

The Fiscal Crisis is Permanent

A “perfect storm” – the convergence of:

- ❑ Inexorable cost drivers:
 - ❑ 10% annual increase in health care costs.
 - ❑ Pension (and Social Security) obligations as population ages.
 - ❑ Rising debt and debt service.



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The Seven Deadly Deceptions

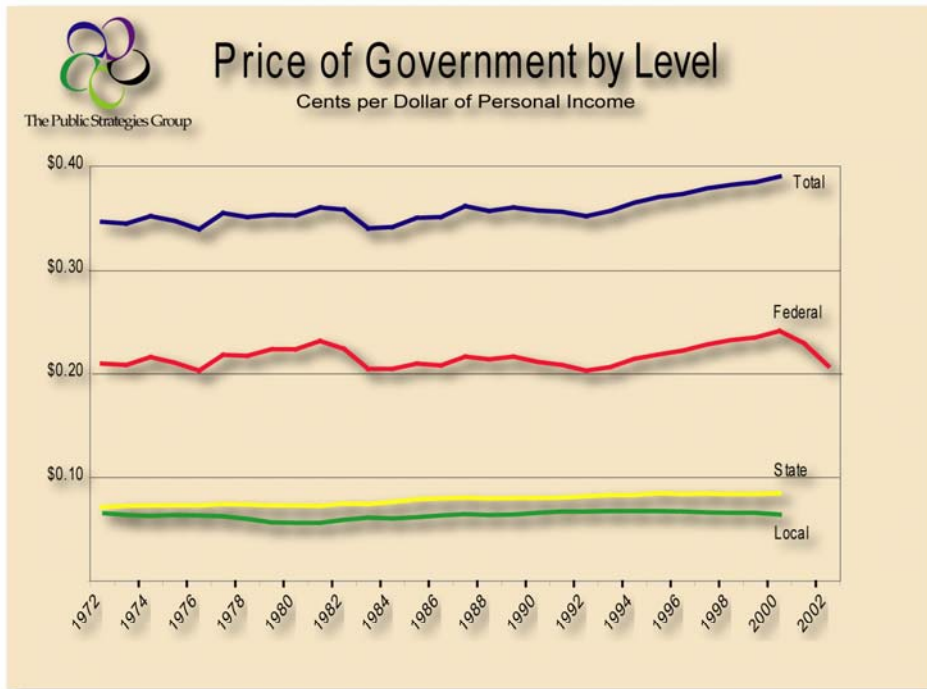
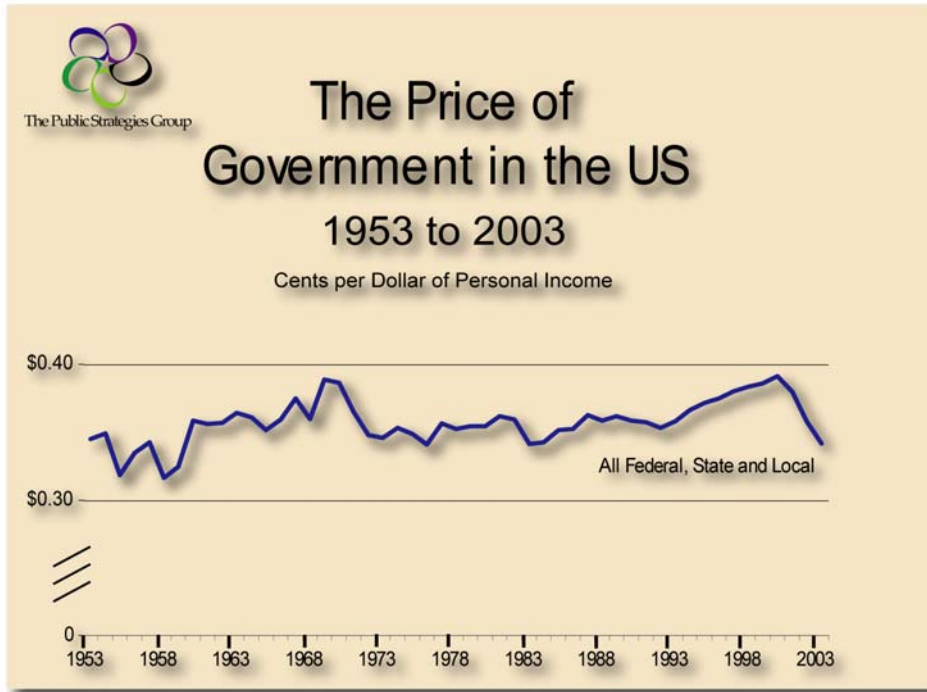
- Steal funds from other accounts
- Use accounting tricks to lie about spending or revenue
- Borrow: pay tomorrow for today's costs
- Sell off assets
- Make something up
- Nickel and dime employees
- Delay maintenance and replacement of assets

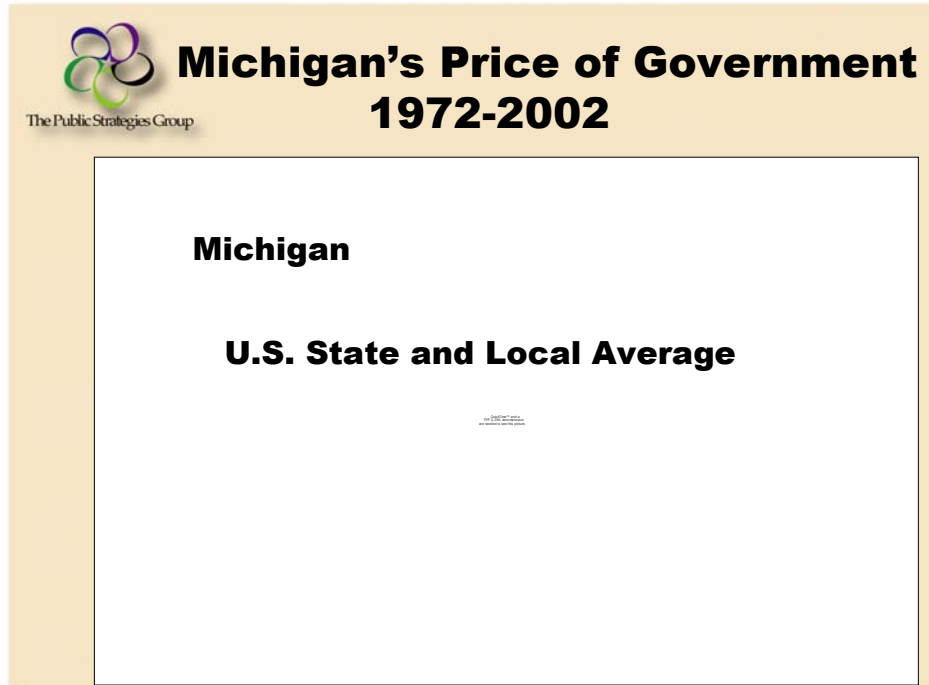
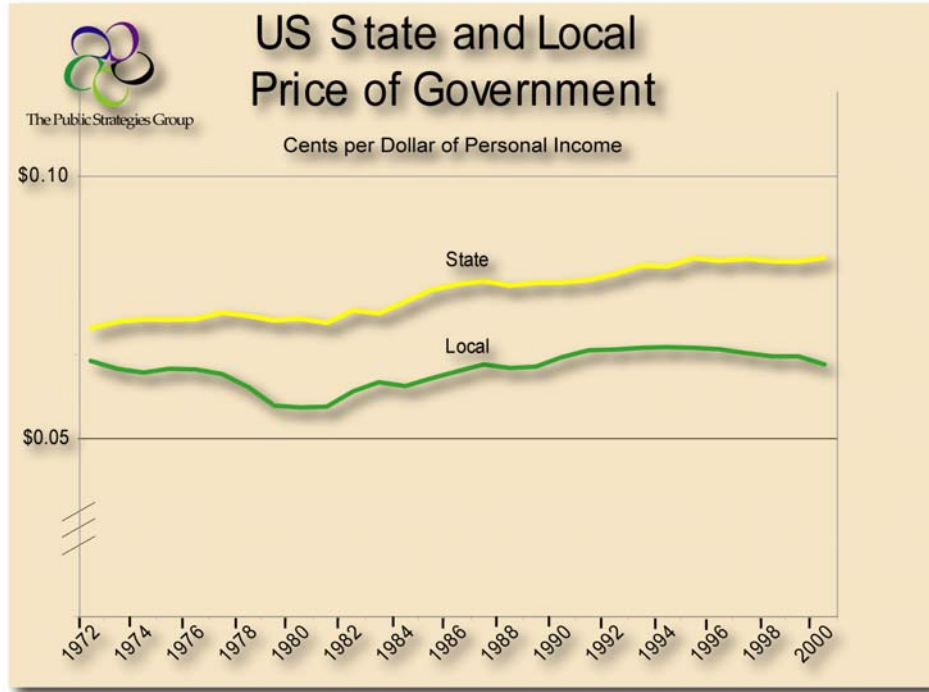


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The Fiscal Crisis is Permanent (2)

- Obsolete revenue systems.
 - No sales tax on most services
 - No sales tax on most Internet transactions
 - Corporate tax revenues declining as global market moves profits offshore







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The Solutions:

- Smarter Budgeting
- Smarter Sizing
- Smarter Spending
- Smarter Management
- Smarter Leadership



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The Current Game

Cost- Based Budget

Starting Point	Last Year = BASE costs
Focus	Add/ Subtract costs re: BASE
Addition	Autopilot increases = new BASE Plus "needs"
Subtraction	"Cut" from <u>new</u> BASE
Submission	Justification for needs/ costs -- plus a little extra



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The Current Game (cont')

Incentives	Build up costs - make cuts hard
Analyst's job	Find hidden/ unnecessary costs
Elected's job	Choose to cut services, OR Raise taxes to cover costs GET BLAMED!
Focus of debate	What to cut What to tax
What drives decisions?	Avoiding pain before next election



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Washington State Changed the Game

Background:

- \$2.5 billion shortfall.
- Budgeting by referendum.
- Used up all the tricks.

And now for something
completely different!!!!



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Gov. Locke Changed the Game by Asking

4 Questions

1. How much revenue will we have: What price of government will we charge our citizens?
2. What outcomes matter most to our citizens?
3. How much should we spend to achieve each outcome?
4. How can we BEST deliver each outcome that citizens expect?



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WA Priorities of Government

Results	Indicators
Increase student achievement K-12.	
Improve the quality and productivity of the workforce.	
Deliver increased value from post secondary learning.	
Improve the health of Washingtonians.	
Improve the condition of vulnerable children and adults.	



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WA Priorities of Government

Results	Indicators
Improve economic vitality.	
Improve the mobility of people, goods, information and energy.	
Improve public safety.	
Improve the quality of WA's natural resources.	
Improve cultural and recreational opportunities.	



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Los Angeles' Priorities:

1. Safer city: making LA the safest big city in America.
2. Livable neighborhoods: ensuring neighborhoods are good places to live.
3. Improved mobility: getting where we want to go safely and reliably.



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Los Angeles' Priorities:

4. Economic development: creating quality jobs, a competitive workforce, and enhancing LA's business climate
5. Affordable housing: increasing the quality, quantity, and affordability of housing
6. Efficient government: works better and costs less



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Pricing the Priorities

- How much are they each worth?
Not how much do they cost?
- It's judgment, not science



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WA: Pricing its Priorities

Results	
Increase student achievement K-12.	29%
Improve the quality and productivity of the workforce.	6.5%
Deliver increased value from post secondary learning.	9%
Improve the health of Washingtonians.	11%
Improve the condition of vulnerable children and adults.	10%



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WA: Pricing its Priorities

Results	
Improve economic vitality.	5.5%
Improve the mobility of people, goods, information and energy.	12%
Improve public safety.	8.5%
Improve the quality of WA's natural resources.	5%
Improve cultural and recreational opportunities.	3.5%

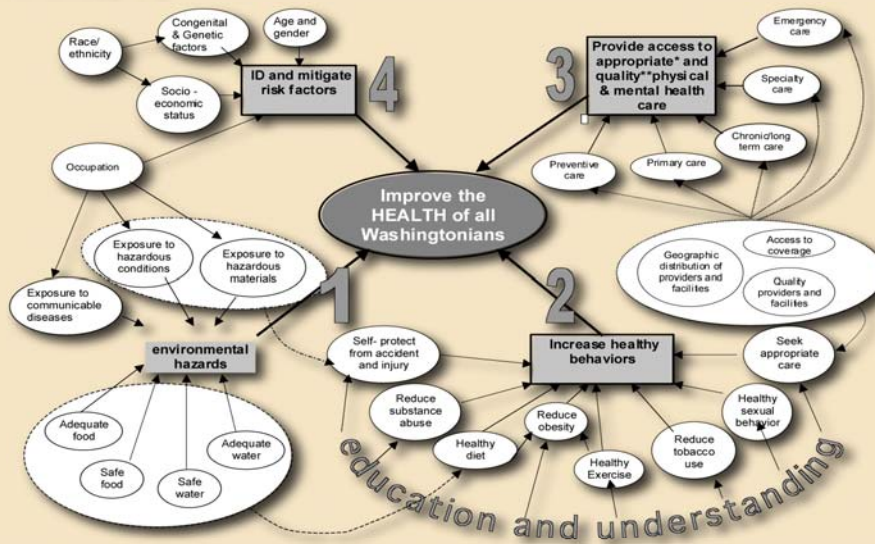


Results Teams: Create Purchasing Strategies

- ❑ Results Teams are “Buying Agents” for citizens
- ❑ First task: Define 3 key indicators
- ❑ Second task: Develop a results map, explaining what causes the outcome



Results Map: Improve Health





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Purchasing Plans: Improve the Outcome at the Set Price

- Define a basic purchasing strategy: What matters most?
- Ideally, Results Teams would issue “Requests for Results”
- Ideally, “sellers” would include state agencies, local governments, non-profits, and for-profits.



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Buyers Get Most Results for Money

- Rank order offers
- Start buying from the top
- Draw a line when they run out of money



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After Budget Passes, Buyers Negotiate Performance Agreements/Contracts with Sellers

- Flexible Performance Agreements with own-government agencies

- Performance contracts with other government agencies, corporations, and non-profit organizations □



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WA. Budget: A Sample Page

Health Care Spending Plan

\$3.7 billion
GF-S and
Health
Services
Account

Savings:
\$328 million

Key Purchases

- Medicaid health care for 908,600 vulnerable children and adults.
- All current children's health programs
- Statewide public health programs to protect all citizens
- Public health programs to ensure the health of babies and the safety of food
- Basic Health Plan insurance for 81,000 low-income people
- Expanded financial help to community health clinics

Examples of what's not purchased

- Basic Health Plan coverage for 59,800 adults
- Health coverage for the medically indigent
- Optional Medicaid coverage for workers with disabilities
- Optional adult dental, vision, and hearing services



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What Success Looks Like:

“The impossible task of cutting \$2 billion from state spending has been made possible....

The usual, political way to handle a projected deficit is to take last year's budget and cut. It is like taking last year's family car and reducing its weight with a blowtorch and shears. But cutting \$2 billion from this vehicle does not make it a compact; it makes it a wreck. What is wanted is a budget designed from the ground up.” □

Seattle Times 11/18/02 □



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The Bottom Line

- Balanced budget
- Focus on the ‘keeps,’ not the cuts
- Buy results, not costs
- Important new investments go to the front of the queue
- General interest trumps special interests
- Performance accountability
- Continuous reform/ improvement
- “Common Sense” communications



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IV. Smarter Sizing:

- Strategic Reviews: Divesting to Invest
- Consolidation: Smart Mergers
- Rightsizing: The Right Work, the Right Way, with the Right Staff



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III. Smarter Spending:

Buying Value, Squeezing Costs

- Buying Competitively
- Rewarding Performance, Not Good Intentions
- Putting Customers in the Driver's Seat
- Winning Compliance: Don't Buy Mistrust - Eliminate It



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IV. Smarter Management:

*Reforming Government on the Inside to
Improve Performance on the Outside*

- Using Flexibility to get Accountability
- Making Administrative Systems Allies,
Not Enemies
- Smarter Work Processes



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**There's
More ...**

