



You Better Shop Around!

Council on efficient government would bring common-sense budgeting to state

Joe and Kathy Ray are trying to stretch the value of their dollars in these tight times. They have four kids in grade school, and saving for college sits at the top of their priority list. As two frugal parents, they routinely shop around for the best deal—clipping coupons, bidding on new and used products at eBay, using online services to do comparative shopping for car insurance, getting competitive bids from kitchen contractors in the Yellow Pages, or scouting out the most affordable family cell phone plan from the Sunday ads. Joe and Kathy take responsibility for their spending decisions. Their livelihood and their kids' futures depend on it.

Unfortunately, government tends to operate differently. For the most part, it routinely fails to perform one important budgeting task: regularly examining its activities and services to ensure they're provided in the most effective and cost-efficient way. After all, if families have to become smart shoppers when budgets get tight. Why shouldn't government?

In fact, government tends to sprawl by its very nature. As a monopoly service provider, it usually faces no competition. As a result, it faces few pressures to be efficient

or cost-effective. Once a service or activity goes in-house, institutional inertia makes it difficult to subject it to competition later. This has an enormous role in the failures of Illinois state government's spending decisions. These failures have led us to an \$11.5 billion budget deficit.

Illinois government can defeat this inertia. Our elected officials in Springfield have an extraordinary opportunity to change the course of our state's failing economy and save it from complete fiscal collapse. The solution? A strong government efficiency review body with the power to develop significant cost-saving performance and procurement guidelines.

Government efficiency councils have already seen success in Florida, and they're also considering this idea in Arizona, where a bill has been introduced (SB 1466) in the legislature to establish the strongest and most comprehensive government efficiency board in the nation.

Given Illinois's current \$11.5 billion budget deficit, Arizona's model could not have come at a more opportune time.

Representative Mike Connelly (R-48) ran with this idea and introduced a bill called the Illinois Efficient Government Act (HB4161). If enacted, Connelly's bill would transform the entire process of how state government provides and procures services—while at the same time saving millions (eventually billions) of taxpayers' dollars.

The Illinois Efficient Government Act would establish a Council on Efficient Government (CEG) to help Illinois “right-size” state government and drive institutional reform. CEG’s mission would be to promote transparent best business practices in government to foster competition, efficiency and innovation in service delivery to Illinois taxpayers.

The CEG would function as a center of excellence in state procurement and would:

- Review whether or not goods or services provided by state agencies could be privatized to provide the same (or higher) level of service delivery while achieving cost savings or better value for the money;
- Develop a standardized, enterprise-wide process for identifying and implementing outsourcing opportunities;
- Develop rules requiring performance-based contracting as a default requirement for state outsourcing initiatives;
- Require state agencies to develop a business case justifying any proposed outsourcing—covering everything from cost-benefit analysis to employee transition plans—prior to deciding whether or not to outsource;
- Disseminate lessons learned and best practices in competitive sourcing across state government;
- Conduct an annual or biannual inventory of all activities performed by state government, categorizing them as either inherently governmental (i.e., activities that should only be performed by government employees) or commercial (i.e., activities widely performed in the private sector) in nature;

- Require the Governor’s office, at least every two fiscal years, to subject three commercial activities undertaken by state agencies to strategic review;
- Create a uniform cost accounting model to facilitate “apples-to-apples” cost comparisons between public and private sector service provision (critical to ensure a level public-private playing field);
- Review and take action on complaints regarding inappropriate government competition with the private sector.

Illinois’s CEG would facilitate the regular, wholesale review of state government activities with an eye toward right-sizing government through competition and privatization. Former Indianapolis mayor and current Harvard professor Stephen Goldsmith has called this process the “Yellow Pages test,” meaning if a service can be found in the phone book, government ought to buy it rather than produce it in-house.

Rep. Connelly has recognized that successful privatization requires a high standard of due diligence in contracting. Hence the CEG would be responsible for establishing standardized, statewide rules for procuring and managing contracts. This would maximize transparency, accountability, performance and competition to deliver the best value for taxpayer. Connelly’s sights are clearly focused on cleaning up Illinois’ image as a cesspool of corruption and crony contracting.

In Arizona, it’s worth noting that the state Chamber of Commerce has made their version of the CEG bill one of their top legislative priorities in the 2009 session. In a recent editorial, the Arizona Chamber explained why:

With a \$1.6 billion deficit for fiscal year

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2009 and a \$2.2 to \$3 billion deficit for fiscal year 2010, the legislature will have to carefully evaluate which government programs should be scaled back, eliminated, or privatized. [...] Identifying areas where the private sector can perform government functions more efficiently and at a lower cost can be an important part of the budget solution. Additionally, minimizing government competition with businesses will aid in retaining private sector jobs.

Florida's experience with its own Council on Efficient Government demonstrates the power in this "procurement center of excellence" approach. Prior to the beginning of former Gov. Jeb Bush's term in 1999, Florida had a total of 16 outsourced projects reported by state agencies. Privatization was key plank in Bush's management agenda, and by the end of his term in 2007, state agencies had identified a stunning total of 551 projects being outsourced with a lifetime value of over \$8 billion. Notably, Bush created the CEG in 2004, which coincides with the tremendous ramp-up in state privatization.

The reason why Gov. Jeb Bush created the CEG makes the story even more compelling. Midway through his term, some of Bush's many privatization successes became overshadowed by the media spotlight on a few big-ticket outsourcing projects that experienced difficulties in implementation. Gov. Bush surmised the state was "not very good at procuring, and as a result we've had some challenges ... that have clouded a really good record as it relates to saving money for the state ... we have to get better at procuring and monitoring the procurements." To that end, Gov. Bush signed an executive order in March 2004 establishing the Center for Efficient Government, subsequently codified into statute as today's CEG.

Under Bush, Florida engaged in over 138

privatization/managed competition initiatives saving taxpayers over \$550 million in aggregate, and the CEG was a critical part of that. When many other states were raising taxes, Florida was lowering them. And since Bush's departure, the CEG is still humming along. Last year, it reviewed a total of 21 business cases valued at more than \$94 million, identifying more than \$29 million in potential savings to the state. The value that CEG is delivering for taxpayers is so evident that even Bill Cotterell, a Tallahassee Democrat editorialist and frequent critic of Bush's privatization initiatives, recently wrote, "For return on investment, no Agency can beat the Council on Efficient Government. Each of the council's four employees saved the taxpayers about \$7.25 million last year."

The lack of budget discipline in Illinois has made it financially weak and fiscally unsustainable, resulting in an estimated \$11.5 billion deficit. The Illinois Efficient Government Act would help the state regain its fiscal health, deliver higher quality services at a lower cost, and revive the state's economy.

Saving tens of millions of dollars per year is nothing to sneeze at these days, and Illinois's elected leaders should take a hard look at Rep. Connelly's Illinois Efficient Government Act (HB4161). Our state needs a fiscal makeover, and policy makers need the sharpest tools in the toolbox at their disposal. Establishing a Council on Efficient Government has saved Florida a bundle, and it could do the same for Illinois.

The rapidly declining fiscal situation in Illinois state government demands that policymakers take a deep look for opportunities to shop around. Just because government is tasked with providing Service X doesn't mean the public sector offers the cheapest means of delivering it – it often

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does not. If taxpayers would get a better deal by contracting with a nonprofit firm or private company, it should behoove policymakers to use similar opportunities before resorting to tax hikes or service cuts, which would only hurt families like Joe and Kathy Ray's. Joe and Kathy must shop around for the best deal in order for their family to survive. Illinois state government should do the same.

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