

Transforming Government into a 21st Century Institution

Redesigning Ohio

Executive Summary

December 2010

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Ohio is facing an unprecedented fiscal crisis. Although we're not alone, we would be remiss in not taking this opportunity to transform our state government to one that is sustainable and provides greater value to our citizens. Getting more for less is both the best response to our current crisis and a necessary step toward building a strong state economy that can compete in the 21st century. The time for action is now. Our state government must become more flexible, adaptable and innovative – searching constantly for new ways to improve services and heighten productivity.

Introduction

Recognizing this need and our responsibility as leading economic development organizations, Ohio's eight metropolitan chambers of commerce and the Ohio Chamber of Commerce joined together to produce this report. It offers a road map for long-term, transformational change as well as meaningful recommendations for tackling our current fiscal crisis. This report includes an analysis of our existing economic situation, a review of best practices from other states and recommendations that range from the way our state budget is developed to specific productivity improvements.

Our recommendations are offered as a look forward, not a condemnation of the past. After all, it has taken many years—decades, in fact—to arrive at this point. No particular Administration or any one General Assembly can or should be singled out. Incremental changes in

the way we govern ourselves have brought us to this point. But it is time to rethink these practices and make bold changes. It will take hard work, difficult decisions and broad consensus to implement the changes required to reinvigorate Ohio's economy.

This report is not intended to be a proposed solution to the estimated \$6-8 billion budget deficit we are facing, although full implementation of these recommendations will result in significant long term savings as well as in the FY 2012-2013 biennium. But, perhaps more importantly, our recommendations target specific ideas in key areas of state government; with a focus on those that are particularly well suited to private sector solutions. That is, by viewing these functions through the lens of the private sector, we believe we can make a meaningful difference. Similarly, this report proposes a market-based approach

for reforming the way state government and Ohio's local political subdivisions work together. Clearly, it is not just our state, but the more than 3,700 local governments as well, that are on an unsustainable path that must be reversed.

Important areas of state spending, such as Medicaid and education, are not addressed here. It is our view that these issues require additional, significant study and we pledge to collaborate with other groups that have or will undertake additional analysis of these programs.

Underlying all of our recommendations is the management philosophy known as Budgeting for Outcomes, which has been developed and championed by David Osborne of Public Strategies Group. Mr. Osborne is a nationally recognized author and expert in government redesign and streamlining. Working closely with him and with Greg Browning of Capital Partners, who has a vast understanding of Ohio state government and budgets, we have researched selected practices and targeted areas of government for reform. They include:

- Budgeting for Outcomes
- Charter Agencies
- Entrepreneurial Management
- Government Regulations
- Tax Expenditures
- Civil Service
- Pension Benefits
- Health Care
- Criminal Justice
- Local Governments

1: Budgeting for Outcomes

Budgeting for Outcomes is not about incremental change. It turns traditional budgeting on its head and focuses on what matters most: purchasing outcomes that citizens value. Transforming government to get more for less must include redesigning the state budget process itself. We recommend adopting this new budgeting paradigm in three stages:

• **FY 2012-2013:** In developing the state operating budget, the Office of Budget and Management (OBM) works with the Governor and agency leaders to designate leading agency outcome goals and rank major state programs from most to least cost-effective.

• **FY 2012-2013:** OBM leads an inclusive effort to develop program performance measures for each major state program.

• **FY 2014-2015:** Fully implement Budgeting for Outcomes, including broader stakeholder outreach efforts designed to inform the budget development and prioritization process.

We also recommend that the state set aside \$20-\$40 million in a State Innovation Fund for investment in system reform, redesign and capacity building.

2: Charter Agencies

Charter Agencies are government departments or agencies that accept less funding in exchange for more flexibility and freedom to manage. They deliver measurable improvements in results and contribute savings and/or new revenues to the State. In this section, our recommendations include:

- Enact legislation or issue an executive order to allow the governor and his cabinet members to negotiate charter agency agreements.
- Negotiate biennial written agreements that specify needed management flexibilities, expected reforms and performance targets that will lower costs and improve outcomes.

3 : Entrepreneurial Management

Entrepreneurial Management is a strategy for getting more bang for the buck from internal support services. It forces agencies to earn revenue by selling their services to other agencies, often in competition with private-sector providers. Our recommendations include:

- Reorganize internal support services such as information technology, vehicle/fleet management, and facility management as competitive enterprises that have flexibility to operate like businesses competing for work with both public and private sector providers.
- With utility services (internal services that should be monopolies, like telecommunications), place money in the hands of the customer agencies and give them seats on a customer council. This council would have the power to set rates and approve investment plans in order to improve the value equation.
- Create a public agency customer council to improve the price/value ratio primarily through collaborative efforts to improve purchasing outcomes.

4 : Government Regulations

Government Regulations are often overly burdensome and expensive to enforce. Market-based principles provide an effective strategy for moving from expensive command and control regulation to an approach that boosts voluntary compliance. This approach maximizes the regulatory benefits and tax revenues while reducing compliance burdens. Strategies to reform the regulatory climate by winning voluntary compliance include:

- Build support for rules and standards by involving compliers in their creation.
- Make regulations performance-based.
- Educate compliers about what is expected of them.
- Make Compliance easy.
- Make the quality of agency service to compliers consequential.
- Report compliance information.
- Treat different compliers differently.
- Create a continuum of public consequences and rewards.
- Create market incentives to encourage compliance.

5 : Tax Expenditures

Tax Expenditures are revenue the state foregoes when it issues tax credits, exemptions and deductions. In Ohio, tax expenditures add up to \$7.7 (FY 2008) billion in foregone revenue annually. Tax expenditures are often valuable tools that help create jobs and increase other revenue for the state. But some have been on the books for years without a review to ensure that they are meeting their intended policy outcomes.

Recommendations to change this status quo model include:

- Utilize the tax policy principles outlined in this report (neutrality, economic competitiveness, stability, and simplicity) to conduct a thorough review and cost-benefit analysis. This review would include an examination of the 122 existing tax expenditures in the FY 2012-2013 budget development and review process.
- Use both a static and dynamic analysis of the costs and benefits of tax expenditures.
- Improve the quality and scope of Ohio's current biennial Tax Expenditure Report.

6 : Civil Service

Civil Service systems, once an important protection for public employees, often stand in the way of achieving results-based public organizations today. In order to reap the benefits of a more efficient, productive workforce, Ohio must liberate its bureaucracies. Specific recommendations to reform the civil service system include:

- Give managers more freedom to manage their employees.
- Shift to broad job classifications and use market-based employee compensation studies, updated regularly, to create broad and competitive pay bands.

- Limit compensation increases beyond these pay bands to merit-based bonuses based on objective performance measures; eliminate automatic pay raises via steps and longevity pay.
- Invest in building employees' skills and capacities.

7 : Pension Benefits

Pension Benefits are crucial to making the right investments in the state's most important resource – its employees. Consistent with our proposed civil service reforms, market-based reforms should be used to ensure that Ohio has a competitive, highly effective employee benefit system – one that will attract and retain good employees while being fair and affordable for Ohio taxpayers. Recommendations include:

- Require a shared, 50-50 employee/ employer contribution for state pensions and retiree health insurance.
- Fund any remaining shortfall in pension and retiree health insurance benefits from increased employee contributions, not from taxpayer funds.
- Require uniformity in the percentage of health insurance costs paid by old and new retirees.
- Allow political subdivisions to pay employees' contributions to their retirement programs only when there are compelling reasons to do so.
- Limit "double dipping" to extraordinary, high-need situations.
- Reduce the number of state pension systems to capture administrative savings.

8 : Health Care

Health Care spending is at the core of the state's budget problem and must be resolved. Unless Ohio finds a sustainable solution to the rising cost of health care, it is unlikely that we can recover from the fiscal crisis we face today. State government can help reduce health care cost increases and improve outcomes by using a strategy that includes smarter use of public-sector health insurance buying power while fostering a genuinely competitive health insurance marketplace. Recommendations include:

- Drive health care costs down and improve patient outcomes by using the state's leverage as a large purchaser to move toward new reimbursement methods, including "global payment" models. Reward providers for keeping patients healthier; pay for results and not simply service volume.
- Support, through incentives and other means, the creation of Accountable Care Organizations (ACOs) and other innovative programs to deliver care.
- Improve transparency and access to price and quality data from health care providers and health plans by utilizing Web sites and other communication vehicles that enable purchasers to be informed about the most cost-effective options.

9 : Criminal Justice

Ohio's Criminal Justice System is underperforming. It costs too much and the outcomes are inadequate. From a bottom line perspective, it is time to ask

a fundamental question: would public safety, prisoner rehabilitation, recidivism and correctional costs be improved if Ohio directed more nonviolent offenders away from adult prisons toward nonresidential, community-based monitoring and treatment? We believe the answer is yes. Specific recommendations include:

- Continue the commitment to remove violent offenders from society for extended periods of time.
- Direct most low-risk, truly nonviolent (and nonsexual) felony 4 and 5 offenders, who are amenable to treatment, to supervised release in nonresidential, community-based correctional options, including day reporting, electronic monitoring, work programs and education and treatment programs.
- Enact legislation to revise criminal sentencing provisions (including limited expansions of earned credit for prisoners) to better protect the public, improve offender outcomes and reduce taxpayer costs.
- Make smarter investments in the management of probation and parole, including greater use of evidence-based risk assessment instruments, GPS monitoring, and random drug testing.
- Analyze the cost-effectiveness of selling or leasing public prisons and other necessary assets.
- Provide better education, training, and treatment services for prisoners who have a high incidence of functional illiteracy, workforce skill deficits, and mental health/substance abuse problems.

- These reforms can allow for the closing of three state prisons over two years, reducing the high cost of incarceration (\$24,000 per prisoner per year) by 4,500.

10 : Local Government

Ohio's Local Government System is outdated and unsustainable. After years of frustration regarding a 19th-century local government model that has produced 3,700 political subdivisions in Ohio, all in the name of "local control," it is time to bring this system into the 21st century. Recommendations that will produce fewer governments, lower costs, and more value include:

- Push local government to implement Budgeting for Outcomes.
- Create and implement county-led Local Government Service Coordination and Collaboration Plans.
- Advance planning work through Local Government Transformation grants funded from a State Innovation Fund.
- Strategically redirect the state's Local Government Fund toward buying better results by earmarking 15 percent of the fund in FY 2012 and 20 percent of the fund in FY2013 for local government reform demonstration projects.
- Establish a new State & Local Government Transformation Authority to

provide policy and technical support to local governments.

- Reduce or cap costly real property tax roll-backs.

We offer these observations and recommendations with great respect for those who govern us and with the belief that, by working together, we can build a strong state economy. The crisis we face is real, but it offers the opportunity to take bold, measurable actions that will result in a sustainable more productive future.

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