals?

Achievements: Does the program actually meet the goals established above?

Comparative Performance: Does the program deliver quality performance in comparison to similar program activities in other governments, the private sector and non-profits?

Quality Information: Does program collect timely and credible performance information that can be verified and validated?

- **Management Efficiency:** A program that suffers from poor management (whether or not it is a priority or delivers performance) resulting in internal inefficiencies, fraud, error, poor resource allocation, etc.

Resource Allocation: Does the program provide a compelling cost-per-unit of service? Are there examples of egregious spending?

Personnel Management: Are employees held accountable for performance standards and trained/managed to produce optimal results?

Process Re-engineering: Have IT and other processes been leveraged to improve performance and cost efficiencies of the program?

Competitive Sourcing: Does the program use partnerships, grants and contracts to improve efficiency of operations and service delivery?

Financial Integrity: Does the program have strong internal controls and has it reduced waste, fraud and errors in its payment and financial management systems?

A program not meeting the first criteria (Relevance) should be suspended temporarily during tight budget times. It is not that the program is not worthy or beneficial—there are just not enough resources to fund all of the “nice idea” programs and maintain the “vital imperative” programs. A program not meeting the second criteria (Performance) should be terminated and its funding allocated to other programs in its mission area that can produce results. Finally, a program not meeting the third criteria (Efficiency) should be reformed immediately and cost savings from improved management should either be reallocated to that program to expand service levels or allocated to other important programs.

COMPETITIVE SOURCING AND PROCUREMENT REFORM

One of my favorite topics is subjecting public services to competition. Put simply it involves the examination of an activity of an agency to determine whether the activity should continue to be carried out within the agency or should be purchased from an outside entity. It involves answering the following question, “Should the agency ‘make’ or ‘buy’ this activity?”

In order to do this, an accurate list of functions – things government does – should be identified. That list should then be broken into at least two categories - core government (things only government can and should do) and commercial activities (things readily available in the commercial marketplace).

There is a long track record of competitive sourcing in the US. Just about every service, short of the executive, has been contracted for by someone, somewhere. Typical savings are around 30 percent. However, the long term benefits have not fully been examined i.e., the public pension system in the US is bankrupting many governments. A smaller workforce, with more functions provided in the private sector will reap many long term benefits.

Another powerful reform that can save government money and improve program results is implementing “performance-based contracting (PBC)” for as many contracts as possible—or implementing similar “memorandums of understanding” for in-house employees that follow the same guidelines. Performance-based contracting is the soliciting of bids based on what results government wants accomplished, rather than what activities it wants conducted. It relies on performance standards being included in the contract as well as payments tied to the achievement of results.

This is a significant change. By compensating a contractor for results rather than effort or activity, the transaction becomes more efficient for both the vendor and government. The vendor has the freedom and flexibility to do what he does best (produce the service) without micromanagement on activities from government. If it takes 10 hours or 10

months to deliver the service to government consistent with the quality standards of the contract, the payment is the same. And if the contractor does not perform the service according to the quality standards, he must re-do the work until the job is done. Period.

Many governments are rethinking their assets. In many places, leasing existing infrastructure brings a large one-time influx of cash to enable capital expenditures or the retirement of debt. The City of Chicago recently leased the “Chicago Skyway” an expressway, for \$1.8b. Indiana is also considering leasing their toll road for \$3.85 billion—it will allow them to retire debt and fully fund their transportation upgrades for 10 years, without new taxes.

Other governments are looking at assets they don’t use or no longer need and truly divesting them.

With such a large inventory of assets needing improvements, it is important for the state to prioritize and shed any unused or under-utilized assets. Divestiture of assets is examining what real property the state owns and if it can be put to more productive or efficient use if it is privately owned and used by the state under agreement with private owners.

PUTTING IT ALL TOGETHER

The four guiding pillars of competition, transparency, accountability, and performance are crucial to the improvement of the way our government operates and provides services.

Without a bottom-line and without competitive forces, program structures and approaches often stagnate, while success is not always visible or replicated, and problems grow. What’s worse is, since budgets are not linked to performance in a positive way, too often poor performers are rewarded as budget increases follow failure. If you’re not measuring, you can’t tell success from failure.

- Competition is the first pillar – everything else cascades off of competition. Studies have shown why this is so important, but all competition can and will improve performance including public v. public, public v. private, public v. nonprofit etc.
- Transparency – after competition you’ll know where agencies stand relative to other providers.
- Accountability – with data about costs and performance framed in a manner that is out in the open it is difficult to have true accountability otherwise. With competition in place the right questions can be asked and agencies can be held accountable for poor performance or high costs.
- Performance – the end all, something we can all agree on.

So what do we need to do?

First, assess outcomes across government. Are they achieving what they set out to do? Have things actually got worse? Can the private sector, or a non-profit, demonstrate better results?

Second, we often talk about efficiency gains. However, efficiency has no value unless it is accompanied by effectiveness. A pure unit cost doesn't tell us if we're achieving goals or making progress.

Third, we need to hold programs responsible for the results they produce. If they do not, they should be suspended or cut. Those that do perform should be held up as examples of success and we should rally behind them.

Fourth, results should be described in terms of public benefits.

Lastly, we call for investment in only those activities that produce the greatest public benefit.