

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

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MANO FREY
Executive President



BRUCE LUDWIG
Secretary / Treasurer

June 28, 1999

ALASKA AFL-CIO CHOOSES VALESKO FOR LABOR POSITION ON COMMISSION ON PRIVATIZATION AND DELIVERY OF GOVERNMENT SERVICES

In a unanimous decision, the Alaska State AFL-CIO recently chose Public Employees Local 71 Business Manager, Don Valesko to fill the designated position of labor representative on the commission on Privatization and delivery of Government Services. Executive President, Mano Frey stated "I have every confidence Don Valesko will represent labor and state employees to the best extent possible." It's a big job with a short time frame and there are the jobs of thousands of state employees at stake. Don is an excellent choice for this mission.

Mano Frey
Executive President
Alaska AFL-CIO

ALASKA STATE LEGISLATURE

News From The Senate and House Majorities

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Rep. John Cowdery (907) 269-0222

Members Appointed to Privatization Task Force **Panel to Hold First Meeting July 20 in Anchorage**

(ANCHORAGE) -- Senate President Drue Pearce and Speaker of the House Brian Porter Monday announced appointment of the 11-member Commission on Privatization and Delivery of Government Services.

The commission is authorized by Senate Bill 33, sponsored by Senator Jerry Ward (R-Anchorage/Kenai), which the Governor signed into law last month. The members will examine the possibilities of turning some state functions over to private industry. The commission will submit a written report to the governor and the legislature by January 1, 2000.

Senator Pearce appointed Senator Ward as Co-Chair. Other Senate appointees are: Senator Al Adams (D-Kotzebue); Mr. Bill Allen, General Manager of Doyon Properties, Inc. of Fairbanks; and Mr. William Prosser, Chairman of Cook Inlet Region, Inc.

Speaker Porter appointed Representative John Cowdery (R-Anchorage) as Co-Chair. Other House appointees are: Representative Tom Brice (R-Fairbanks); former House Speaker and Anchorage Mayor Tom Fink; and Ms. Helvi Sandvik, President of NANA Development, Inc.

The remaining three committee members authorized by SB 33 are: Anchorage Assembly Chair George Weurch, appointed by the Alaska Municipal League; Ms. Kathryn Thomas of Kenai, appointed by the Alaska State Chamber of Commerce; and Mr. Don Valesko, appointed by the AFL-CIO.

Senator Ward and Representative Cowdery announced that the Commission's first meeting will be at 8 a.m. July 20, 1999, in the 2nd Floor Conference Room of the Anchorage Legislative Information Office, 716 West 4th Avenue. The meeting will be teleconferenced. Members of the public and the press are invited to attend.

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June 30, 1999

TO: Senator Jerry Ward
Co-chair, Commission on Privatization and Delivery of Government Services

Representative John Cowdery
Co-chair, Commission on Privatization and Delivery of Government Services

CC: Commission Members

 FM: Marco A. Pignalberi, Office of Rep. Cowdery

RE: Organizational Issues for the Commission

1. Document Dissemination: Several reports have come our way that are useful for giving commission members common ground on terminology, issues inherent in privatization and procedural considerations. We have personalized 3-ring binders for each member to keep the material we send them. We will maintain an updated Table of Contents Sheet so all members will be able to use a common reference to the documents.

2. Executive Branch Liason: I anticipate that the Commission will deal directly with each department. However, for matters that require input from the overall Executive Branch, Rep. Cowdery asked the governor to designate a point of contact.

3. Calendar of Meetings: I understand that Senator Ward's office is preparing a Master Calendar Proposal to be adopted at the first Commission Meeting. The purpose of this calendar is so that members can do advance planning for their attendance at all meetings. Members should plan on meetings taking the whole day on which they are scheduled. Additional time will be required for personal preparation, subcommittee meetings, etc.

4. Process: The National Conference of State Legislatures (NCSL) Report on Privatization emphasizes - greatly - that some thought and consensus about the method and manner by which the Commission will recommend privatization must be achieved before starting the process. I suggest that the main agenda item for the first meeting should be a discussion of the process the Commission will follow.

4A. Advisory Committees. The Commission is authorized to use volunteer advisory committees and should make a decision as early as possible if and how they can be used. The most obvious way to use them seems to be to appoint one for each Department, give them a description of work the Commission wants them to perform (including a written committee report), a suggestion of the method and means to do the work, and a timetable to complete it. The Commission would

then use the Advisory Committee's Report as a preliminary report for its further consideration.

For example, the Preliminary Report would summarize the departments' budgets, funding sources, manpower, purpose and goals and methods. The Advisory Committee would render its own opinion of the privatization possibilities for its department. These reports could save the Commission a lot of time.

The biggest advantage in using Advisory Committees is that it allows the Commission to multiply itself and carry on multiple lines of inquiry simultaneously. Given the short life of this Commission (six months), some form of multiplier seems wise. Another advantage is that greater public involvement brings greater public understanding and support.

4B. Scope: Part and Parcel of considering the Process is the Scope of the Commission's review, i.e., how deep and how wide does the Commission plan to go into state government activities. Stated another way, how much work does the Commission think it can do between now and December 31, 1999. The Commission may want to prioritize the departments according to their total budget, or, the general fund portion of their total budget.

Alternatively, the Commission may want to spend its entire time establishing a procedural blueprint for how to arrive at a decision point to recommend privatization. The execution of the process would be left to a future body.

5. Other Agenda Items: At the first meeting, a brief summary of how the state budget is constructed might be helpful to the non legislative members.

6. Available Resources: The members should be aware that its resources are thin. Other than travel and per diem for non-governmental members, there is no designated staff or budget for the Commission. Senator Ward and Rep. Cowdery are diverting their staff and supplies for the Commission. Consequently, support for Commission activities may at times be slow when their other office priorities must prevail. However, Commission members are encouraged to channel their input through the staff as frequently as they desire.

7. Teleconference Facility: The legislator's teleconference facilities are available for the Commission meetings. This is a good way to outreach to interested parties at distant locations. Hookups can be made on the basis of "listen only" or two-way participation.

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(907) 586-2323 FAX 463-5515



June 21, 1999

Representative John Cowdery
Alaska State Legislature
716 W. 4th Ave.
Anchorage, AK 99501

Dear Representative Cowdery:

Thank you for the great effort you put forth in getting SB 33 through the House. We are looking forward to participating in the work of the Commission and are confident that the report and recommendations that result from the Commission's work will prove beneficial to Alaska.

The Alaska State Chamber of Commerce has selected Kathryn Thomas, President/Owner of ArcTech Services in Kenai, Alaska to represent our organization on the Commission on Privatization and the Delivery of Government Services. Kathryn is a past chairman of the State Chamber and much of the work we did on privatization in the past was done during Kathryn's tenure.

The contact information for Kathryn Thomas is:

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Please feel free to call me if you have any questions.

Sincerely,

Pamela La Bolle
President

Cc: Kathryn Thomas



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June 23, 1999

Senator Drue Pearce
Alaska State Senate
716 W. Fourth Avenue
Anchorage, AK 99501

Dear Senator Pearce:

The Alaska Municipal League Board of Directors met today by teleconference and appointed George Wuerch, Assembly, Municipality of Anchorage, to serve as the League's representative on the Commission on the Delivery of Government Services (SB 31). We believe that Mr. Wuerch will bring not only broad municipal experience to the panel, but will provide a well-balanced approach to the many complicated issues facing the state.

His contact information is as follows:

George Wuerch
1332 Crescent Avenue
Anchorage, AK 99508
phone: 907-563-2737
fax: 907-563-2737
email: wuerch@alaska.net

If you have any questions regarding this appointment, please call me 586-1325.

Sincerely,



Kevin C. Ritchie
Executive Director

cc: Senator Jerry Ward
Representative John Cowdery
George Wuerch



Choosing Lean, Focused, Affordable, and Accountable Government

*Inspiration and suggestions for citizens
committed to streamlining their government*

excerpted from:

Reducing the Size and Cost of Government

by
**Bob Williams, President, &
Lynn Harsh, Executive Director,
Evergreen Freedom Foundation**

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Evergreen Freedom Foundation
Olympia, Washington

Fall 1996

INTRODUCTION

Taxpayers say they want a lean, focused government. Politicians promise to provide it. But to date, the massive weight of a bloated government has suffocated most good intentions.

Like magma under a volcano, restlessness and disenchantment with government has been building in the electorate for some time. Pressure which has been escaping through fissures in government's facade is now looking for a place to explode. And while government is neither the total cause nor the total solution for this collective frustration, it must bear its share of the blame. Those personal and aggregate dilemmas that government doesn't cause, it often exacerbates--for the most part unwittingly.

For example, government rarely directly *forces* disintegration of families. But punitive taxation, over-regulation of small businesses, costly housing policies, substandard educational opportunities, and the systematic undermining of cultural standards place enormous pressure on family and human stability.

But except for the occasional diabolical despot, policymakers and political leaders do not intend to place this enormous pressure and instability upon the electorate. It is the unwitting outcome of a governing system out of balance.

Anyone who has mollicoddled a twisted knee understands this dynamic. Limping around to keep weight off the injured knee places new stress on the hip resulting in sympathetic aches and pains. Similarly, when government is out of balance, new pressures are foisted on structures never designed to carry the burden and an entirely new set of anxieties emerge.

Government must be rebalanced--a more difficult task than we probably want to admit. Today's lawmakers are asked to govern an impatient citizenry. We are used to getting what we want when we want it. Too frequently we demand our rights while shirking our responsibilities.

During previous difficult times our country has been held together by the vision and extraordinary sacrifice of a mere handful of leaders. Turbulent times in any generation call for leaders who are above the ordinary; men and women willing to disturb the status quo to provide a just and balanced government. This is usually painful since many of the same citizens who harangue lawmakers about government being too big and too greedy will roast politicians over hot coals when they even consider cutting the electorates' pet programs.

But our country is in desperate need of leaders who make decisions based upon something other than America's collective hormones; elected officials who treat Gallup and his successors as a phenomenon of insecurity rather than a substitute for their consciences. While public opinion should not be spurned, extraordinary leaders do not make sound policy decisions based primarily upon the latest, and ever-changing, poll results.

Speculate for a moment on the number of famous leaders from our past who may have surrendered their courage if public opinion polls were conducted before they made significant decisions. What if our forbearers had declined to do what was right for fear of not getting re-elected? Imagine Patrick Henry deciding against making his inspirational "Give me liberty or give me death..." speech because the big papers weren't there to cover it, or for fear of offending his party's more cautious members! Or even because he might be killed and never get to make another inspiring speech again.

Shallow and timid elected officials are never what a country needs, but particularly not now, not in America. We do not want to live in the land of the sometimes brave and kind-of-free.

Bold, and sometimes unpopular steps must be taken to put our system of government back on even keel. Politicians who are afraid of negative opinion polls are ill-suited for this difficult task.

For most Americans, government has become a corpulent and uninvited houseguest. Citizens feel hassled, frustrated and powerless. Most people want government to concentrate on doing a better job delivering the basics: safety and security at home and abroad; temporary help for those with short-term needs; access to quality educational opportunities; a healthy environment; and well-maintained roads and highways.

Taxpayers say they want a lean, focused government. Politicians promise to provide it. But to date, the massive weight of a bloated government has suffocated most good intentions.

The majority of policymakers, sensing impending destruction behind the fissures and steam, believe the solution lies in reinventing government to make it *do more with less*.

Other elected officials believe this explosive, churning tumult is a sign that government should *do less with less*.

Which approach is correct? On the following pages, we will attempt to find some answers from the people who have been and are in the trenches. We have discovered leaders from both political parties; from cities and states, who are making positive changes in their sphere of influence.

Though beliefs regarding the role of government are different, these dynamic elected officials have strong common traits which we will explore in the upcoming chapters. We hope these leaders inspire you as much as they did us.

REINVENTING GOVERNMENT

WHY AND HOW?

The American legacy of the 1990s will include the Internet, talking cars, gourmet coffee and...*reinventing government*--the slogan du jour of good government reformers.

Dozens of Blue Ribbon Commissions and "blueprints for change" later, political consultants and reformers have suddenly discovered what citizens already know and have been saying for some time: federal and state government reformers are zealously implementing reorganizational programs such as Total Quality Management and performance-based governance. Clearly something must be done, but are these reorganizational programs working?

Meet SLIM, ACE, MAX AND PERAB--four of the stepchildren from the marriages of various "reinventing government" programs. SLIM (Long-Term Improved Management Task Force) is from Arizona, ACE (Advisory Committee on Excellence) is from Hawaii, MAX (Maximizing Efficiency of Service Quality Program) hails from Delaware and PERAB (Private Enterprise Review and Advisory Board) resides in Illinois. These four are among dozens of acronymed strategies emerging in the latest spate of "good government" reorganizational programs.

But stark contrasts exist between the various "reinventing" programs. Some are already operating in the bright light of success. Others are failing. What makes the difference, and how many of the crucial factors are controllable state to state?

As is the case with most substantive reform efforts, a small handful of courageous, visionary leaders are charting the course. These successful reform leaders come from both political parties, but interestingly, most of them hold executive positions--some as mayors, some as governors, some as city managers.

Support from the legislative branch and/or city councils has been necessary for these reform-minded executives to achieve some or all of their goals. Ironically, except for a few states, the legislative branch represented a different party from that of the executive. But in spite of party differences, real reform ideas have been pursued and often won.

While it is the function of an executive to articulate a clear plan and set the tone for governance, it is the job of the legislative branch to make laws and to approve budgets. Therefore, legislators have every reason to take leadership roles more often than they do.

Of course, in looking behind the scenes in some states, we see a few cases where a strong legislative majority with reform on their minds has pushed a governor past his or her comfort zone. Still, it appears state legislators, county and state officials and school boards have not yet realized their enormous position of strength to articulate ideas and deliver reform.

"We appear to lack the common sense or the self-control to live within our means by deciding which of our expenses are necessary and which are merely desirable. Too often we choose mere consumption over investments in the infrastructure, industry, and research on which our well-being depends."

John Silber
President, Boston Univ.

In part, this may be due to the unexpected and overwhelming presence big government foists on newly-elected legislators. Fresh from the hustings, few are prepared to deal with this leviathan. Good intentions of reforming government became lost in the churn of recalcitrant leadership; years worth of rules, regulations and procedures; an impatient electorate; and more importantly, an out-of-balance governing system.

An example of this loss of balance is the current rate of taxation. Stop and think for a moment what our Revolutionary War ancestors would have done differently if they could have known that in 1995, more than half the average family's wages would be turned over to government for its operations and programs? Judging by their long and vociferous arguments over the issue of taxation, it is probable our Founders would have tried to make that level of taxation illegal.

Few elected officials truly believe it is all right to take half or more of a family's wages in taxes and fees to conduct government business. But in spite of this general agreement, government, at its various levels, is currently spending \$25,000 each year against the average income of a family of four. This is more than twice the amount of government consumption in 1960 for the same-sized family (inflation adjusted).¹

But are we better off because of this increased spending? The majority of elected officials and certainly most of the public would say NO!

Fundamentally, government is supposed to tax citizens to provide constitutionally-mandated services that individuals cannot accomplish best by themselves. But Congress and state legislatures have expanded the services governments provide far beyond the scope originally intended. Philosophical disagreement abounds on whether constitutionally-designed government functions are starting places or stopping places. Are they an open gate or a fence? Are federal and state constitutions permissive or restrictive documents?

We admit our disposition on this matter. We believe federal and state constitutions designate the functions of government to restrict government and protect citizens. Our founders knew government must be limited to safeguard maximum liberty for citizens. Honest people who disagree with this position must at least question the fairness of government programs taking the majority of taxpayers' earnings away from some families to pay for the needs of others.

So the real questions before us are:

■ Do we make government more efficient at the tasks it currently performs and use efficiency savings to pay for new programs--*doing more with less?*

or

■ Do we decrease the scope of government, streamline it and return efficiency savings to the taxpayers--*doing less with less?*

These are the questions of the day--questions all government reformers must ask. The answers to the questions determine the type of reorganizational program needed to produce desired results.

"...I hope and believe that the taxes to be laid on by the general legislature will be so very light that it will be no inconvenience to the people to pay them."

Thomas Johnston,
Gov., N. Carolina, 1784
Revolutionary War Major

REINVENTING GOVERNMENT THEORIES

Theory #1: It's Not What Government Does, It's How It Does It

Doing More With Less

In the spring of 1993, Vice President Gore made big news with his government reorganizational program called the National Performance Review (NPR). The Clinton administration, convinced that the problem with government is not **what** it does, but **how** it does it, birthed the NPR to reorganize and streamline the process.

But in spite of being billed as a plan whose "scope is unequalled in the history of human endeavor"², the NPR and Vice President Gore haven't experienced too much success. The NPR ran up against heavily-invested special interests, and absent a list of what government should and should not do, the heart of the plan has been compromised away.

The National Performance Review borrowed heavily from government reform ideas published in a best selling book called *Reinventing Government*, by David Osborne and Ted Gaebler. In fact, Osborne was the primary author of the NPR report. In their book, Osborne and Gaebler say that deciding what the functions of government should be is a secondary argument. Their primary mission is to help governments be more efficient at whatever they do.

Co-author Gaebler believes government can be retooled to meet almost any need as well or better than the private sector. He is convinced that the problem is not what government does but how it does it. Gaebler has made a number of surprising statements including,

*"It makes no sense anymore to distinguish between public and private sectors."*³

*"The first mistake was that elected officials decided we needed business acumen in government...[business experts] said we needed to identify our weak product lines and services [and] stop producing those.... We said, in government we exist to do good. Doing good is a moral absolute. As long as one person is benefiting, we keep those programs going."*⁴

*"Think of the problems facing American society today: drug use; crime; poverty; homelessness; illiteracy; toxic waste; the specter of global warming; the exploding cost of medical care. How will we solve these problems? Collectively. How do we act collectively? Through government."*⁵

Gaebler was the City Manager of Visalia, California for most of the 1980s. In that position, Gaebler helped redefine the city's mission around his theories. Gaebler and his successor, Don Duckworth reorganized city government to deliver on the idea that, if properly structured, government could do almost anything well. By 1993, Visalia has purchased everything from a minor league baseball team to a Radisson Hotel. By 1994, the city had lost millions on these ventures and voters spoke their minds. Visalia soon has a new mayor, city manager and city council.

"Cities can spend a lot of money delivering rotten services, hurting a lot of people, and at the same time taxing their socks off. By adding to the government that focuses on feeding itself, feeding it's own bureaucracy, you end up delivering rotten services to people who deserve better. In some cases, people are struggling to get out of poverty and we force them back down. Its wrong and that's where governments can be very arrogant by saying that all they need is more money. More money to do what?"

Mayor John Norquist
Milwaukee

More "real-life" examples exist to illustrate the implementation of the theory that *it's not what government does, but how it does it*. But most of the cities, counties and state governments experiencing success operate at a 180 degree swing away from the Gaebler model. They have adopted varying shades of the following theory:

Theory #2: **Government Must Define Its Core Mission and Do It Well**

Doing Less With Less

Radically departing from the theory that government can do almost anything well if properly structured, many mayors and governors have decided that government's role has expanded beyond what it can ever accomplish. In other words, government ought not do more with less, but instead *do less with less*.

Big city mayors lead the pack in implementing this thinking. Richard M. Daley, Democratic Mayor of Chicago, says,

*"The government that recognizes its limitations and established cost-savings partnerships with the private sector to overcome these limitations can successfully give people something real, concrete, tangible, and useful for their money."*⁶

Democratic Mayor of Cleveland, Michael White, has talked at some length about the limitations of government. As an example of encroachment gone bad, Mayor White tells this tale:

*"The City of Cleveland operates a convention center, two golf courses, and a host of other assets which would make a private-sector operator a profit--but we operate them at a loss. We are probably the only operator of parking lots in our area who doesn't know how to make a profit on parking. Is it the height of heresy to suggest that companies who run convention centers, manage jails, and manage parking lots can deliver our constituents a better service at a better price? If they can deliver a better service at a better price, then they deserve the opportunity."*⁷

Indianapolis Mayor, Stephen Goldsmith, a Republican, says, *"Doing things more efficiently is not the ultimate end of government. Sometimes government should just get out of the area."*⁸

The explicit and implicit debate being waged in state, county and city halls all across America is, *what is the proper function of government and how can we deliver those services more efficiently?* What are government's **core principles?**

.....
Endnotes

1. The Cato Handbook For Congress (1995), 76. (Note: total spending divided by 260 million people)
2. William Eggers and John O'Leary, *Revolution at the Roots*. (New York: Free Press, 1995), 31.
3. Marcia Berss, "Government Inc." *Forbes*, August 1, 1994, 66.
4. Ted Gaebler, "Managing For Results," *University of Texas Conferences Proceed-*

"What we need is a crusade--a crusade of the people--to force Congress to clean up government waste and abuse, so our government will work as efficiently as it's supposed to, getting services out to those who need them, taking proper care of the national defense, the administration of justice, and the other things that government can do better than private enterprise, and doing it without costing our citizens ever higher, ever more confiscatory taxes."

J. Peter Grace
Burning Money, 1984

ings (March 1994), 12. Published in *Revolution at the Roots*, 52-53.

5. David Osborne & Ted Gaebler, *Reinventing Government*, (Reading, MA: Addison-Wesley, 1992), 18.

6. "Revitalizing Our Cities: Perspectives From America's New Breed of Mayors," *The Heartland Institute*, No. 185 (March 1995), 9.

7. Ibid., 15.

8. Eggers & O'Leary, *Revolution at the Roots*, 13.

CORE PRINCIPLES

Successful government reformers have discovered the necessity of determining what we call "core 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 much. 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 would we reorganize the Department of Social and Health Services 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 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 that which exists. Pruning makes what already exists healthier, look better, and more productive; i.e., new growth. 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.

Those who want to prune before pulling are opting for more--literally more--of the same. But, for a short time, government will look better.

Back to concrete issues that illustrate this point. Our Founders believed the states were to preside over civil and domestic affairs. Therefore, federal distribution of welfare benefits was not embraced as a "core principle" of federal government.

This being the case, we should not prune the federal welfare program (enabling it to eventually grow more); it should be yanked out by its roots. The responsibilities of social welfare and the money taken in taxes to carry out the programs must be given back to the states. States can determine the scope of their welfare programs and whether pruning is necessary.

States may decide, as some have, that providing social welfare is not a core function of state government either, but is best accomplished through private charity. In this case, they, too, should pull up roots, not prune. Or states may decide welfare is a core function of local government and can best be delivered at that level.

Ultimately we get back to our questions. What are the core functions of government? Should we do *more with less* or *less with less*? These questions

"The problem is for people to figure out what they truly think government needs to provide, as opposed to those things it would be nice to have..."

J. Peter Grace
Burning Money, 1984

"It costs more up front to transform the system than many expect."

Gov. Tommy Thompson
Wisconsin

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 pride. They knew a free nation needed a strong, but restricted government, and therefore, were stern in their warnings about limiting government's power.

The Founders established twenty particular federal powers for the specific purposes of providing protection from foreign invasion, domestic peace, justice under the law, necessary and clearly-defined public works, and foreign and federal relations.

They also enumerated express limitations on federal government including the Tenth Amendment which protects states from federal intrusion beyond constitutional confines.

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 hammered out in America's antiquity 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.

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.

HOW DID THEY DO IT: SUCCESS STORIES FROM THE EXPERTS

Governor William Weld, Massachusetts

"If it can happen in Massachusetts, it can happen anywhere!" goes the saying. The fiscal transformation of the state of Massachusetts has left many scratching their heads in wonder.

When Governor Weld took office in 1991, Massachusetts was in debt \$1.8 billion. Unemployment was nearing double-digit numbers, and taxpayers had been hit with two consecutive billion-dollar tax increases. To add insult to injury, Massachusetts' credit rating was very poor.¹

"If we seek to define the proper role of government, we could do worse than to take a cue from our founders. The Declaration of Independence, after all, spells out why we need government. Its reasons are refreshingly modest; to secure one's inalienable rights to life, liberty, and the pursuit of happiness."

Gov. Williams Weld
Massachusetts

When designing a plan to reverse these disasters, Weld said, "We have gone as far as we could with the existing structure of state government. Now it is time to knock that structure down, and to rebuild from first principles on up."²

Six balanced budgets later, Massachusetts' deficit has been eliminated; \$425 million is in an emergency account; taxes have been cut ten times; there are 8,000 fewer state employees and Massachusetts' credit rating is in the top 25 percent of the states.³

Weld and his administration cracked down on welfare fraud and in four years reduced the number of welfare recipients from 106,000 to 92,000. Another 22,000 will be compelled to get jobs in 1996. 180,000 more people are employed today than when Weld took office. Money was moved to communities for education and health services.

Not to neglect the all-important infrastructure, 783 bridges were replaced or repaired and the number of highways considered to be in excellent condition were doubled.

Believing that the economies of scale in protecting the environment are bigger than private business and local governments, Massachusetts bought 40,000 acres of open space.⁴

How did this turnaround occur? Governor Weld says **they agreed upon the core functions—or the first principles—of state government and focused on efficient delivery of those functions.**

To concentrate on defining the proper role of government, Weld suggests a review of the Declaration of Independence particularly the part about securing one's "inalienable right to life, liberty and the pursuit of happiness."

Weld says, "With all due respect to Bill Clinton, a real Middle Class Bill of Rights ought to read this way, 'The citizen has a right to have only the government that is absolutely necessary.' Or if we really wanted to be extreme, we could say, 'The powers not delegated to the government by the constitution are reserved to the people!' We're raiding the citizen's paycheck to pay for all this stuff—we've got a moral obligation to take as little as possible."⁵

Governor Weld's first "basic precept" is that **"government should only do what the private sector cannot."** If government must take responsibility, he asks that consideration be given as to the level of government best qualified to do the job—federal, state, or local.

Weld's second precept is that **"government ought to do less with less."⁶** This is only possible for a government that has boiled its activities down to core functions.

In his 1995 report to the citizens of Massachusetts, Governor Weld suggests the following as essential state functions:

Ensure Public Safety: "First and foremost, government should protect people from being injured by others or by physical disasters. Our society was founded on the principle of individual liberty. For liberty to be protected, there must be order, for in its absence we cannot be secure in our persons or in our property."

"This new state government would have five fewer secretariats, 76 fewer agencies; and 263 fewer boards and commissions. It would employ 7500 fewer people and cost two-thirds of a billion dollars less a year to operate."

"It would embrace new ways of doing business and abandon the culture and incentives that create--and sustain--big government."

Gov. William Weld
Massachusetts

Help Those Who Cannot Help Themselves: "State government ought to help care for those with limited ability to care for themselves. Not those who don't want to work--those who cannot." Weld's emphasis is on needy children and senior citizens, disabled adults and transitional assistance.

Serve as Steward for Our Public Property: "State government ought to take care of those assets, including our natural resources of parks, open space, and rivers, and our built resources, like roads and bridges."

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

After determining what Massachusetts should do, Governor Weld and his administration developed four "guiding principles" to get the job done.

1. Put the citizen first.
2. Demand measurable results.
3. Rely on markets (competition versus monopoly).
4. Simplify.

Governor Weld has reintroduced market forces into state government by instituting a competitive-bidding process for delivery of some state services. He has invested in prevention programs to avert more costly problems down the road. He and his administration have instituted performance-based budgeting--meaning they make spending decisions based on results rather than inputs.

In spite of controversy over his bold actions, Governor Weld was handily re-elected for a second four-year term.

Mayor Stephen Goldsmith, Indianapolis

How much does it cost to fill a pothole? A seemingly simple question asked by Indianapolis' brand-new mayor, Stephen Goldsmith. No one knew.

Indianapolis was a city with a great credit rating in good financial condition. But nobody even knew how much it cost to fill a pothole, much less the cost of anything else. That was 1992. Today Mayor Goldsmith and many city employees know exactly how much it costs to perform particular services.

Goldsmith immediately did two important things. He introduced "activity-based costing" which measures total costs of a service performed: labor, equipment, material and overhead. He also created a private-sector, entirely volunteer advisory group called SELTIC (Service, Efficiency, and Lower Taxes for Indianapolis Commission). SELTIC's purpose is not to create another study 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 determines the city should be involved in a particular area, it asks another questions: how can we introduce competition from the private sector in

"It [new state government] would cut the tax rate on your wages from 5.9 percent to 5.45 percent--a half billion dollar tax cut, the largest single tax cut this Administration has ever proposed."

Gov. William Weld
Massachusetts

delivering this service? Indianapolis is currently saving nearly \$30,000,000 each year as a result of SELTIC's work.⁸

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 (such as extra layers of management) to compete, and because of this, city employees--already used to doing the job and understanding how it could be done better and cheaper--often get the contract.

Goldsmith's reform plan operates on four concepts:⁹

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 engineer. Government should not be so much an administrator as it should be a facilitator. It should identify needs that the marketplace cannot fill, then empower people and families to fulfill those needs. It should not attempt to be Big Brother, and it should never attempt to replace the family. Government should create an atmosphere in which businesses can thrive, but it cannot replace the marketplace.

3. "People know better than government. Every time government raises taxes, it makes a bold statement. It says to people, "We know how to spend your money better than you do." In reality, maximizing the range of choices people have in the free market--by maximizing the amount of money they keep for themselves--is the best way to guarantee health, happiness, and security.

4. "Government should be measured the same way every other enterprise is measured--by results. We shouldn't talk in terms of programs funded or salaries paid, but, rather in terms of neighborhoods protected and workers trained. If people aren't getting a dollar's worth of service for every dollar they pay in taxes, then government isn't helping them--it is ripping them off."

Goldsmith's core strategy is competition. He believes competition not only saves taxpayer dollars and provides better services, but also sets the example of citizens learning to solve problems more independently of government. Unlike *Reinventing Government* author, Ted Gaebler, Goldsmith 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."¹⁰ 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."¹¹ As his fast-moving, boat-rocking reforms became legendary, many said it would cost him re-election. Goldsmith wasn't swayed, and in 1995, handily won re-election as Mayor of Indianapolis.

"I don't think you can reinvent government unless you first find out what it really costs you to provide a particular service and then understand that government can--and should--provide services it does not produce itself."

"We have to find ways to produce more value for our citizens with new methods. The old structures won't work."

Stephen Goldsmith
Mayor, 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 responsibilities. The Empire State had become a leader in taxes, regulatory burdens, welfare spending, and crime. Job loss was high, and hordes of young people were moving out of the state.

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

In the days of hope and opportunity, we had tremendously strong families... all of us helping and caring for each other. What a contrast that is to the family instability and the outright social mayhem fostered by intrusive government and a state welfare system...."¹²

Pataki spurns value-neutral doublespeak and prefers to say that his government policies and actions send value-laden messages--messages that "reaffirm our common belief in the importance of keeping families intact, in value like hard work and individual responsibility, and in the sense of pride and self-worth to which every human being is entitled."¹³

Governor Pataki's administration is working on four reform fronts. **First is welfare reform.** In New York, if you are able-bodied, you must work to receive help. They have also cracked down on welfare fraud and abuse.

Second is a restructured criminal justice system. The death penalty has been reinstated; no early releases for violent felons are allowed; no parole for repeat felons; nonviolent offenders are put into treatment rather than prisons.

Third are jobs and economic opportunity. New York spent less money from the General Fund last year than the year before. They cut income taxes by 25 percent and abolished many other taxes and fees.

Fourth, Pataki's administration is restoring and expanding educational opportunity. Pataki says, "I remember a few years ago when my predecessor called an education summit. Everybody came, the teacher unions, administrators, boards of education, as well as advocacy and special-interest groups of every description. Only two groups were left out: parents and students. And that's been the problem. We've moved to reverse this trend."¹⁴

Some have criticized Pataki saying that he has paid for his tax cuts and other reforms by borrowing from infrastructure needs and one-time revenue sources. New York does have a bad track record of behaving this way in the past. Governor Pataki says he recognizes the danger of financing a state budget through one-time revenue sources and that his budgeting principles move away from that model. The Public Policy Institute of New York State is convinced that Pataki's commitment to determining government's core functions and performing them well will result in enough savings to put New York back on solid ground.

"...government's appetite for power, unless carefully watched and checked, makes it the greatest of institutional threats to personal freedom and economic progress."

Gov. George Pataki
New York

Pataki's reform goals spring from several basic principles.

"Seek no incremental change. Our policies have to be up to our rhetoric. We should remember what Napoleon said to one of his generals: 'If you mean to take Vienna, take Vienna.'

"Stick to your principles. ...it's important to keep the door open to opponents as well as to friends and allies. It is also important to disagree civilly and courteously. But let's not be afraid of the disagreement and controversy.

The American political system is built for robust debate; it's flexible enough to be both adversarial and collegial. Take advantage of both, but, most of all, don't be afraid of being adversarial when core principles and goals are at stake.

"People as a whole know better than any group of elites. We believe in the people. We know what they can achieve and accomplish. We should also remember that people expect and are entitled to leadership. And leadership means that when we are embattled against entrenched interests, we must take the time to turn to the people, to explain the situation and then ask for their help and support....When the entrenched interests fought the budget and my tax cuts, when they tried to block hope and opportunity, we took our messages to the people."¹⁵

Pataki has taken on a monster of incredible proportions. While only the future will tell us how successful his plan is, the early signs are encouraging.

Mayor Michael White, Cleveland

In the 1950s, Mayor White's boyhood hometown of Cleveland had a population of nearly one million people. Today Cleveland's population has dwindled to slightly more than half that amount. Answering the question of *where did all those people go?*, Mayor White says, "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."¹⁶

The rule has always been, "We run your governments, we provide you services and you pay for it no matter what," says Mayor White. "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."¹⁷

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 parts.¹⁸

1. **Technology.** Using technology to decrease prices and increase productivity is the mayor's goal.

"We've got to get relief from bureaucratic, overly micromanaged programs coming out of Washington."

Gov. George Pataki
New York

"As a matter of common sense, government cannot remain as a monopoly which constantly borrows against our children's futures."

Mayor Michael White
Cleveland

2. Reorganization. Two ingredients are necessary; good managers and good employees. When White hires managers he says, "I don't need any more bureaucrats. I can get 100 bureaucrats who can fill this position. I'm looking for leaders, people who are willing to challenge the status quo, people who can take risks, go in when there is a problem and rip it apart and put it back together and deliver a good service."

3. Leasing of Assets. In noting that his city operates a convention center, two golf courses, parking facilities, kennels, and cemeteries at a loss, White is asking entrepreneurs to run those services instead.

4. Competitive Bidding. Mayor White is convinced cities like Cleveland must bring the public sector into line with what he calls the "realities of our economy." Though he emphasizes this is not anti-union, a group of his city's labor leaders have bought enough Saturday airwave time to tell the public that Mayor White's plan is dangerous.

Mayor White's policies seem to be having a positive effect. More than a billion dollars in development is going into downtown Cleveland and 1,100 new homes have been built in the inner city areas and the same number have been rehabilitated. A new school board has been elected, businesses are moving back into the city and Cleveland's crime rate is down by 8.3 percent.

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 beginning to look up again.

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.¹⁹

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.²⁰

Social welfare activists were furious and predicted death and destruction for thousands of people. They set up a tent city called Englerville underneath his office window and dogged Engler wherever he went. Public opinion polls showed his re-elect numbers had dropped to 19 percent.

But by his second year in office, the landscape had changed as people noted Michigan had not fallen into the abyss predicted. "It did not happen," said Governor Engler.²¹ So 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.

"The public has said rightfully that we ought to spend your money the way we spend our own money. The public wants a better product at a better price and they don't want politicians to raise their taxes as an automatic knee-jerk reaction to not having enough money. There's nothing wrong with that. There's nothing un-American about that. In fact, there's something very right about that."

Mayor Michael White
Cleveland

Unemployment in Michigan is down to 4.6 percent and they now lead the way in the creation of high-paying, high-quality jobs. The state budget has a surplus of \$300 million and taxpayers have enjoyed 11 tax cuts in 4 years.²²

Engler believes reforming government requires bold leaders. He says, "...voters are willing to stand behind leadership that has the courage to confront the issues."²³

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

City Manager Gerald Seals, Corvallis, Oregon

(Now County Administrator of Greenville County, S. Carolina)

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 staff implemented what they called "rightsizing" city government. The results of their strategy: beginning in 1988 each budget was less than the preceding one; taxes were reduced by 10 percent and 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.²⁵

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; and prestige and the need for self-worth.

Citizens, angry about increased taxes and decreased services, had voted down a series of tax-increase proposals and passed the infamous Measure 5, a tax-limitation constitutional amendment. 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...."²⁶

"I think the public is looking for leaders who will take risks, who will tackle the important problems of the day. There's a great frustration with government by the public and the feeling that government doesn't ever get it right--it takes forever, nothing changes and it costs so much."

Gov. John Engler
Michigan

"There is simply no substitution for leadership."

Gerald Seals
Former City Manager Corvallis,
Oregon

Seals and the Corvallis City Council developed what they called Principles for Governing as follows (paraphrased):²⁷

- 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 crisis.
- 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; 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 and even 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."²⁸

We concur. Seals is now the County Administrator of Greenville County in S. Carolina where we understand he is doing well.

Governor George Allen, Virginia

As his first act in office, Governor George Allen signed Executive Order Number One creating the Governor's Commission on Government Reform, also known as the Blue Ribbon Strike Force. He presented four challenges to the Strike Force.²⁹

"Rightsizing was useful because it embodied vision, required leadership, and demanded that city government consider its mission and the nature and context of its challenges, focus on outcomes, listen to its customers, and give a return on the tax investment of citizens before asking for more money."

Gerald Seals
Former City Manager
Corvallis, Oregon

1. Challenge and question the basic assumptions underlying all state agencies and services provided by the state. Identify those that are vital to the best interests of the people of the Commonwealth and those that no longer meet that goal. (In other words, identify core functions and separate them from the non-essential.)

2. Evaluate the effectiveness with which state agencies operate their programs and identify and recommend ways to eliminate waste and duplication.

3. Identify any program or service offered by an agency that can be eliminated or transferred to the private sector without injury to the public good and well-being.

4. Recommend ways to eliminate, alter, or amend unnecessary, costly, or burdensome regulations.

The Strike Force operated under principles Governor Allen adopted from another influential Virginian, Thomas Jefferson. They like to quote from Jefferson's first Presidential address where he outlined his vision of government as follows:³⁰

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

The Commission subdivided itself into ten committees each tackling different major policies and programs of state government. The committees held public hearings, compiled their recommendations, and reported back to Governor Allen. In summary, their major recommendations were: consolidate agencies, increase span of control, eliminate most of the layers of management between agency directors and citizens, abolish and consolidate as many boards as possible, prohibit state employees from serving on boards, sunsetting all boards and commissions, rightsize the state workforce, create a new state personnel system, eliminate funding of nonessential state services, establish a competitive state government (competitive bidding), and reform education.³¹

To move some of the Strike Force recommendations closer to reality, in April of 1995, Virginia legislature approved the formation of the Commonwealth Competition Council. The Council's job, in part, will be to direct some of the recommendations made by the Blue Ribbon Strike Force regarding competition for delivery of some government services.

Additionally, the Public-Private Transportation Act of 1995 was established to attract private capital to Virginia's transportation infrastructure. Legislation was passed to allow the private sector to bid on designing, building and/or operating Virginia prisons.

Welfare reform was high on Virginia's list of necessary changes. They passed a reform bill that forces able-bodied recipients to work within 90 days of their first government check. The program also cuts most recipients off welfare after two years for a period of several years.

"Work expands so as to fill the time available for its completion...and as the real or imagined work expands, the bureaucrats ask for more bureaucrats to do it."

C. Northcote's
Parkinson's Law of
Bureaucracy as quoted
by Gerald Seals

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

Gov. George Allen
Virginia

Time will tell whether or not the Virginia legislative and executive branches will agree on the core functions of government enough to make reform a reality.

EXAMPLES FROM THE PRIVATE SECTOR

Downsizing is common in private-sector commerce these days. While some differences exist in how the private sector downsizes compared to government, a key principle stands out in all successful reorganization plans: *The core principles and functions of a business must be identified.*

Scott Paper Company

One of the biggest corporate restructurings of 1994 was undertaken at Scott Paper Company. Scott, one of the world's largest manufacturers of tissue products, hired an expert in the reorganizational field named Al Dunlap in April 1994. Dunlap wasted no time restructuring, and the results were dramatic for the company and stockholders. At 1994's year-end, Scott's stock price rose nearly 70 percent, adding \$2 billion in value to the company. Other performance measures also indicate remarkable revival of the previously sluggish company.³²

Dunlap says he took four primary actions.³³

1. Reorganization of management. Dunlap eliminated some senior executives, promoted some from within the company, and brought in others from the outside.
2. Sales of non-core assets. Dunlap believes that the biggest bank a corporation will ever find is inside its own structure. He sold Scott's non-core business assets.
3. Controlled costs. For Scott Paper, that meant major restructuring. Dunlap eliminated 11,200 positions in less than 7 months. This was a third of the total workforce: 71 percent of the headquarters staff, 50 percent of management, 20 percent of the hourly employees. This was accomplished without any major labor disruption.
4. Development of a new strategy and vision for the future.

Dunlap's downsizing recommendations are strong. He says "...do it once, do it severely, and get it over with." Dunlap adds, "When a company says it is going to restructure over the next three years, it won't happen."³⁴ He believes going back a second time is a mistake in that credibility is lost and paranoia is created. Dunlap says you can always hire people back if necessary, but you shouldn't keep taking employees out.

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.

"It is not by the consolidation or concentration of powers, but by their distribution that good government is effected. Were not this great country already divided into states, that division must be made, that each might do for itself what concerns itself directly, and what it can so much better do than a distant authority."

Thomas Jefferson

"To understand how to develop new programs, we must understand why the old ones failed."

John Silber
President, Boston Univ.

In a June 6, 1995 testimony before several Congressional subcommittees, Rumsfeld addressed the reorganizational principles that would be necessary if the federal budget was to be balanced by the year 2002. Discussing the sacred cows that would have to be challenged, Rumsfeld reminisced about a big "sacred cow" decision Congress had to make in the '60s--whether or not to close the dairy run by the Naval Academy. He said, "...those who tried to end that practice were accused of not understanding the importance of captive milk supply for the Midshipmen. Heaven forbid that the Naval Academy would have to buy milk from the private sector like everyone else."³⁵

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 as quoted below and could be applied equally well to state governments.³⁶

"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 with individual citizens, second with private organizations, third with local governments, fourth with state governments, and only last with the federal government.

"Cut Sharply and Rapidly. Don't wait. Whatever it is you do, the odds are overwhelming that you should have done more rather than less and that you should have done it sooner rather than later.

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

"My advice is to sever public ties with much greater speed.

"Downsize. There are hundreds of companies doing exactly this. Some do it after they should have; others do it ahead of the curve. Clearly, the U.S. government is behind the curve.

"It is guaranteed that there are more managers and staff than are needed.

"Redesign the Organizational Chart. One can find powerful reasons for either merging or terminating many of the newer [non-basic] departments... I am persuaded that two-thirds of the non-basic departments are no longer needed in their current form.

*"Great things are done
when Men and Mountains
Meet. This is not
done by Jostling in the
Street."*

William Blake

*"You can cut 10 percent
off a flagpole and it is
still functional. You can
take 10 percent out of a
gearbox and it is not.
Every government unit
thinks it is a gearbox."*

David Stanley
Brookings Inst.

"Don't Micromanage."

Rumsfeld has three specific recommendations for Congress which are also applicable to state government:³⁷

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!
3. Demonstrate decisive, courageous leadership.
4. Insist on competition wherever possible.
5. Build in accountability.

"The governor and I have often said that public safety is the first mission of government, and the people I've been meeting certainly seem to agree."

Lt. Gov. Cellucci
Massachusetts

..... Endnotes

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4. Ibid., 6.
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29. State of Virginia, *Blue Ribbon Strike Force: Governor's Commission on Government Reform Report* (November 1995), 7.
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31. Ibid ., 8, 9.
32. *Directors & Boards*, "If You're Going To Be a Director," 4.
33. Ibid ., 4, 5.
34. Ibid ., 5.
35. Donald Rumsfeld, *Congressional Quarterly*, testimony before Congressional Comm., (June 6, 1995).
36. Ibid .
37. Ibid .

The information in this issue brief is offered to the public freely for educational purposes only and is in no way intended to influence legislation. The views expressed here are solely those of the authors and do not necessarily reflect the views of APF or members of its governing board.

"From the outset, I made it clear to the public, union leaders, the business community, the city bureaucracy, and any entrenched interests who might stand in the way of progress, that there were no sacred cows."

Mayor Richard Daley
Chicago

ACKNOWLEDGMENTS

The Authors

Bob Williams is Evergreen Freedom Foundation's President and Senior Budget Analyst providing regular analysis and testimony for the Washington State Legislature. Mr. Williams served as an auditor for the U.S. General Accounting Office, auditing the Pentagon and U.S. Post Office. For ten years, he was a Washington State legislator. Mr. Williams writes a regular newspaper column and is a frequent talk radio guest and public speaker.

Lynn Harsh serves as Evergreen Freedom Foundation's Executive Director, specializing in education, governance and social policy research and development. Lynn is a frequent guest on talk radio, produces a bi-weekly radio commentary and writes a monthly column that runs in various newspapers around the state. Lynn works with elected officials on a regular basis, frequently providing testimony for the state legislature.

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in addition...

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Copies of the entire EFF study, *Reducing the Size and Cost of Government*, are available for \$15.00. Please write or call:

Evergreen Freedom Foundation
P.O. Box 552, Olympia, WA 98507 Phone: 360-956-3482 Fax: 360-352-1874

In Gratitude

The Arkansas Policy Foundation greatly appreciates the support, cooperation, encouragement of Bob Williams and his talented staff at the Evergreen Freedom Foundation. This innovative state policy group has helped set the pace and show the example for other states and their citizens wishing to re-introduce frugality and efficiency into their governments.



and Delivery of Government Services

Co-Chairs:

Representative John Cowdery
Senator Jerry Ward

Senator Al Adams
Bill Allen

Representative Tom Brice
Tom Fink

William Prosser

Helvi Sandvik

Kathryn Thomas

Don Valesko

George Wuerch

Advisory Council Procedures

The Commission shall appoint one chairman over each advisory council for the following departments:

- Administration
- Community and Economic Development
- Corrections
- Court System
- Education
- Environmental Conservation
- Fish and Game
- Governor's Office
- Health and Social Services
- Labor
- Law
- Legislature
- Lt. Governor's Office
- Military & Veterans Affairs
- Natural Resources
- Public Safety
- Revenue
- Transportation & Public Facilities
- University of Alaska

The chairmen of the advisory councils:

- Will receive 1 vote for themselves,
- Must appoint 4 voting members,
- May appoint up to an additional 4 non-voting members for a maximum of 9 members in each advisory council,
- Must announce all appointments to the commission in a preliminary report by close of business August 13.

The commission will ratify all appointments, without argument, at its second meeting, tentatively scheduled for August 16.

The duties of each advisory council are to:

1. Understand the functions of the assigned department of government.
2. Decide which functions should be contracted out, transferred to other levels of government, consolidated, eliminated, or otherwise modified.
3. Publish recommendations to the commission in a written report in a timely manner.



ALASKA STATE LEGISLATURE

SPEAKER OF THE HOUSE BRIAN PORTER

SB 33
File

June 17, 1999

Tom Fink
1350 West 23rd Ave
Anchorage, AK 99503

Dear Tom:

SLA 61, 1999 (SB 33) establishes a Commission on Privatization and Delivery of Government Services. Its duties are to evaluate ways to eliminate or transfer government services to other entities, review state methods for competitive bids and contracting procedures, and to identify state services that are most effectively delivered by the state. The Commission must submit a report to the governor and legislature by January 1, 2000.

This law requires the Speaker of the House to make the following appointments to the Commission:

- One member of the house who shall serve as co-chair: Accordingly, I appoint Representative John J. Cowdery of Anchorage as the house co-chair.
- One member of the minority caucus of the house: Accordingly, I appoint Representative Tom Brice of Fairbanks.
- Two public members, one of whom shall be a representative of a Native corporation established under 43 U.S.C. 1601-1628 (Alaska Native Claims Settlement Act): Accordingly, I appoint you to be a public member of this commission. Ms. Helvi Sandvik will be the ANCSA-qualified public member appointed by my office.

A copy of SB 33 is included for your information. You will note that the President of the Senate will be making additional appointments under the same guidelines. In addition, the law calls for appointments by the Alaska Municipal League, the Alaska State Chamber of Commerce and the AFL-CIO. By copy of this letter I am asking those organizations to advise the Senate President and me of their appointments as soon as possible.

House co-chair Cowdery will contact you about the time and place for the first meeting.

On behalf of the Alaska Legislature I want to thank you for taking on this important work.

Sincerely,

Brian S. Porter
Speaker of the House

Cc: Drue Pearce, President of the Senate
Mano Frey, Executive President, AFL-CIO
Pam LaBolle, Executive Director, Alaska State Chamber of Commerce
Kevin Ritchey, Executive Director, Alaska Municipal League



ALASKA STATE LEGISLATURE

SPEAKER OF THE HOUSE BRIAN PORTER

June 17, 1999

Helvi Sandvik, President
Nana Development Corporation
1001 E. Benson Blvd
Anchorage, AK 99508

Dear Helvi:

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On behalf of the Alaska Legislature I want to thank you for taking on this important work.

Sincerely,

A handwritten signature in cursive script that reads "Brian".

Brian S. Porter
Speaker of the House

Cc: Drue Pearce, President of the Senate
Mano Frey, Executive President, AFL-CIO
Pam LaBolle, Executive Director, Alaska State Chamber of Commerce
Kevin Ritchey, Executive Director, Alaska Municipal League

Session: State Capitol, Juneau, Alaska 99801-1182 • Phone: (907) 465-4930 Fax: (907) 465-3834
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March 1999

Federal Agencies Now Required To List Activities For Privatization

A two-year congressional lobbying effort by the American Consulting Engineers Council (ACEC) to remove the threat of government competition finally paid off when the Federal Activities Inventory Reform Act of 1998 (FAIRA) was signed into law last fall.

"This is a first step, but a necessary first step," ACEC notes. "Although work remains as the bill moves into regulation, the legislative mandate of S. 314 coupled with very strong language from Congress suggests that the provisions of the legislation will be strongly enforced."

Summarily, the landmark legislation requires federal agencies to list activities eligible for privatization and to make the list available to the public. FAIRA also permits prospective contractors, business or professional associations, labor organizations, and other interested parties to challenge the omission or inclusion of particular activities listed for privatization.

Although agencies are directed to review the list, the legislation does not actually mandate the agencies to privatize listed activities. Any challenges must be made to the concerned agency within 30 days after notification of the public availability of the list. Adverse decisions from the agency can be appealed only within the agency and cannot be appealed to the courts or the General Accounting Office (GAO).

FAIRA further requires federal agencies to review each activity identified on the competition list and determine the most competitive method—which includes the private sector—for procuring those services. Additionally, any "real and fair" cost comparisons in a competition from the list must include all overhead costs. Guidance is expected from the Office of Management (OMB) to provide direction on privatizing listed activities and using competitive procedures.

Specifically, FAIRA requires federal agencies to submit to OMB before the end of the third quarter a list of activities that are "not inherently governmental functions." These activities are eligible for privatization. After an OMB review, the list is submitted to Congress and made available to the public. Notice of public availability of the list is published in the *Federal Register*.

FAIRA is applicable to all federal entities, except GAO, government corporations (owned or controlled), agencies administered with nonappropriated funds, and depot-level maintenance and repair of the U.S. Department of Defense.

ACEC points out that the competition lists can be used as a source for potential privatization opportunities for design and construction firms. For each government activity, the list will include the number of full-time employees needed for the performance of the activity and the name of the government employee responsible for the activity from whom additional information can be obtained.

PRIVATIZATION REPORT

A Report by the AFL-CIO Representative on the Alaska
Commission on Privatization and Delivery of Government Services
Don Valesko, Business Manager/Secretary Treasurer, Public Employees Local 71

PUBLIC EMPLOYEES MEETING CALLED TO DISCUSS PRIVATIZATION COMMISSION ACTION

Labor's lone representative on the Alaska Commission of Privatization and Delivery of Government Services, Don Valesko, is calling for a statewide teleconference to be held on October 5th at 11:00 a.m.

The commission is about to start meeting weekly and it recently solicited signatures from commission members for a letter to be sent to all state employees. In the letter it asks state employees "... where efficiencies can be implemented in your particular jobs" and offers them protection under the state's Whistleblower Act. Commissioner Valesko and Representative Tom Brice refused to sign the letter noting problems with the way the Co-Chairs (Cowdery and Ward) independently decided to ask state employees how they might help privatize their careers.

It appears as though the Governor's office is finally wading into the commission's quagmire and pointing out its major flaws. Citing obvious conflicts of interest and the manner in which the commission is approaching the subject of privatization, members of the Governor's staff are now seriously on the offensive. A recent news article where Knowles' staff was quoted commenting on the commission's biased and conflicted nature also quoted Cowdery as saying the recent lopsided public vote on the use of permanent earnings gave the commission a mandate to not only privatize but to eliminate state services.

October 5th at 11:00 a.m.

Teleconference site locations:

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2510 Arctic Blvd.**

**Fairbanks
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825 College Road**

**Juneau
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GAO

United States General Accounting Office

**Report to the Chairman, House
Republican Task Force on Privatization**

March 1997

PRIVATIZATION

Lessons Learned by State and Local Governments



General Government Division

B-271979

March 14, 1997

The Honorable Scott Klug
Chairman, House Republican Task
Force on Privatization

Dear Chairman Klug:

State and local governments have increased their use of privatization over the last several years, and Congress and the administration have indicated an interest in having the federal government also increase its use of privatization. In light of this interest, you asked us to identify major lessons learned by, and the related experiences of, state and city governments in implementing privatization efforts. This report, which responds to your request, discusses privatization lessons learned by, and the related experiences of, the states of Georgia, Massachusetts, Michigan, New York, and Virginia as well as the city of Indianapolis, Indiana. Each of these governments made extensive use of privatization over the last several years.

Background

Privatization is commonly defined as any process aimed at shifting functions and responsibilities, in whole or in part, from the government to the private sector. Privatization can take various forms. The most common form is contracting, which typically entails a competition among private bidders to perform government activities. With contracting, the government remains the financier and has management and policy control over the type and quality of services to be provided. Another form of privatization occurs when a government transfers ownership of assets, commercial type enterprises, or responsibilities to the private sector. This is called an "asset sale," and generally the government would have no role in the financial support, management, or oversight of a sold asset.

Another, more recent variation of privatization is "managed competition." Under it, the contracting process permits an agency (e.g., the highway department) of the government to prepare a work proposal and submit a bid to compete with private bidders (e.g., highway construction contractors). The government may award the contract to the bidding agency or to a private bidder. (App. I shows various forms of privatization and the frequency of their use by state governments as reported by the Council of State Governments in 1993.)

Over the past several years, state and local governments have increased their use of various types of privatization. The 1993¹ Council of State Governments' survey found that state agencies responsible for social services, transportation, mental health care, corrections, health, and education had all increased privatization activities since 1988. The Council reported that the survey results indicated a trend toward expanded privatization across major state agencies.¹ According to the International City/County Management Association, city governments have also increased the number and types of services contracted, such as child welfare programs, health services, street maintenance, and data processing.²

Recent federal laws, rules, and initiatives—especially the Government Performance and Results Act of 1993 (GPRA);³ the Clinger-Cohen Act of 1996;⁴ the revised handbook to Office of Management and Budget (OMB) Circular A-76;⁵ and the Clinton Administration's major management reform initiative, the National Performance Review (NPR)—have given new impetus to federal agencies to operate more effectively and efficiently. One helpful approach in reaching this goal, according to NPR, is privatization. Certain of the cited laws and initiatives direct federal managers to review their programs by first considering whether government should be performing an activity, a step that can lead to privatization.

¹State Trends and Forecasts: Privatization, Vol. II: No. 2 (Lexington, KY: November 1993).

²International City/County Management Association Municipal Year Book 1994: Alternative Service Delivery in Local Government, 1982-1992 (Washington, D.C.: 1994), p. 28.

³GPRA requires agencies to develop strategic plans, obtain input on desired goals from key stakeholders, and measure and report progress toward achieving those goals.

⁴The Clinger-Cohen Act was originally the Federal Acquisition Reform Act of 1996 and the Information Technology Management Reform Act (ITMRA) of 1996. It was renamed by section 808 of Public Law 104-208, enacted on September 30, 1996. ITMRA introduced new requirements for how information technology-related projects are to be selected and managed. These requirements closely parallel investment practices of leading organizations.

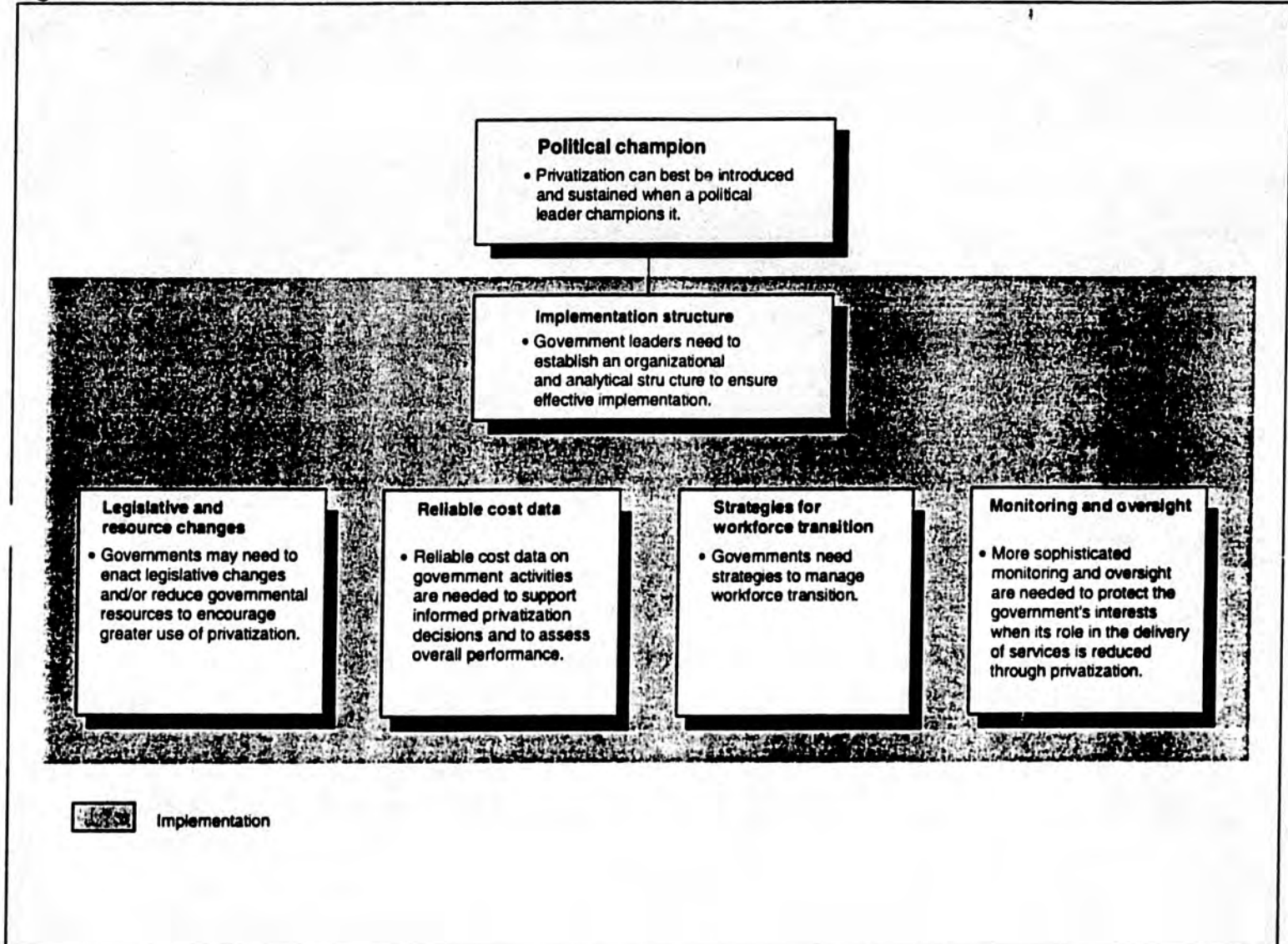
⁵OMB Circular A-76 sets forth federal policy for using commercial services. In March 1996, OMB revised the A-76 supplemental handbook to enhance federal performance through competition and choice, seek the most cost-effective means of obtaining commercial products and support services, and provide new administrative flexibility in agencies' decisions to retain services in-house or contract them out.

Results in Brief

The six governments we visited tailored their approaches to privatization to their particular political, economic, and labor environments.⁶ On the basis of our literature review, the views of a panel of privatization experts, and our work in the six governments, we identified six lessons learned, as shown in figure 1, that were generally common to all six governments in implementing privatization initiatives.

⁶The predominant form of privatization that occurred in these six governments was contracting for goods and services, followed by asset sales and managed competitions.

Figure 1: Lessons Learned From Our Review of State and Local Privatization Efforts



Source: GAO analysis.

First of all, privatization can best be introduced and sustained when there is a committed political leader to champion it. In the six governments, a political leader (the governor or mayor), or in one case several leaders working in concert (state legislators and the governor), played a crucial role in introducing privatization. These leaders built internal and external

support for privatization, sustained momentum for their privatization initiatives, and adjusted implementation strategies when barriers to privatization arose.

Second, governments need to establish an organizational and analytical structure to implement the privatization effort. This structure can include commissions, staff offices, and analytical frameworks for privatization decisionmaking. For example, five of the six governments established governmentwide commissions to identify privatization opportunities among government activities and to set policies to guide privatization initiatives.

Third, governments may need to enact legislative changes and/or reduce resources available to government agencies in order to encourage greater use of privatization. Georgia, for example, enacted legislation to reform the state's civil service and to reduce the operating funds of state agencies. Virginia reduced the size of the state's workforce and enacted legislation to establish an independent state council to foster privatization efforts. These actions, officials told us, enhanced privatization and sent a signal to managers and employees that political leaders were serious about implementing privatization.

Fourth, reliable and complete cost data on government activities are needed to assess the overall performance of activities targeted for privatization, to support informed privatization decisions, and to make these decisions easier to implement and justify to potential critics. Most of the governments we surveyed used estimated cost data because obtaining complete cost⁷ and performance data by activity from their accounting systems was difficult. However, Indianapolis and more recently Virginia used new techniques to obtain more precise and complete cost data. While the use of estimated cost data can save a government the time and cost associated with preparing more accurate data, the resulting imprecision can have negative consequences. For example, in Massachusetts, the State Auditor questioned savings reported from privatized activities because an "inadequate cost analysis" was done before the privatization.

Fifth, governments need to develop strategies to help their workforces make the transition to a private-sector environment. Such strategies, for example, might seek to involve employees in the privatization process,

⁷Complete costs are generally defined as the fully allocated costs of an activity. These include all direct and indirect personnel costs, as well as the costs of materials and supplies, equipment, capital depreciation, rent, maintenance and repairs, utilities, insurance, personnel travel, operations overhead, and general and administrative overhead.

provide training to help prepare them for privatization, and create a safety net for displaced employees. Among the six governments we visited, four permitted at least some employee groups to submit bids along with private-sector bidders to provide public services. All six governments developed programs or policies to address employee concerns with privatization, such as job loss and the need for retraining.

Finally, when a government's direct role in the delivery of services is reduced through privatization, a need is created for enhanced monitoring and oversight that evaluates compliance with the terms of the privatization agreement and evaluates performance in delivering services to ensure that the government's interests are fully protected. For example, Indianapolis officials said their efforts to develop performance measures for activities enhanced their monitoring efforts. However, officials from most governments said that monitoring contractors' performance was the weakest link in their privatization processes.

Objective, Scope, and Methodology

Our objective was to ascertain the lessons learned by, and the related experiences of, state and local governments in privatizing government activities. To meet this objective, we went through a multistep process to identify the governments to survey, developed an information collection framework refined with the assistance of a panel of experts, and then contacted various officials from the selected governments to obtain information and insights on their privatization experiences.

To develop a list of potential states and cities to survey, we first surveyed 50 individuals whom we identified as knowledgeable on privatization topics from congressional testimony, studies, and other published literature on the privatization of government activities. We asked the 50 individuals to name states and cities that had undertaken notable privatization efforts, and 33 of the individuals responded. From their responses, we compiled a list of 10 state governments and 10 city governments that the respondents had named most often as undertaking notable privatization efforts.

As agreed with your office, we focused the rest of our selection process on state governments rather than city governments. We focused on states because data indicated that states were generally involved in privatizing a wider variety of activities than were cities, and because lessons learned by state governments would be more likely than local government experiences to be instructive in the federal context. However, as agreed

with your office, we included the city of Indianapolis in our survey because it was cited more frequently than any other city or state named by our experts.

A panel of 8 privatization experts reviewed our list of state governments and agreed that the 10 state governments and Indianapolis were the most appropriate candidates to survey. The panel members, most of whom were drawn from among the 33 respondents to our survey, are listed in appendix II. They were selected on the basis of their practical knowledge of privatization or their scholarly knowledge on the issue of privatization.

We contacted the 10 state governments to update privatization data that were reported on them and other states in a 1993 Council of State Governments report. On the basis of information in the 1993 report and the updated data from the 10 states, we selected Georgia, Massachusetts, Michigan, New York, and Virginia for visits and further research. We chose these states because they had the most extensive privatization efforts involving activities that correlate with those performed at the federal level. Their privatization efforts, and those of Indianapolis, covered a variety of mission-related activities, such as prison health care, delinquent tax collection, and vehicle maintenance.

Before meeting with various officials from the six governments, we developed from the relevant literature a list of key privatization factors that our panel of eight experts agreed were critical or important when considering whether to privatize public functions. These factors gave us a framework for collecting information on privatization experiences. We pretested this framework and data collection approach and made minor adjustments.

Using our framework of privatization factors as a guide, we interviewed, and obtained documents from, 117 officials in the 6 sites that we visited. These included policymakers (such as cabinet officers and directors of privatization offices), agency managers, and labor representatives who were involved with or knowledgeable about the privatization efforts of the six governments. To obtain an independent perspective, we interviewed audit and legislative oversight officials who had knowledge of their governments' privatization efforts. We obtained from these various officials information on such topics as (1) the reasons for using privatization; (2) approaches taken to introduce, implement, and manage privatization efforts; and (3) barriers to privatization and strategies employed to overcome the barriers. In our interviews and document

reviews, we focused attention on privatization efforts that occurred since 1991, were reported to have had high cost savings, were reported to have resulted in continued or improved service, and involved activities similar to those performed by the federal government.

In addition to our interview data, we reviewed such state, city, and agency documents as commission reports, planning documents, policy and procedural guidance, budget documents, legislative analyses, agency performance reports, audit reports, and pertinent legislation. From our analysis of the information obtained, we distilled a list of major lessons learned in privatizing state and local government activities. The list was not intended to be an exhaustive compilation of all possible or actual lessons learned or experiences in privatizing government activities.

Because our objective was to identify lessons learned by the six governments we visited, we relied on their own evaluations and assessment of their experiences. Using information they gave us, we summarized a number of the six governments' privatization projects that they selected (see app. III). We did not evaluate privatization results or independently verify the accuracy of the information provided by the governments. Because this report uses a wide variety of privatization terms, we also prepared a privatization glossary so that the types of privatization we refer to in this report can be understood in the context of the range of privatization efforts that can occur. The glossary appears at the end of the report.

We did our work at the selected states' capitals, Indianapolis, and Washington, D.C., from April 1996 through December 1996 in accordance with generally accepted government auditing standards. In February 1997, we provided the chief executives of the six governments with a draft of this report for review and comment. These governments concurred with the message of our report and provided clarifying comments, which we have included where appropriate.

Privatization Requires a Political Champion

According to our panel of experts and officials of the six governments we surveyed, privatization can best be introduced and sustained when a political leader champions it. The panel and officials said that, in introducing and sustaining privatization initiatives, political leaders should anticipate a need to develop and communicate a privatization philosophy and to garner public, business, and political support.

According to the government officials that we interviewed, the chief executive (the governor or mayor) was the political champion for the most recent privatization efforts in Georgia, Massachusetts, Michigan, New York, and Indianapolis. In Virginia, key state legislators and the Governor worked together to introduce new privatization initiatives. The political champions faced a variety of political and economic environments. In some cases, the political leaders introduced and built support for privatization within government workforces that were unionized and, in other cases, within workforces that were not unionized. Similarly, some political leaders introduced and built support for privatization during times when their respective governments were experiencing fiscal problems, and other leaders did so during times when their governments were stable financially. For example, the Governor of Massachusetts introduced privatization during a period when the state, which had a heavily unionized workforce, was experiencing a severe budget crisis. On the other hand, Virginia's leaders introduced privatization into a largely nonunionized workforce and saw it as an approach that could help the state government more effectively deliver services and maintain its sound fiscal condition.

While forceful leadership was reported to be an important ingredient in the success of privatization initiatives by the six governments, they also came to recognize a need for flexibility. When implementing privatization, political leaders found that they could encounter barriers that might require them to adjust their privatization strategy to maintain support. For example, when Indianapolis's initiative encountered early opposition from employee unions, the Mayor began formally involving the unions in the privatization process. In doing so, he moved from an approach that solely emphasized competing public activities among private-sector firms to one that included using managed competition, which gave city employees the chance to compete with the private sector. This change in approach, according to city and union officials, won employee support and allowed the privatization initiative to proceed.

According to Indianapolis officials, competition in the marketplace rather than privatization per se produces the most value for the taxpayer. This view was shared by most state officials we spoke with. A top Indianapolis official said that the primary advantages of managed competition were reduced costs, improved services, improved employee morale, and increased innovation. Massachusetts, New York, and Virginia now permit government agencies to bid on certain contracts that are open to the private sector.

Implementation Structure Needed to Guide Privatization Efforts

According to officials in the six governments, once political leaders introduce privatization, they need to establish a formal structure to ensure effective implementation. Such a structure can include a governmentwide commission to identify privatization opportunities and set privatization policy, a staff office that can support agencies in their privatization efforts and oversee implementation, and a framework for making privatization decisions.

Five of the six governments used governmentwide commissions to promote privatization, identify privatization opportunities, and establish policies and procedures to guide privatization initiatives. Massachusetts did not use a commission; instead, cabinet secretaries selected the government activities to privatize. The commissions were created either by the chief executive (Georgia, Michigan, New York, and Indianapolis) or jointly by the state legislature and chief executive (Virginia).

The memberships of the four state commissions included representatives of both government and the private sector. Indianapolis's commission was composed of private sector representatives, assisted by both private and public-sector employees. Although officials in the five governments saw commissions as useful, a former senior official from Michigan who studied his and other states' commissions⁸ cautioned that a commission's effectiveness can be limited if it does not have a clear mission and a membership that reflects a balance between the public and private sectors.

Five of the six governments established offices or support staffs, which were attached to the privatization commissions, to provide guidance and technical assistance to agencies in the day-to-day implementation of privatization.⁹ New York's office, the Empire State Development Corporation, was unique among the supporting organizations in that it was a government corporation. Massachusetts did not establish a separate support office. Instead, individual departments initially used internal teams to design and implement specific initiatives. Later the Executive Office for Administration and Finance provided guidance to departments.

⁸John M. Kost, *New Approaches to Public Management: The Case of Michigan* (Washington, D.C.: The Brookings Institution, July 1996).

⁹Michigan established a Privatization Division as part of its Department of Management and Budget in 1991, before the governor established a public-private partnership commission in 1992. The Privatization Division provided staff support to the commission before the commission was abolished in late 1992.

These support units, according to officials and documents we reviewed, typically used an analytical framework to evaluate the costs and performance of government activities and the risks and benefits of privatizing a particular activity. These analytical frameworks typically included a step-by-step decisionmaking process. Having a framework that provides a consistent approach for analyzing government activities was considered highly desirable by key officials in all six governments. Many of the frameworks established by the six governments shared common elements such as providing criteria for selecting activities to privatize, an inventory of privatization candidates, cost comparison and evaluation methods, and procedures for monitoring the performance of privatized activities. The frameworks used by Michigan, Virginia, and Indianapolis are described in more detail in appendix IV.

Legislative and/or Resource Changes May Be Needed to Promote the Use of Privatization

According to some officials, governments may need to enact legislative and/or resource changes to encourage or facilitate the use of privatization. These changes, the officials said, are necessary to signal to managers and employees that the move to privatization is serious and not a passing fad.

All five states and the city of Indianapolis used some combination of legislative changes and resource cuts as part of their privatization initiatives. For example, Virginia enacted the Virginia Government Competition Act of 1995, which created a permanent independent state council to promote privatization. The state also initiated an effort to reduce its workforce by 15 percent over 3 years. According to state officials, some departments, such as transportation, began facing work backlogs following this reduction. To ease this backlog, Virginia looked to the private sector to perform the work. Virginia officials said enabling legislation and staffing cuts together signaled the seriousness of Virginia's effort to increase the use of privatization and managed competition.

Georgia's legislature, with the Governor's support, passed civil service reform legislation that made it easier for the state to hire and fire employees. Georgia officials told us that this measure facilitated the use of privatization by state managers. In addition, the Governor instituted a budget redirection program in 1996 that required all agencies to prioritize their current programs and activities and identify those programs that could be eliminated or streamlined to the extent that the agencies would be able to make at least 5 percent of their total state-funded budgets available to be redirected to higher priorities. Each agency was asked to recommend how the 5 percent would be redirected to existing programs

or to new programs within the agency. According to the Executive Director of Georgia's Commission on Privatization, the Governor, as part of his budget development process, reviewed these recommended redirections, as well as other statewide priorities, and shifted those identified funds within and among the agencies as determined to be most cost beneficial. This budget redirection initiative, according to the Executive Director, will continue for the remainder of the Governor's term, which ends in early 1998. According to a Georgia Privatization Commission official, agencies were given a 6-month notice that their budgets would be cut. State officials said these cuts required managers to rethink how they could perform the same activities for a lower cost. This led to contracting out more activities, such as vehicle maintenance and management services for a war veterans facility.

In Indianapolis, the Mayor eliminated selected middle-level management positions. According to the remaining supervisors with whom we spoke, this action sent a clear message that the city's privatization program was serious and that the city workforce would have to work differently and use new methods if it were to successfully compete to retain city work. Union officials said that these selective management cuts helped to build union support for the competition initiatives.

Reliable and Complete Cost Information Needed to Support Privatization

According to officials in the six governments and our panel of experts, reliable and complete cost data on government activities are needed to ensure a sound competitive process and to assess overall performance. Reliable and complete data, they said, simplify privatization decisions and make these decisions easier to implement and justify to potential critics.

All six governments developed information on the cost of government activities. Four governments made "best estimates" of a service's or function's cost because obtaining complete cost and performance data by activity from their accounting systems was difficult. Indianapolis and Virginia attempted to go beyond best estimates by making extensive efforts to identify all costs associated with performing a government function or service.

Indianapolis was nationally recognized for using an activity-based costing (ABC) approach. Indianapolis used this approach to help analysts derive the complete costs of providing a service or performing a function. Following ABC procedures, analysts were to identify all activities associated with producing a service or function and to evaluate the

resources these activities consumed to achieve various levels of performance.

Virginia introduced a comprehensive cost analysis method based on the federal government's A-76 program and the state's contracting experiences to try to capture the complete costs associated with performing a service or function. Virginia reported that in fiscal year 1996 it was able to identify complete costs for 45 percent of the government activities identified as privatization candidates. Since 1995, Virginia has piloted an ABC approach in a number of agencies as a possible replacement for its existing analysis method. According to officials in Indianapolis and Virginia, obtaining more complete data was more time consuming but enhanced their governments' ability to identify cost savings and evaluate bid proposals.

Indianapolis officials told us they were able to obtain the information they needed to do ABC analyses from their current accounting system even though it did not provide cost data by activity. Officials used a system that took cost data (e.g., salaries, overhead) associated with a function (e.g., street maintenance) and assigned it for cost analysis purposes to activities (e.g., filling potholes, cleaning streets, repairing curbs). The city was assisted in this exercise by a private-sector firm with cost-analysis expertise.

Indianapolis and Virginia officials also said that working before privatization occurs with private firms with expertise in an activity slated for privatization was very beneficial in getting a better understanding of the cost and performance issues likely to be encountered during a privatization. For example, when Virginia's Department of Corrections planned its prison privatization project, the department publicly discussed its plans with private firms to better understand the issues that needed to be addressed and resolved in order to successfully privatize prisons. According to the Director of Virginia's Commonwealth Competition Council, after the department consulted with private firms, it better understood what the needs of the private sector were in terms of writing specific statements of work and better realized the potential cost-benefit to the state of the proposed prison privatization.

Attaining precision in cost data has tradeoffs, according to a number of government officials that we interviewed. In general, while cost estimates can be made more quickly and at less cost than more precise approaches such as ABC, their use also may have negative consequences. For example, Massachusetts, according to senior state administration and audit officials,

used estimates because complete cost data on state activities were difficult to obtain from the state's accounting system. However, reports by the Massachusetts State Auditor called into question the reported savings of some privatization activities, citing inadequate cost analysis before privatization as well as a lack of substantiating data on the benefits claimed following privatization.

Strategies Needed to Manage Workforce Transition

According to most officials in the six governments and our expert panel, moving governments into privatization requires (1) employee involvement in the privatization process, (2) training to provide skills for either competing against the private sector or monitoring contractor performance, and (3) creating a safety net for displaced employees. Most officials said these strategies were necessary to mitigate employees' concerns with, and to bolster their support for, the privatization changes as well as to aid in the transition to a competitive environment.

All six governments developed workforce transition strategies to complement their privatization efforts. These strategies varied depending on local political factors and the relationship between the governments' top leaders and employee groups.

Employee Involvement

In the six governments, management of employee involvement in the privatizations was not only important to initial efforts but also set the tone for future privatizations. For example, Massachusetts officials said that their initial failure to involve state employee unions in their privatization plans led the unions to contest and block these plans. State officials said that following this initial confrontation, Massachusetts sought to improve labor-management cooperation by allowing unions to compete for several highway maintenance contracts. Nevertheless, according to state officials, union and state legislature concerns that employee protections were not being observed under privatization contributed to the passage of legislation in 1993, over the Governor's veto, that made privatization more difficult.¹⁰ For example, the law required private firms that win state contracts to offer jobs to qualified state employees who were terminated because of the contracts and to compensate them at a rate comparable to their government pay and benefits. The Massachusetts State Auditor said that in the 2 years before the law, 6 Massachusetts departments privatized approximately 20 services, but only 2 privatizations occurred between the law's enactment and December 1996.

¹⁰Commonwealth of Massachusetts Privatization Law, Chapter 296 of the Acts of 1993.

According to privatization experts, Indianapolis presents a comprehensive example of how a government benefited by engaging employees and their unions in the privatization process. Indianapolis's management employees were involved in the privatization process when it began but union employees were not formally involved. Soon after introducing privatization, the Mayor moved to address employee concerns raised by unions about not being formally involved in the city's privatization efforts. According to city and union officials, the city used a multifaceted approach to effectively address the unions' concerns. This approach included the use of new management tools (such as ABC), training in use of the tools, a cooperative union-management effort, and permitting and enabling the workforce to compete against private vendors. This cooperative effort, we were told, was built on (1) empowering frontline workers to make decisions and act on their own initiative, (2) providing training and pay incentives for performance, (3) fostering a partnership with unions, and (4) establishing an employee safety net for displaced workers.

Training

The majority of the top government officials and experts whom we surveyed said that having qualified employees with specific skills related to privatization was important to successfully implementing privatization. However, some officials said the need for new skills should not impede privatization since the skills could also be contracted for if not available within the government workforce.

Officials from the states and Indianapolis pointed out that to move into a more competitive environment, their governments had to improve the skills of their employees so they could (1) participate in managed competition and/or (2) prepare for and monitor contracting efforts. Public and union officials identified the following as helpful to employees involved in privatization: (1) knowledge of the existing government program, (2) ability to analyze work flows and processes, (3) ability to develop methods to eliminate inefficiencies, (4) knowledge of cost-estimation techniques, (5) ability to apply methods of financial analysis, (6) ability to determine and write concise and specific contract requirements to delineate exactly what the contractor is responsible for, and (7) knowledge of methods for monitoring the performance of contractors.

Safety Net

Providing a safety net for displaced workers was a component of the six governments' workforce transition strategies. These strategies included offering workers early retirement, severance pay, or a buyout, or, if the activity was taken over by a private firm, ensuring that employees' concerns about compensation issues involved in this transition were addressed.¹¹ Other strategies included placing workers in other government units if their jobs were eliminated and offering job transition assistance, such as career planning and training, to workers moving to the private sector. According to Virginia officials, for example, employees' concerns were one of the biggest barriers in that state's privatization efforts. The Governor directed state officials to examine and recommend measures to provide the opportunity for departing state workers to compete in the private sector. According to state officials and employee representatives, this led to the passage of the Workforce Transition Act, which mitigated some of the employees' concerns with privatization, such as job loss, training, and benefits.

In New York, according to state officials, new collective bargaining agreements were negotiated that allowed the state to lay off affected employees, provided they were accorded certain considerations such as 60 days written notice of intended separation, placement on a redeployment list, and an offer of redeployment if a fillable vacancy became available elsewhere in state government. If redeployment was not possible and the employee had no displacement rights under the state's Civil Service Law, the employee had the option of receiving a financial stipend for an identified retraining or educational opportunity, severance pay, or preferential consideration for employment with the contractor. Redeployment would ensure that the affected employees maintained their salary and titles comparable to former positions.

Enhanced Monitoring and Oversight of Performance Is Needed When Privatization Is Used

According to officials with the six governments, monitoring and oversight that not only evaluates compliance with the terms of the privatization agreement but also evaluates a private firm's performance in delivering services is needed when a government's direct role in the delivery of services is reduced through privatization. This is necessary to help ensure that the government's interests are protected and that accountability of both the government and the private party is maintained.

¹¹To the extent that resources are provided by a government for services such as severance pay or training, the net financial savings resulting from the privatization may be diminished.

Monitoring Privatization

Officials in all six governments told us that monitoring of privatized activities is critical. According to experts, such monitoring consists of contract auditing and technical or performance monitoring. Contract auditing aims to ensure that contractors are paid as mandated by the contract and that all contractual obligations are fulfilled. Contract auditing also serves as an independent check on contractors and on the government's contract managers. Technical and/or performance monitoring aims to ensure that contractor-provided services are meeting contract specifications for quantity and quality.

The majority of the state and city officials we interviewed said that performance monitoring is more difficult than contract auditing and that their governments faced a much greater need to develop employee skills for performance monitoring than for contract auditing. Officials at all of the governments we visited said that one of the most important—and often most difficult—tasks in privatizing government activities was writing specific work statements for the privatization contracts. Officials noted that when contract requirements were vague, contractor performance was not easily evaluated, even if the government used sufficient and effective monitoring techniques. Given the importance of being able to specify work requirements and outputs, most of the six governments reported that they took steps to mitigate their risk. For example, Georgia and Virginia's guidance for evaluating whether a service should be considered for privatization focused on the ease with which the service's objectives could be defined and measured for monitoring purposes. Indianapolis officials said that its use of performance measures enhanced the writing of contract terms because they focused at the activity level (e.g., air and water quality assurance) and measured each activity's outputs (e.g., water samples collected and evaluated).

Officials from all but Indianapolis said that performance monitoring was their weakest link in the privatization process. Officials from all the governments said that they were working to enhance their employees' skills so that they could undertake more sophisticated monitoring. For example, officials said that monitoring the performance of complex activities, such as wastewater treatment or the medical care of prisoners, can require analytical skills that go beyond compliance checklist-type reviews. Monitoring performance, they said, sometimes required new or innovative approaches. For example, Virginia used a newly designed approach to measure the performance of its two contractor-operated child support enforcement offices. Because the offices were newly created, Virginia could not compare pre- and post-privatization costs. Instead,

Virginia established quarterly and semiannual reporting requirements in the contract and used sophisticated statistical measures to compare the performance of its child support offices with a hypothetical average office with similar characteristics, such as size and demographics. In addition to having performance measures, the new system required new data collection skills for state employees, such as doing customer satisfaction surveys.

Oversight of Privatization

Officials in all six jurisdictions and our expert panel told us that independent oversight of privatization efforts was critical. Independent oversight by an office that is outside the control of the unit responsible for operating the activity provides a more objective and unbiased evaluation of privatized activities than is possible by senior government managers or program-level monitors. Virginia's Auditor of Public Accounts, for example, said that independent oversight can focus on such areas as automatic contract extensions to ensure that costs do not escalate without limit and that the program manager attempts to maximize competition in the award of contracts.

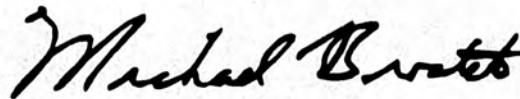
Each of the six governments had independent oversight functions, and these functions played different roles in the privatization process and provided varying degrees of oversight coverage. For example, beginning in December 1993, the Massachusetts State Auditor had formal review and approval powers related to proposed privatizations for activities costing over \$100,000. Virginia's legislative and executive branches, according to officials of both branches, provided extensive oversight. In the executive branch, Virginia had an agency network of internal auditors, coordinated by the Department of the State Internal Auditor, to review privatized activities within their respective agencies. Virginia's legislature had the Joint Legislative Audit Review Commission (JLARC) and the Auditor of Public Accounts. JLARC's actions on a proposed privatization demonstrate the value of independent oversight. In 1996, JLARC raised concerns about a proposed computer systems privatization that was begun before the state government established its current privatization process. As a result of these concerns, the General Assembly subsequently delayed the proposed privatization and directed JLARC to conduct a more complete study of the project.

We are sending copies of this report to the Chairman and Ranking Minority Member of the Senate Committee on Governmental Affairs and

the House Committee on Government Reform and Oversight; the Director, Office of Management and Budget; the Director, Office of Personnel Management; and other interested parties. Copies will be made to others upon request.

The major contributors to this report are listed in appendix V. Please contact me on (202) 512-9039 if you have any questions.

Sincerely yours,

A handwritten signature in black ink, reading "Michael Brostek". The signature is written in a cursive style with a large initial "M".

Michael Brostek
Associate Director, Federal Management
and Workforce Issues

Contents

Letter	1
Appendix I Forms of Privatization and Frequency of Use in State Programs and Services	22
Appendix II Expert Panelists on GAO's Review of State and Local Privatization Efforts	24
Appendix III Overview of Recent Privatization Efforts in the Six Governments	25
Appendix IV Analytical Frameworks Used by Indianapolis, Michigan, and Virginia	34
Appendix V Major Contributors and Acknowledgments	43

Glossary of Privatization-Related Terms	44
GAO Privatization Products Related to State and Local Governments	48
Figures	
Figure 1: Lessons Learned From Our Review of State and Local Privatization Efforts	4
Figure IV.1: The Indianapolis Approach: Costing and Competitiveness in the Delivery of Public Services	36
Figure IV.2: Michigan's PERM Process for Analyzing Functions and Services	39
Figure IV.3: Virginia's Commonwealth Competition Council Process	42

Abbreviations

ABC	activity-based costing
CCC	(Virginia) Commonwealth Competition Council
CEO	chief executive officer
DMB	(Michigan) Department of Management and Budget
ESOP	employee stock ownership plan
GPRA	Government Performance and Results Act of 1993
GSE	government-sponsored enterprise
ITMRA	Information Technology Reform of 1996
JLARC	(Virginia) Joint Legislative Audit Review Commission
NPR	National Performance Review
OMB	Office of Management and Budget
PBO	performance based organization
PERM	(Michigan) privatize, eliminate, retain, or modify

Forms of Privatization and Frequency of Use in State Programs and Services

Forms of privatization	Administration/ General Services	Corrections
Contracting out	91.67%	92.09%
Grants	0.56	1.19
Vouchers	3.06	0.40
Volunteerism	1.39	3.56
Public-private partnerships	1.67	2.37
Private donation	0.56	0.40
Franchise	0.28	.00
Service shedding	0.28	.00
Deregulation	.00	.00
Asset sales	0.56	.00

**Appendix I
Forms of Privatization and Frequency of
Use in State Programs and Services**

Agencies' frequency of use					
Education	Health	Mental Health/ Retardation	Social Services	Transportation	Average by form of privatization
81.29%	69.57%	64.67%	71.32%	83.51%	78.06%
8.63	14.13	15.63	12.48	4.50	8.48
0.72	4.89	5.35	9.31	0.43	4.11
1.44	3.26	3.64	2.98	5.35	3.32
5.04	5.43	3.85	2.23	2.57	2.95
0.72	.00	2.57	0.19	1.28	0.96
1.44	1.09	1.71	0.37	1.50	0.91
0.72	1.09	0.86	0.74	0.43	0.58
.00	0.54	1.50	0.37	0.21	0.46
.00	.00	0.21	.00	0.21	0.17

Source: State Trends and Forecasts: Privatization, Council of State Governments, 1993.