Innovators in Action

2009

Edited by Leonard C. Gilroy ✎ Reason Foundation

Sonny Perdue
Georgia Governor

Bob Carr
Former Premier,
New South Wales (Australia)

Angele Davis
Louisiana Commissioner
of Administration

Paul Pastorek
Louisiana State
Superintendent of Education

Gregory Ballard
Indianapolis Mayor

Gene Saffold
Chief Financial Officer,
City of Chicago

Oliver Porter
Former Chairman,
Sandy Springs (GA)
Charter Commission

Henry Garrigo
Former Director,
Florida Council
on Efficient Government

Eric Gillespie
CIO & Senior VP,
Onvia

Innovators in Action

Contents

Innovators in Action 2009

Editor's Note By Leonard C. Gilroy

The year 2009 will be remembered as a difficult year for policymakers at all levels of government who had to confront the harsh combination of a major global recession, record budget deficits, failed federal economic intervention, and turmoil in the financial markets. The convergence of these challenges has helped expose what government reinvention guru and author David Osborne has called a "perpetual fiscal crisis" in our public institutions.

And 2009 is just the beginning, as the recessionary effects are expected to linger for several years. The National Governor's Association and National Association of State Budget Officers are predicting a "lost fiscal decade" for state governments, and the fiscal outlook for other levels of government is similarly bleak.

When faced with such challenges, policymakers typically have one of two reactions. Unfortunately for taxpayers, the most common reaction is to resort to ill-advised strategies like tax and fee hikes, accounting gimmicks and higher debt to paper over the problem and avoid making needed reductions in government spending. These approaches inevitably hurt taxpayers, stifle economic development and are hardly justified, as the growth of government spending in recent years has far outpaced inflation, population and wages for ordinary Americans.

This expansion of government is unsustainable and must be undone. Yet even with the fiscal handwriting on the wall, many policymakers still seem more concerned with preserving agency largesse than trying to eliminate it.

Luckily, some policymakers recognize the problem and take seriously the need to reduce the size and cost of government while ensuring that core public services are delivered efficiently. They understand that the current fiscal path in our public institutions is unsustainable. They accept the reality that there's no way to avoid government downsizing and market-based reforms. And more importantly, they are willing to take aggressive steps and spend political capital to achieve them.

The innovators profiled in this edition of Reason Foundation's *Innovators in Action* offer unique examples of leadership through action on

privatization, competition, government re-invention and other market-based reforms designed to reduce the costs of government and deliver more value to taxpayers:

- Shortly after taking office, Georgia Governor **Sonny Perdue** created the Commission on a New Georgia, an advisory group of corporate executives partnering with the state to re-engineer its bureaucratic machinery into a 21st Century business model. Gov. Perdue's goal was "to transform Georgia to the best-managed state in America."

- Former New South Wales, Australia Premier **Bob Carr** was elected on a platform hostile to privately financed toll roads, but subsequently came to embrace—and even champion—them as a means of delivering infrastructure better, faster and cheaper than traditional government approaches.

- Louisiana Commissioner of Administration **Angele Davis** is playing a central implementation role in Gov. Bobby Jindal's wide-ranging efforts to streamline the state bureaucracy, which include a package of privatization, budget reforms and other smart fiscal management strategies.

- Under the leadership of State Superintendent of Education **Paul Pastorek**, Louisiana's burgeoning school choice movement is using transparency, standards and accountability to improve student achievement and turn around low-performing schools.

- Since taking office in January 2008, Indianapolis Mayor **Gregory Ballard** has advanced an array of competition and government reform initiatives designed to control costs, improve government performance, address core city needs and bring best business practices to government.

- Former Florida Council on Efficient Government Executive Director **Henry Garrigo** helped to create a national model for a state center of excellence in privatization to ensure sound decisionmaking on outsourcing proposals and maximize value for taxpayer money.

- Chicago's Chief Financial Officer **Gene Saffold** oversaw the Windy City's groundbreaking—though controversial—$1.15 billion lease of the city's downtown parking meter system in 2009. As with the toll road and parking garage leases that preceded it, Chicago's parking meter lease demonstrated to local officials across the country just how much you can achieve when you use privatization to unlock the inherent value currently trapped in government-owned assets.

- Former AT&T executive **Oliver Porter** led a citizen task force that created the template for the largely privatized government in Sandy Springs, Georgia, a model that has since been replicated in several recently incorporated cities nearby. According to Porter, "Imagine starting a new city of over 90,000 people with only two employees. We did it."

- Chief Information Officer **Eric Gillespie** and his colleagues at Onvia saw major gaps in the federal government's commitment and ability to deliver on stimulus spending transparency—and they stepped in to fill it by creating Recovery.org at a fraction of the cost it took the feds to create their own Recovery.gov.

Taxpayers owe these innovators a debt of gratitude, as do I. Reason Foundation's extensive work to research and assist policymakers in implementing market-based policies in government would not be possible if there were not bold innovators like these ready and willing to advance them in practice and demonstrate that *they work*.

For the future fiscal health of our governments and the economic health of our nation, we should all hope the examples and experiences offered by these innovators will inspire and guide reform-minded officials at all levels of government.

Leonard Gilroy is the Director of Government Reform at Reason Foundation. ■

The Public Enterprise System: Managing for Better Value in Government

By Georgia Governor Sonny Perdue

As I traveled the state as a new governor, I would make a point to swing by the local drivers' license office to see how long the lines were running. The license bureau is one of the few state offices just about every Georgian over 16 had to visit every few years, dreading the day.

In this little finger of a massive state bureaucracy was embodied much of what drives citizens crazy about dealing with their government—processing that drags on for hours through waiting lines, form shuffling, and public service employees who forgot their middle name. The message to citizens: "that's just the way government does things"… because it can.

I was advised that the licensing process could be "fixed" with a $20 million system. Six years later, there is no $20 million fix, but statewide, the average time in line for a license renewal is now about six minutes. Or you can skip getting in line by going online. The license process went from embarrassment to the perfect example of how state government can be "faster, friendlier, easier" for Georgians.

What happened at license bureaus is one small victory for taxpayers in the "quiet revolution" that has been taking hold in Georgia state government on a day-by-day, office-by-office

basis, for more than six years. The transformation has moved across a succession of diverse state functions and services large and small, systematically and sensibly changing the way we do business.

The operative word is "business"—which some would say is the opposite of "bureaucracy." The reality is that government will always be organized in bureaus, which is not mutually exclusive with being a business-like operation. The concept that pulls the organization and operations together is the "enterprise" and how its resources are strategically managed
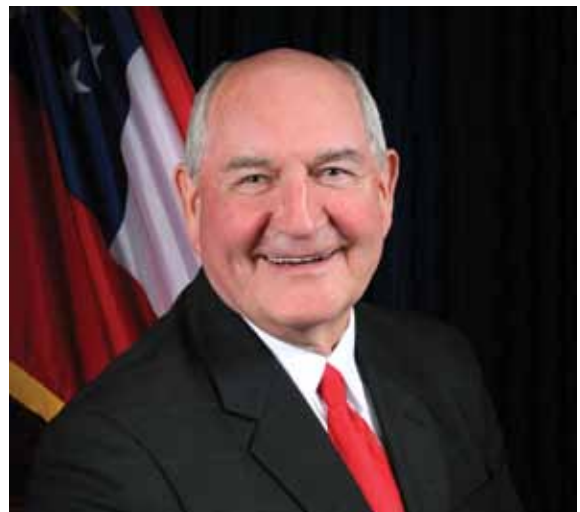
to give maximum value for the tax dollar. In the best possible world, a public enterprise is driven by the value motive: the optimum nexus of quality and cost in things that matter to the taxpayer. Applied to the business of government, value is counted in many ways—from saving millions of dollars in the cost of government goods and services through strategic purchasing, to slashing turnaround times for state processes.

Bureaucracies, built to run on a stable funding source with a monopoly on services, have little motive to surpass the status quo in improving value. Their shops don't go out of business if they under-perform. Successful businesses, however, survive and thrive in a culture of innovation and improvement to increase the value of return for their investors.

That's the genius we tapped in the Commission for a New Georgia (CNG).

The Commission for a New Georgia: Business Meets Bureaucracy

After running a small business and serving 11 years in the state Senate, I brought the eyes of experience to observing business-as-usual in the state's multi-billion dollar enterprise. Every year, I saw millions of tax dollars streaming into operations, services, assets and programs in more than 80 separate agencies, plus a score of authorities, with implicit budget autonomy. I saw allocations decided by power politics, personal affinity, and leaps of faith—hardly ever by data and analysis that spoke to business hardheads like me. In practice, bureaucracy ran itself and we paid the bills.

As a new governor, surveying the vast totality of the government enterprise, I found that what I had long suspected was true: Not even the governor could get a simple accounting of how many cars or buildings the state owned, or timely spending spreadsheets, or basic performance data to make sound decisions about deploying resources. The state's business ledger was a puzzle wrapped in a maze defended by

100 silos. Any CEO knows you can't manage what you can't measure.

Government's monopoly on state services nurtured red-tape routines, where customers often felt like widgets on an assembly line.

This mega-billion-dollar conglomerate unquestionably held untold potential for cost savings and unrealized opportunities for improved service. The question was how to get at it. Change rarely happens as an inside job. Breaking through administrative layers to core issues would take the right wedge, a driving force of fresh eyes and ideas focused on key functional areas from a corporate operations perspective. The best possible answer was obvious:

What if top executives from high-performing corporations evaluated state government operations as they would their own business… what would they change and how would they do it?

Shortly after I took office, I put that question to a delegation of highly respected corporate executives, considered statesmen of private enterprise in Georgia. I challenged these business leaders to engage Georgia's robust private sector as a working partner in re-engineering Georgia's bureaucratic machinery into a 21st Century business model.

They were being asked to do more than help state agencies work through a task list of tactical problems. Their charge was to initiate a management turnaround: converting bureaucracy-as-usual to business principles and best practices across the board in government. Our overarching mission encompassed streamlining operations with lean processes and new technologies, putting the enterprise on a sound, data-driven business basis, and building a culture of performance and public service, where continuous improvement is systematic and sustainable. In short, to transform Georgia to the best-managed state in America, giving the best value citizens can get anywhere in the public sector.

These busy leaders agreed to take it on, with one condition: that their work would translate to results, not into reports. I held myself account-

able for making good on that guarantee.

In 2003, we could only count on a four-year term to cut through decades of administrative undergrowth, so the Commission's strategy was aggressive and action-oriented.

After six years, the nucleus of the brain-trust I call my "real-world consultants" are still on board for a second term. During that time, the Commission has marshaled two dozen business-led task forces which have engaged nearly 400 knowledgeable citizens and world-class consultants to help their state achieve better government. These expert teams analyzed 24 areas of operation across the enterprise and recommended 130 results-based actions to improve performance.

CNG's work has been the catalyst for innovation, modernization, best practices, and professional standards in a broad array of operations across the state government. These corporate citizens waived consultant fees and contracts—none billed the state for their time. Even the Commission's three-person operations staff was loaned from public and private organizations, and office expenses have been supported by unspent private contributions to the gubernatorial transition.

By the close of my first term, Georgia's government performance score had jumped from "average" on a national rating scale to the top five best-managed states. Organizations such as the Pew Center on the States, *Governing* magazine and, of course, Reason Foundation are spotlighting the Commission's success.

Like a Business, But Not Exactly...

The idea behind the Commission has never been about "running government like a business." It is about applying business-like perspectives, principles, and practices in the arena of government management. I saw synergy in a hybrid system, where bureaucracy embraced the innovations and incentives that spur results in private enterprise, albeit for a different motive.

Together, our public-private partnership

began a quiet revolution to transform the mechanics, the mindset and the management of government.

Over the decades, Georgia has had a succession of "reform commissions" which turned out scads of reports but scant results. We had to show that the CNG was not your grandfather's commission. The design of a new enterprise-wide business model, the infusion of private-sector thinking, and a strategy of intentional implementation were innovations that would prove critical to success.

At the outset of my administration, I made the opening move to position the organization for an agenda of new business. I changed the dynamics at the top of the executive branch from political to managerial leadership. It was a corporate-style organizational chart, which created the state's first chief operating and chief financial officers. To fill these pivotal roles, I recruited two seasoned, successful business executives who understand how the distinct roles of divisions work together for the success of the enterprise. The COO and CFO have been fundamental to instituting enterprise-wide change. And their close working relationship with the Commission has kept innovation initiatives firmly ensconced on the agenda for the administration and our agency heads.

How and Why the Commission Worked

To ensure independence, the Commission established itself as a corporation—privately funded and free of office politics. True to its name, the "New Georgia" group broke from old patterns of past councils. CNG designed a nimble, multi-pronged and ongoing plan of work to keep change churning and spur rapid process improvement. CNG members believed it was critical to produce results at the speed of business, not in "government years." Their findings and recommendations were posted on a public website: newgeorgia.org.

CNG ran a rolling agenda of tasks targeted to

key government operations. The task forces were lean, expert, and focused. They performed the forensics on current and recommended specific improvements, ranging from updating practices and technologies to total modernization of business systems. When the work of each task force was done, in about 100 days, members closed their briefcases and went back to their own businesses. One of my most rewarding experiences as Governor has been to watch these "civilians" sign up for a tour of duty inside government.

The task forces first targeted visibly problematic areas of asset management and administrative operations. Early wins demonstrated the resolve to change business-as-usual. However, fixing individual problems is only half the job. If the system is broken, it will be a continuing source of poorly executed operations, which ripple through the quality of state services. We handed the Commission the keys to the silo system, to see what was broken.

Storming the "Silos"

Don't misunderstand: bureaucracy is on "our side." Its offices serve the indispensable role of the keepers of continuity in government operations as administrations come and go. But over time it burrows deep into departmental bunkers and builds firewalls between agencies. These silos harbor a myopic view of organizational roles, unhealthy competition for appropriations, and suspicion about sharing ideas, people, and resources. Their inhabitants too often lose sight of the notion that collectively, "we, the government" are here to serve the same state and citizens. The culture increasingly gets in the way of good performance and good people.

The Commission's work created the leverage to pry open functional areas, exposing those programs where business as usual is simply not good enough. Findings revealed widespread data deficiencies and apparent unawareness of industry-standard operating procedures.

A series of task forces confirmed that government had no comprehensive inventories of the state's valuables—including thousands of buildings and properties and fleets of vehicles and aircraft. State entities were managing over 1,400 individual bank accounts, resulting in lost investment earnings, increased bank fees, and higher risk for error and fraud. Seriously delinquent taxes and undisbursed federal funds approached $6 billion in uncollected revenue. The state had not produced a timely Consolidated Annual Financial Report in 15 years. State offices were bogged in business processes and technologies left behind by the private sector years ago. Billions of dollars in state-contracted purchases and services were being hand-processed, working out of file folders and fax machines, with no enterprise-wide database on what was spent or bought. Hardworking staff struggled with poorly designed processes, taking the brunt of customer frustration over inept service.

That is a micro snapshot within the macro picture of the state's operational infrastructure.

By 2004, with a mountain of task force recommendations now in front of us, our administrative team was facing the slippery slope between initiatives and implementation. This is where past commissions met their downfall.

Closing the Deal: Implementation

Business-as-usual doesn't just go away in an entrenched bureaucracy of scores of agencies with 100,000 employees. External forces of change, like the CNG, can press only so far through the layers of administration surrounding problems. That explains why many astute and actionable recommendations made by past commissions never reached their target.

In 2004, I established the Office of Implementation, with the dedicated mission of systematically transferring CNG innovations into state operations. It has mobilized cross-agency teams in generating synergistic, statewide solutions to widespread issues. The anticipated pushback from inside government didn't happen. Energized by opportunities to excel, a corps of agency leaders and line staff emerged as champions of

change. Many said they had been waiting years for their voices to be heard. They are the heroes "on the ground" in the quiet revolution.

The implementation track record is unprecedented among Georgia commissions: Of the 130 CNG recommendations that went forward, over 80 percent have been instituted and are reshaping the business systems of state government. The rest are in the pipeline on schedule to be completed before the end of my final term in January 2011.

How Is It Working Out for Georgia?

Midway through my second term, Georgia is changing the dynamics and the dialogue about how government works. A fundamental change in direction has been moving business processes out of silos and into enterprise-wide management systems. This has provided the data for strategic decision-making and the transparency for a high-degree of accountability.

But transformation gives the most value when it changes the everyday lives of people for the better, often in ways they care about more than the "headline" issues focused on by the media.

One of the CNG's most innovative initiatives is the Office of Customer Service (OCS) launched in 2005—the first in the nation for a state government. The program combines process improvement, employee training, and public recognition to instill service standards that meet the "faster-friendlier-easier" test in customer-facing agencies. Employee-led agency teams are achieving dramatically better performance results with the same, or even reduced, staff and budget. We're measuring shorter lines, better call-handling, and faster turnaround at offices across the state.

That means a child support order which used to take three months to process can now be ready in 24 hours. Taxpayers can expect answers to their state filing questions within three days, not eight weeks. Medicaid's once-routine 45-day processing period has been reduced to same-day service for more than half of the applicants.

In 2008, the OCS launched a statewide customer call center—1-800-Georgia—where phones are answered by operators, not recordings. An encyclopedia of more than 2,000 services puts at the operators' fingertips answers to common questions and information to direct callers to the right office on the first connection.

CNG recommendations have resulted in long-overdue "firsts" which have enabled the state to institute best business practices on an enterprise basis. Some examples:

Georgia's first State Accountant upgraded financial controls to industry standards and practices. For the first time in 15 years, the state met the deadline for the federally required Consolidated Annual Financial Report.

Georgia's first State Property Officer consolidated overlapping real estate responsibilities of four agencies and organized the state's vast property holdings into a management portfolio. As a result, surplus properties were sold, leases re-negotiated at lower rates, and uniform construction guidelines adopted. The first comprehensive inventory of government land and facilities has been catalogued on a web-based GIS inventory open to public view (www.realpropertiesgeorgia.org).

State government's information technology infrastructure has been consolidated and privatized IT functions within the Georgia Technology Authority, managing a consortium of private-sector providers to keep the state's infrastructure updated, with appropriate levels of security and disaster recovery.

This year we launched the Transparency in Government website (open.georgia.gov), a searchable database that gives Georgians unprecedented access to agency expenditures on professional services, employee salaries and travel, state financial reports and program reviews from the two previous fiscal years.

The state procurement division, which contracts over $5.7 billion in purchases a year, has completed a total transformation to strategic sourcing; the first wave of new contracts on major spending categories came in $101 million below previous pricing.

To date, CNG initiatives have been credited for cost efficiencies and revenue returns totaling over $200 million—not counting collections of overdue accounts. Examples: the fleet of state vehicles was downsized by almost 10 percent; aviation services were consolidated from five agency-operated fleets to a single authority that covers all missions with fewer planes and pilots. The state has recovered more than $200 million in seriously delinquent taxes and uncollected revenues from federal allocations. In state health programs, tougher verification of eligibility and other program changes have reduced spending from double-digit annual percentage growth to well below 10 percent, saving the state literally billions of dollars.

Institutionalizing Transformation

Rolling the credits on the long list of transformative achievements initiated by the Commission, the striking realization is that state government is a different organization today than it was six years ago. Focusing on the customers' needs has challenged employees to get creative in re-thinking processes that not only better serve their clients, but make the day-to-day work more satisfying. A recent survey showed 75 percent of state employees say they are satisfied with their jobs, up from 68 percent just two years ago, even with budget cuts and furloughs.

There is a renewed respect for "the people's government"—the right of citizens to expect their tax dollars will serve the highest and best use and where government is transparently accountable for that stewardship.

Agencies never get used to having less money to work with than the year before, but this recession has been marked by a "can do" spirit. Leaders now know their organizations and can make value-based decisions on what priorities must be protected and where operations can be reduced without dire impact on quality. Timely data is supporting tough calls about where to deploy scarce resources.

My administration will be book-ended by the two worst economic crises since the Great Depression—the post-Sept. 11 recession and the global financial implosion. Governors don't control world events or Wall Street. We do, however, manage the governments of the states we serve. As Georgia's CEO, that puts in my hands the levers of hundreds of essential functions and services, which cost billions of tax dollars and impact the lives of nine and a half million Georgians every day. That's a powerful tool for maximizing value in government. I promised Georgians six years ago I would use it, wisely and tenaciously, to make their state work better.

The Commission will remain active until the close of my administration. The members have served well in their mission and exerted their energy, expertise and enthusiasm to galvanize momentum for change. Our plan was not a blitz, but a foundational building process which would embed an enduring culture of stewardship and service. We will never exhaust the need for continuous improvement, measuring results and holding ourselves accountable. My expectation is that those principles will continue long after this administration has left the Capitol.

Sonny Perdue has served as the Governor of Georgia since 2003. Prior to his tenure as governor, he spent 11 years as a Georgia state senator. He graduated from the University of Georgia, where he quarterbacked the Bulldogs and earned a doctorate of veterinary medicine. He served in the Air Force after college, rising to captain and gaining hands-on experience in operations and leadership in a government organization. After a brief career as a practicing vet, he went on to own and operate successful agribusinesses with locations across the Southeast.

His tenure in office has been highlighted by successes in raising high school graduation rates and SAT scores, bringing business and jobs to Georgia, and re-engineering the workings of government to deliver better value for citizens. Under his leadership, Georgia's government performance rating has moved from "average" to the top five state scores.

Good Roads Sooner: Public-Private Partnerships in New South Wales

By Bob Carr, former Premier, New South Wales, Australia

Between 1990 and 2005, Sydney built for itself a ring road system—you'd call it a beltway—that would be the envy of most American cities. It did so with political argument and contention, and at least one negative newspaper campaign. But no-one would imagine the city today without this road system. The city would not function.

A business traveler from Sydney's northern suburbs can now reach the airport without a single set of traffic lights. Ten years ago the journey would have been a frustrating stop-start, high-polluting trip taking quadruple the time it now takes. A motorist can now drive all the way from northern Sydney to Canberra, even the Victorian border, without a single set of traffic lights (comparable to the journey from Washington, DC to Cleveland, Ohio).

A report by Ernst and Young in 2008 concluded that the eight Sydney toll roads had increased Gross State Product by AUD$22.7 billion. It said this road system offered advantages to the state economy equivalent to that of Sydney's big container terminal. A study by Sinclair Knight Mertz in 2006 found that Sydney's toll roads gave a cumulative travel time saving of 38 million hours per annum, 15 fewer fatal accidents each year, and greenhouse gas emission reductions of 17 percent due to smoother traffic flows.

But here's the remarkable feature: the six major motorway projects opened in Sydney since 1995—that is, under my government—represented a total capital value of AUD$5.4 billion in new infrastructure. Of that grand total, AUD$4.6 billion came from the private sector. The capital cost to government was only AUD$800 million.

In other words, by far the bulk of capital

was mobilised from private sources. The ring road system is a working example of how public bodies can leverage PPPs to achieve important mobility and capital investment goals

I know the arguments from the inside. After seven years leading the Labor Party in Opposition, I was elected Premier of NSW in 1995 by a one seat margin in a state assembly of 99. I was elected on a promise, among others, of lifting the tolls on two private roads built by the previous conservative government: the M4 and M5 linking the city to the western suburbs. It was not the decisive issue in the election campaign but it was, as election promises go, a reasonably prominent one.

Within months of taking office, my government was in negotiations with the owners of the toll roads. We aimed to remove the toll gates and pay the consortia shadow tolls from the state budget based on vehicular traffic numbers. To our surprise—to everybody's—we found that the consortia would need to be compensated for an additional amount equal to the tax advantage that accrued to them from their tollway investment. This would have doubled the cost of keeping our promise.

The outcome was not happy. It involved a doleful concession by me as the new Premier that we couldn't honour this commitment, couldn't keep the promise. There was a backlash that went far wider than the communities affected by the toll. The issue became a "character issue." Our honeymoon poll ratings took an instant dive. There was speculation about whether we could be re-elected when our four-year term was complete.

The backlash was worsened by the fact that we then announced a decision to build an additional tollway from the centre of Sydney to the airport, a project needed in any case but particularly needed for the 2000 Olympics. An idea first floated in the 1950s, the Eastern Distributor was an engineering challenge requiring the widest tunnel in the world, three lanes each way. Bypassing 19 sets of traffic lights and fitted

with the latest electronic tolling, it now provides a 15 to 20 minute journey from the airport to the CBD outside rush hour. "We'll pay the toll," a neighbour had told me, "just get on and build it."

Our political embarrassment over tolls was resolved in 1997 when we introduced a direct subsidy to owners of private motor vehicles who used the M4 and M5. They were compensated on a quarterly basis for the tolls they had paid. We called the scheme "cashback." This reduced the political temperature of the issue, and in the 1999 state election I apologized to the state's voters and said we'd learnt from our mistake in making too rash an election promise and would not do it again. We were re-elected in a landslide. We went on to build the Cross City Tunnel, the M7 Westlink and the Lane Cove Tunnel, linking the M2 from Sydney's north-western suburbs to its major northern freeway. All as private tollways.

Australians will pay tolls to get a road now rather than face a decade or more stuck in traffic.

The first toll to be lifted will be that on the M4. The concession expires next year. Motorists from Sydney's west therefore will no longer have to pay what is currently a $2.75 toll. One lobby group has urged the government to maintain the toll to fund other road improvements such as the construction of the M4 extension (the missing link in Sydney's ring-road system and a road long overdue). This would be consistent with the government's introduction of a congestion charge—the first in the state's history—on the Sydney Harbour Bridge and Harbour Tunnel at the start of the year. What to do at the end of the 20-year concession is altogether a political decision. Especially for a government facing a tough election, as this one does in March 2011.

The Sydney PPP model was adopted in Australia's next two largest cities: Melbourne, the capital of Victoria (population 3.8 million), and

Brisbane, the capital of Queensland (1.8 million). Two Brisbane projects, one a motorway connecting the central business district and airport, the other an inner city bypass for long-range commuter traffic, total 12 kilometres and have been estimated to slash traffic volume on surrounding radial roads by some 40 percent.

It's up to governments to make decisions about how "pure" a roads PPP they want. The one contentious Sydney private toll road was the Cross City Tunnel. This is a 2.1 kilometre tunnel (a short stretch of road) running east to west under downtown Sydney. It bypasses 16 sets of traffic lights westbound and 18 eastbound, carving 20 minutes off travel time, which is an astonishing saving on a journey of only 2.1 kilometres. It presented an opportunity to revive William Street, the traditional entrance to Sydney from its eastern suburbs.

But it would never have been built by the public sector. There were other priorities. My government decided to make it a pure private sector project—no subsidies to reduce the toll, even an up-front payment of AUD$100 million from the winning consortia to government and no subsidies for ancillary road works. In other words, no contribution from the public purse, and, at AUD$3.56, a relatively high toll for a short journey, but a huge environmental and mobility gain: the removal of tens of thousands of vehicle journeys each day from the grid-like street pattern of downtown Sydney as cars were streamed underneath the city.

Some of the very journalists who had written glowing stories about the project when it was unveiled turned viciously on it when it was opened, as it happened a month after I had retired as Premier. The street re-alignments that the state government had adopted at the insistence of the Sydney City Council were branded attempts to "funnel" traffic into the tunnel. The toll was denounced by relatively affluent commuters from a section of Sydney who had never faced a toll before.

Public relations were worsened because the road works that were beautifying William Street were uncompleted and at their messiest in the weeks the tunnel opened. Moreover traffic only checked-in at 30,000 rather than 90,000 vehicles a day. And my inexperienced successor

was understandably overwhelmed by his first taste of a Sydney media panic. The government appeared to wobble rather than stand firm in defence of a superb piece of infrastructure delivered at no cost to taxpayers.

The government could have explained that in line with the principle of PPPs every element of risk would fall on the private sector. In other words, when daily usage of the tunnel was below projections no subsidy was paid to the private consortium which owned the project. They built the project as a private toll road, they bore all the risk. This risk transfer is one of the great advantages of the PPP model.

Today no Sydney motorist would imagine Sydney without this tunnel. The infrastructure investment was worth AUD$680 million dollars and was achieved without a cent from the public sector. The tunnel has not made a profit and has changed ownership but that has had no implications for taxpayers. The tunnel cannot be airlifted and packed off somewhere else. It works for Sydney.

Three months later Sydney got another privately-funded toll road, the Westlink M7. It was readily accepted. It represented inarguable value for money. The road links Sydney's south western and north western suburbs—42 kilometres at a construction cost of AUD$1.5 billion, all borne by the private sector. Completed in 30 months, and opened eight months ahead of schedule, it is the final piece of Sydney's high quality ring road system. It features high-speed tolling, calculated by the distance, the toll being AUD$6.07 for the full distance. For travellers in Sydney's far west, it meant 48 sets of traffic lights avoided, and travel time savings of more than an hour, incredible as it sounds.

The government had said to the community, "You can wait another 15 years for this road and get it for free. Or you can have it in three years with a toll, although one that varies with distance." From the start the project was supported by both sides of politics, by every layer of government and by the Western Sydney Cham-

ber of Commerce.

In going for the PPP option a government has various policy tools such as

- The length of the concession. For example, that for the Cross City Tunnel runs from 2005 to 2037.

- The adjustment mechanism for tolls. For the Cross City Tunnel the toll will increase by 4 percent per annum up to 2012 or CPI whichever is greater and from 2012 to 2018 by 3 percent per annum or CPI whichever is greater and thereafter by CPI until the concession period ends.

In NSW there has not been a marked tradition of government toll roads. Our experience is all with greenfield projects rather than the privatisation of state-owned tolls.

The overwhelming lesson of the Australian experience is that motorists will accept a value for money argument. In short they will pay tolls to get a road now rather than face a decade or more stuck in traffic.

Ask whether tolls are popular and the answer will be no. Ask whether anyone could imagine Sydney without a privately provided, pay-as-you-go ring road system and the answer would be, not on your life. It is a model that provides an option for U.S. cities struggling with both infrastructure demand and budget pressures.

Between 1995 and his retirement in 2005 Bob Carr was the Labor Premier of New South Wales, Australia's most populous state. As well as pioneering public-private partnerships in roads, schools and hospitals his government overhauled the literacy performance of the state's school system and introduced a curriculum based on traditional disciplines and academic rigor. In 2003 the government launched the world's first carbon-trading scheme and comprehensively reformed the tort law system, as well as delivering the 2000 Sydney Olympics. The former Premier now advises Macquarie Bank and undertakes other business activities.

Streamlining Louisiana: Driving Government Reform in an Era of Fiscal Crisis

Interview with Angele Davis, Louisiana Commissioner of Administration

Louisiana, like most states, is currently in the midst of a fiscal crisis that challenges public officials to seek new and innovative ways to do more with fewer taxpayer dollars. Pelican State policymakers—led by Governor Bobby Jindal—have responded to the challenge by embarking on a wide-ranging set of government reforms designed to reduce the size and cost of government and right the fiscal ship.

As Governor Jindal's budget chief and head of the Division of Administration—the state's general services agency—Louisiana Commissioner of Administration Angele Davis is playing a central role in the current efforts to streamline the state bureaucracy. Clearly this work is already paying off, as the ratings agency Fitch upgraded Louisiana's bond rating in October 2009, specifically citing the state's focus on spending control and government streamlining as influencing factors. This alone will save taxpayers millions in avoided interest costs over time.

Reason Foundation's Director of Government Reform Leonard Gilroy interviewed Commissioner Davis in October 2009 on Louisiana's streamlining efforts and the internal reforms undertaken within the Division.

Leonard Gilroy, Reason Foundation: Nearly every state, and many local governments,

are facing a protracted fiscal crisis. What is Louisiana facing on the fiscal front? What's driving the push toward streamlining government in the state?

Angele Davis, Louisiana Commissioner of Administration: Like most other states, we're facing budget deficits projected over the next several years, including a $948.7 million shortfall for FY 2010–11 alone. Given these challenges, we're aggressively putting fiscal reforms in place. Primarily we're focused on reducing the cost

and size of government by evaluating program effectiveness and getting rid of those that don't measure up through elimination, consolidation, privatization or the strategic use of technology. We're expanding our use of performance measurement to drive accountability and to see what works and what needs improvement. We don't have enough money to get the outcomes we want for citizens if we spend it in the same ways we spent it last year and the year before.

Gilroy: What's been the impact of the stimulus, and how has it influenced the budgeting process?

Davis: In FY 2009–10, Louisiana was faced with a $1.3 billion shortfall compared to the prior fiscal year. Instead of using the entire amount of federal stimulus available, we funded programs that would not strap the state with more financial commitments in the future, and we strategically spread the use of the stimulus over a two-year period. We directed agencies to avoid using this one-time stimulus money as though it was a permanent source of revenue by starting new programs or hiring additional permanent employees. We also required agencies to track all stimulus funds through our accountability Web portal, LaTrac. To prepare responsibly for future years, we used stimulus funds to transition us into a smaller and more sustainable, right-sized government while still supporting health care, education, workforce development and public safety.

Gilroy: What was the outcome of the legislative session, in terms of offering more flexibility and tools to address the looming budget deficits?

Davis: The legislature passed SB 2 that ended the two-year limit on dedicated fund reductions. Now the state can find savings in dedicated funding in back-to-back years during multiyear budget shortfalls. The legislature also passed SB 267, which mandates yearly reporting and biennial reviews of statutorily created funds. This makes state spending more transparent by showing the performance of statutorily dedicated

activities similar to what we require for agency budgets supported by the general fund.

We also created the Commission on Streamlining Government (CSG) to examine each agency's constitutional and legal duties to gain efficiency and lower costs by reducing the size of state government. This commission is charged with making real reforms to reduce the size of government by finding and getting rid of duplicative services and low-performing programs.

We're also working on long-overdue reforms to the civil service through HCR 6. Our state government employment system needs to be more efficient and effective, so this legislation ties pay, merit raises and promotions to an employee's performance at work, rather than just the amount of time on the job.

Gilroy: What role will the new Commission on Streamlining Government play in addressing the state's looming fiscal crisis? And how does the CSG's work dovetail with the streamlining work you're undertaking in the Division of Administration?

Davis: The CSG will examine each agency's constitutional and statutory activities, funding, programs, services, powers, duties and responsibilities to determine what we can eliminate, streamline, consolidate, privatize or outsource to shrink state government. It's formed several advisory groups to focus on areas where we expect to get the most bang for the buck: efficiency and benchmarking, outsourcing and privatization, information technology integration, elimination of duplicative and non-essential services, and civil service and employee benefits. The commission has been working hard for months to research and prepare our recommendations, and we will be releasing our final report in December 2009.

By statute, I serve as a member of the CSG, so this gives us an opportunity to advance some of the reforms and showcase innovations that are underway at the division. And the diverse makeup of the commission provides us with direct access to the expertise, knowledge and influence of lawmakers, business executives and

public policy think tanks, adding tremendous value to the streamlining efforts we are pursuing. The CSG is really bringing attention to the tough fiscal decisions that will be necessary to address the shortfall for the next fiscal year.

Gilroy: Can you describe some of the internal cost-cutting and efficiency strategies you're pursuing in the division?

Davis: In terms of the division's streamlining work in progress, our major efforts to streamline government involve systematically reducing the size of the state government's workforce while protecting critical services. And we're achieving this in a variety of different ways.

Based on figures between December 31, 2007, and October 2, 2009, the number of executive branch fulltime employees has fallen by 1,703.

But we need to do more to make our state government live within its means. Through budgetary actions in FY 09 and FY 10, in total there have been 3,325 fulltime appropriated positions reduced in the executive branch since the beginning of the Jindal administration less than two years ago, bringing with it an estimated savings of more than $216 million.

We have also made a preliminary recommendation to eliminate the frozen vacant positions associated with our current—and third—hiring freeze, for another 795 positions eliminated along with additional savings of $52.5 million. If this recommendation is implemented during the next legislative session, it will mean a total of 4,120 fulltime government positions cut since January of 2008, and a total savings of more than $268 million.

We're also looking at how to improve our budget decisions. We need to first fund what's most critical to our state, and that can only be determined through outcome-based budgeting. We know that we need to change the way we've always done business, so our reforms shift the budget's focus away from adding or subtracting from previous budgets and reevaluating what outcomes matter most to our citizens. We're using outcome-based budgeting to address pro-

jected budget shortfalls of close to $1 billion for FY 11 and close to $2 billion for FY 12, all while achieving better results.

As you know, we're also in a privatization partnership with Reason Foundation to assist the DOA in a department-wide review of its activities and functions to find potential outsourcing and privatization opportunities where they make sense. We've also established an internal Efficiency Council that meets regularly to develop and carry out cost-saving ideas. The council's initial work plan includes:

- evaluating the DOA to explore opportunities for privatizing or outsourcing for better service at a better price;
- creating a statewide program for competitive sourcing that includes improved performance-based contracting in all state procurements;
- conducting a statewide inventory (beginning with the DOA functions and activities) to sort commercial activities from inherently government activities;
- assessing the contracting and purchasing processes and recommending improvements to create a national model for efficiency and flexibility;
- designing and implementing a new, lean business model in conjunction with our new enterprise resource planning initiative, LaGov.

The DOA has already outsourced mail services presorting and bar-coding services, auctioneer services for the live public auction to sell surplus property, and vehicle fuel, maintenance and service repairs. We have a just-in-time delivery contract with Staples for office supplies, reducing the need for warehousing. Our Office of Risk Management annually outsources approximately $18 million of its operations (approximately 42 percent of its operating cost), and it recently issued a request for proposals for the potential additional outsourcing of its claims administration and loss-prevention services. Also, we may outsource the Louisiana Payment Gateway

(LPGW)—an electronic payments system for state entities—for a potential cost savings of $660,476 per year.

We are also inventorying and analyzing all state buildings and lands to find underused property to return to commerce by public bid. We expect to complete this review in 2010.

We're also working to downsize our vehicle fleet by placing a moratorium on the acquisition of new vehicles (with limited exceptions for critical needs) and increasing our use of rental cars from private vendors. We're also reviewing policies to reduce the number of vehicles approved for home storage.

Technology is another area we're focused on. Our new enterprise resource planning project, LaGov, will replace the state's current financial system. The LaGov project aims to increase government efficiency by replacing more than 40 financial and administrative systems and by redesigning more than 125 business processes statewide, and, according to a cost-benefit analysis, is estimated to bring $286 million in total savings from avoided system costs and process-improvement benefits within 10 years of "going live" statewide. As part of that savings, it is estimated that $38.6 million, or 13.5 percent, would come from employee-reduction costs associated with improved technology.

On another front, and a separate initiative, we are looking at a consolidation of the state's information technology infrastructure. Currently the state spends more than $500 million a year on IT services, with duplicative functions that are not efficient. We intend to move forward on a plan to consolidate IT infrastructure and increase shared services—and as a result estimate

that we will save the state about $100 million over a three-year period.

We've also done some internal reorganization. We eliminated the Office of Electronic Services and absorbed remaining critical functions into the Chief Information Officer's section. This reduced two positions and saved us $761,000. We saved another $290,000 by consolidating the work of the State Grant Management Office into the state's Community Development Block Grant Program, which is funded from federal dollars. We also merged five state agencies (Louisiana Property Assistance Agency, Louisiana Federal Property Assistance Agency, State Mail, State Forms, and State Printing) into a new Office of General Services. This flattened the management structure—eliminating many middle-management and clerical positions—reducing the amount spent on salaries each year. Several of these functions are currently being reviewed to determine if they're appropriate candidates for outsourcing.

Businesses save money by buying in bulk, and Louisiana could save money by doing the same. Depending on the commodities, we could save hundreds of thousands in the short term and tens of millions long term. Right now we're identifying commonly used goods and services (including information technology hardware and software) and strategic methods and opportunities for bulk buying to reduce the overall cost to state government.

We're also evaluating current cash-management practices and analyzing the outstanding collections and accounts receivable owed to state agencies to improve collection. In addition, we're also exploring legislation to allow maximum

offset of amounts owed the state against possible state income tax refunds, as well as screening applications for driver's licenses, motor vehicle registrations, fishing and hunting licenses, professional licenses, etc. to withhold them from anyone with outstanding debts to the state.

These are some of the strategies we're using to save taxpayer dollars and make ourselves more efficient at the division, and we hope to serve as a model for other agencies in terms of how they approach their streamlining initiatives.

Gilroy: What role do you see for privatization in helping solve the fiscal challenges?

Davis: Much of our focus has been on results and outcomes. Privatization and competitive contracting can provide great tools to improving the results and reducing the cost of government. When the private sector can perform functions and services more effectively and at a lower cost than the public sector, then the ability to privatize or outsource those functions can play a significant role in reducing the shortfalls. We are aggressively pursuing these opportunities and will report on the results in the future.

Gilroy: When viewed in the aggregate, it's clear that Louisiana has one of the most—if not the most—comprehensive and aggressive packages of fiscal reforms in the country. What advice could you offer for policymakers in other states on how to start and manage the reform process?

Davis: In light of the fiscal challenges that many of my colleagues are facing in other states, many of them are seeking ways to cut spending and budgets. My advice is to shift the discussion from "cutting" to "producing the outcomes that matter most to citizens and investing in those strategies that best achieve the results" and let all kinds of organizations, public and private, compete to deliver programs. And, learn from those that have gone before us. Reason Foundation is a great resource, and I'd also encourage them to pick up a copy of *The Price of Government* by David Osborne and Peter Hutchinson and *The Reinventor's Fieldbook* by David Osborne and Peter Plastrik.

Gilroy: Can you offer some lessons learned thus far in trying to foster internal change?

Davis: In terms of the efficiency council's agenda and the improved budget development process, it's still early in the process, but I can say that leadership starts from the top, and in Louisiana we have a very results-oriented governor who has an aggressive and comprehensive reform agenda. He has put together an impressive cabinet who has demonstrated, like their boss, they aren't interested in the status quo. They have focused their energy on improving the outcomes that Louisianans deserve, even in times of fiscal challenges. In saying that, leadership at the top can't change organizations unless they have leaders throughout who buy into and are committed to change, and it is imperative that our teams accept and initiate even more change.

I believe that one of the most powerful ways to foster internal change is to use your staff. Some of the best innovations come from employees who have never been asked "if you could change anything in order to get better results, what would it be?"

Angele Davis has served as the Louisiana Commissioner of Administration since January 2008. She has earned a unique reputation as a respected public servant and business executive, with more than a decade of leadership applying strategic planning models in both public and private sector environments. Prior to being appointed commissioner, Davis served as secretary of the Louisiana Department of Culture, Recreation & Tourism, where she led policy development and oversight of the offices within the department. Davis also served as deputy commissioner of administration for Governor M.J. "Mike" Foster, Jr., where she was charged with the oversight of state government administration, including budget and planning, capital outlay, information technology, facility planning, purchasing and procurement, risk management, group health insurance, human resources and training.

Lifting All Boats in Louisiana: A Vision for Transforming Louisiana's Education System

Interview with Paul Pastorek, Louisiana State Superintendent of Education

In 2005, Hurricane Katrina devastated Louisiana's school system—which had languished at the bottom of national rankings for years—and more than 100 public schools were closed, displacing approximately 118,000 school-age children throughout the state. The state stepped in to reopen schools, encouraging school choice by facilitating charters and giving administrators broad leeway to get schools operational. Their innovations succeeded. Under the leadership of Superintendent Paul Pastorek, Louisiana's burgeoning school choice movement is using transparency, standards, and accountability to improve student achievement and turn around low-performing schools. Today in New Orleans, nearly 60 percent of the city's estimated 26,000 students are in charter schools, and test scores have risen dramatically since 2005. The proportion of fourth-graders who meet or exceed grade-level work in English rose from 44 percent in 2005 to 59 percent this year, a gain of one-third. Eighth-graders improved even more, jumping from 26 percent to 42 percent. High school scores have also shown marked gains, particularly in math, with 58 percent meeting or exceeding state standards this year compared with 38 percent in 2005. In January 2009, *Education Week* gave Louisiana

an "A" grade in the category of "standards, assessment, and accountability."

Reason Foundation's Director of Education Policy Lisa Snell interviewed Superintendent Pastorek in September 2009 on turning around low-performing schools, the role of charter schools, and the challenges and future plans for school improvement in Louisiana.

Lisa Snell, Reason: What path have you taken to reform education and make schools better in Louisiana?

Paul Pastorek, Louisiana State Superintendent of Education: We're really proceeding through two focused approaches. One is through the Recovery School District, taking chronically failed schools and radically restructuring them. The second is a broader approach to the remainder of the schools in the state.

We have about 1,300 schools that are in our accountability system, and we have about 113 schools in 14 districts that are currently under the direct jurisdiction or indirect oversight of the Recovery School District, not just in New Orleans, but stretching across the state. We have two different approaches to those schools. We have a complete takeover where we take the money and take the building. But then we have a second approach—and that is what we call the supervisory memorandum of understanding (MOU) where the district keeps the money and the building, but we assume a level of control over the direction of the school. These agreements give us a level of control around decisions such as the school leader, faculty, academic strategy and the use of financial resources. And if the district fails to consider and react appropriately to address our concerns, then the school can be placed under the direct oversight of the Recovery School District.

Generally, what we've done in the case of urban schools is exercised the authority to place schools in the Recovery School District. And in rural areas, we've relied heavily on the supervisory MOUs—because you have to have a different strategy in the rural communities for a lot of different reasons. The politics, finances and economies of scale are very different in rural areas, so we're taking a different approach there as we attempt to transform these chronically low-performing schools.

Now, if you were to look at Louisiana schools, it would come as no surprise that we're in the bottom ten states in most of the National Assessment of Education Progress (NAEP) categories. In fact, we're 50th in 4th grade English Language Arts. It wouldn't surprise you if I told you that the School Performance Score for more

than 400 Louisiana schools is below an 80. That means that in more than a third of our schools about 40 percent of their students are performing below grade level. So when you look at the universe of schools that are in serious trouble—we declare about 5 percent of our schools *Academically Unacceptable*—we really have a much larger number of schools than are in fact failing a large percentage of their students. So we're trying to build strategies to go after restructuring and remediating those schools.

The biggest challenge I think that we have out there is that a large percentage of our students live in poverty. In Louisiana, we're one or two in any given year with the highest percentage of poor children that attend public schools. At the same time, we haven't given our teachers the kind of training they need to effectively teach these children.

What we've embarked on for the general approach to schools is our Ensuring Literacy and Numeracy for All initiative. We've modeled this initiative after the approach Michael Fullan utilized in Ontario and in Toronto—and it centers on capacity building. It's really about taking people who are in the classroom and working with them to make them better, to show them how to use literacy and math strategies and provide technical support, particularly around reading and math. So our large-scale effort has been around this literacy and numeracy strategy, and we've been able to pull in some very high caliber people to help us lead and implement this initiative.

Dr. Reid Lyon has helped us on the reading side. We've actually completely copied the Alabama strategy on reading capacity building. On the mathematics side, we've worked with Uri Treisman, from the Dana Center at the University of Texas. Dr, Treisman has provided us with strategic advice around the mathematics piece, and so we're implementing with their recommendations in mind.

While we are confident that this initiative will result in high impact outcomes, at the same time we realize that we cannot possibly make a differ-

ence in a lot of our schools with just a capacity building strategy around literacy and numeracy. We don't have enough money. We don't have enough time. We don't have enough human capital to be able to do that. So we are reorganizing the Department of Education—and overall, I think this is probably the most exciting part of our efforts.

We're looking at transforming the entire Department of Education into a capacity-building and a human capital pipeline enterprise. On the one hand, we can work to build capacity, but on the other hand, we need to find people who are willing to go into a lot of these challenged schools. The Department of Education, though, has historically been an enterprise that focuses on bureaucratic tasks, in allocating and administering funding, collecting reports—really just making sure that everybody colors within the lines and keeps their head down while they're coloring. If so many of our districts don't really have the capacity to draw human capital into their schools, they're going to constantly tell me what they have been telling me—"I'd like to get rid of these teachers, but I don't have anybody to replace them."

Well, that is a very, very dysfunctional situation, so the Department is responding by establishing this human capital pipeline, which is largely a recruiting effort that parallels and supports our capacity building effort.

This year, for the first time, the Recovery School District took the lead around this issue. For all schools that were going to come under the jurisdiction of the Recovery School District, the RSD went out and recruited teachers for those schools. And the result of that is very impressive when we consider that the RSD recruited, screened, matched and delivered about 2,300 teacher resumes and candidates who were willing to go anywhere in the state of Louisiana we needed them. And we were successful at placing teachers in districts where people were convinced that we could never get a reasonable, sane person to go teach.

Now that the districts understand that the opportunity exists, I think we're going to see more and more take advantage of this resource. So now the state has moved from just checking the boxes—being bureaucratic and managing programs—to becoming a valuable resource.

At the same time, we're looking to outsource a lot of these kinds of activities. The state doesn't need to be hiring a lot of civil servants who increase agency costs. In fact, the Department is probably one of the biggest users of services provided by The New Teacher Project services. We're contracting out for professional development. We're contracting out for recruiting. We're contracting out for all these types of things.

When you look at it from the broader scheme, we're placing a heavy focus on the Recovery School District in transforming the worst of the worst schools, and we're focusing on a human capital strategy—those are our two big central strategies.

Snell: On the opposite side, did you have to do some kind of personnel reform to allow districts to discharge non-performing teachers? Or is it a case where they're just replacing vacancies as they come in?

Pastorek: Well, that's an interesting question. In the Recovery School District, we are able to discharge the teachers, but the districts still have an obligation to retain the teachers. So one of the real difficult parts of the Recovery School District that doesn't work well is how we can deal with the teacher who is performing so poorly that we don't want to hire them into the new school. We actually have a district right now that would like to convert all of its schools to charter schools. There aren't very many districts that want to do that, but the problem that we have is that we can't figure out how we're going to deal with those teachers. So we have a fundamental flaw right now that we've got to work through, and it's going to require some legislation. This is the same problem that Joel Klein has in New York City.

Snell: *Everyone does.*

Pastorek: Everyone does, and we really haven't solved that problem. Now, I heard a really interesting approach that I'm told [U.S. Secretary of Education] Arne Duncan took in Chicago He basically was able to remove these folks and give them a one-year soft landing, but not more than one year. Whereas on the other hand, Joel Klein has to keep them interminably.

So we're taking a good hard look at what people are trying to do in that regard, because we're not going to really make good progress until we solve that problem. If you can't get rid of people or if all you're going to do is foist them off on another part of the system, then you're sort of rearranging deck chairs on the Titanic.

Snell: *Can you talk a little more about the role of the charter schools in Louisiana and in New Orleans?*

Pastorek: Charter schools can come up in a number of different ways. Up until this legislative session, there was a limit on the number of charters that could operate in the state outside the Recovery School District. That changed, largely because of Race to the Top, the federal fund that will provide competitive grants to encourage and reward states that are creating conditions for education innovation and reform. There were also some financial restraints. But we've eliminated the cap and we've eliminated the financial restraints, so now charter schools can proliferate more in the external environment. Within the Recovery School District, however, we're unlimited. We're unlimited by finances and we're unlimited by numbers, so what you've seen is a strong preference from the perspective of the Recovery School District, which the state controls, to convert those schools to charter schools. And the reason is fairly obvious.

I think if a state is going to take over schools, it is unwise for the state to actually try and run those schools. While we've seen a number of state takeovers in the past—and we've seen them hire out to for-profits or we've seen states try to take over in a traditional strategy—none

of those has really worked very well. So we're looking at a real distribution of people who will run those charter schools, so that there's no one who has the whole collection. Although we have networks of charter schools, such as KIPP, which now has five schools in New Orleans. We hope they'll go to ten schools.

We have another cluster called the Algiers Charter School District, and we're looking for these smaller clusters. We think the smaller clusters can give us economies of scale. We don't put all of our eggs in one basket, because it's easier for us to deal with failure. If there is a failure, we can put them out of business.

There was an article I recently read titled, "Try, Try Again." I think it epitomizes our strategy. We'll give a school to a charter operator. We'll let them work it. If they fail, we'll bring in another charter operator and if they fail, we'll bring in another charter operator until they get it right. That strategy is appropriate when we try to restructure businesses, and we don't always succeed in restructuring businesses. Likewise, when we try and restructure schools, we don't always succeed, but I would rather give an organization outside the state an opportunity to be successful. If they're not successful, we'll take them out of business and bring somebody else in.

I think one of the interesting features of charter schools in New Orleans is that we've created an incubator for charter schools. And we've actually replicated that model and launched an incubator in Baton Rouge. This ensures that we aren't putting all our eggs into the national charter operator basket.

We want to bring in small operators. We want to offer real opportunity for creativity and innovation, and so we're trying to cultivate a charter landscape that involves a healthy mix of experienced charter providers as well as people who don't have experience or a track record operating charters.

By the way, now that the state is in its second year of awarding charters in the Baton Rouge area, we'll see an influx of more experienced

charters come to the Baton Rouge area. We're seeing some really high quality people express an interest in Baton Rouge—and they are coming with very creative ideas and options.

I'm very optimistic about our efforts around charters in the Recovery School District, because I don't think the strategy of a state takeover, where we try and run schools using the traditional district command-and-control will work anywhere. And frankly, that approach doesn't and can't effectively deal with low achieving schools. So if we can avoid the command and control approach and utilize charters for our low-performing schools, I think we will achieve a better outcome.

Stanford University came out with its CREDO National Charter School Study this summer, and in that report, it found that while nationally charter schools do not perform better on average than traditional public schools, that is not the case in Louisiana. Traditional schools are outperformed in 17 out of 18 criteria, so we've done better.

We've centered our strategy on carefully selecting the schools and charters that we'll authorize in the first place. Even though we take more risks because we don't limit authorizations to just those applicants who have track records, we carefully evaluate those risks. And then if we find that charters aren't doing what they're supposed to do, we take them out of business pretty quickly. In fact, we've had one operator voluntarily surrender its charter this past year, and we expect another one to do the same thing in the near future. So it's a very nice charter climate, especially in the Recovery School District, and that is our predominant and prevailing view for operating these schools.

Snell: If you have three future goals and three future wishes of your toughest problems to solve, what would they be?

Pastorek: I think the toughest problem right now is dealing with the teachers who don't meet the competitive demand of principal selection.

I think our second toughest problem—in a state like Louisiana—is trying to convince people that we can be successful with poor kids. We've got a tremendous amount of evidence that shows that poor kids who come from difficult circumstances don't succeed. Trying to convince people that they *can* succeed is a daunting challenge, so we've actually spent quite a bit of time researching our data in Louisiana. We've identified what we call 20 high-poverty/high-performing schools in the state. They're in the top 25 percent of

schools in terms of their performance, and yet they have high levels of students living in poverty. They have high minority concentrations and yet, they succeed. So we're trying real hard to promote the idea that just because kids come from difficult circumstances, it doesn't mean they can't succeed. Schools have demonstrated that it can happen. Now, trying to scale that up, of course, is the $64,000 question. We're certainly not there yet, but we're spending a lot of time thinking about that.

I think the third challenge is getting the education community to be innovative. There's such a resistance to change in the education community. It's startling to me. I'm a lawyer and have worked with many businesses over the years. I did a lot of bankruptcy work, and I saw a lot of businesses that failed and that succeeded—and I saw and appreciated the real need for people to have to adapt and change. When you go into bankruptcy, if you want to get out, you have to completely and radically change your enterprise—or you're liquidated.

And there's simply very little pressure to embrace that kind of perspective in public education. There is a monopoly, and monopolies don't like change. They don't like to adapt, and they don't like to be innovative. If you couple low expectations with a monopoly circumstance, then people don't ever believe it can be better because by definition, it hasn't ever been better.

If I could go to a fourth, I'd say that there is a huge capacity cap in our state. One thing that Louisiana is doing very well though, and that we have become the model for other states, is that we are effectively measuring our state's colleges of education and our alternative teacher certification programs. And now that we're measuring these things, what we're finding is the alternative certification programs are doing a much, much better job at preparing our teachers than the regular education programs. The result is that our education programs are changing, and districts and schools are really scrutinizing graduates prior to hiring them.

I can tell you that in a particular alternative certification program, they've produced teachers who in their first year are better than our veteran teachers in Louisiana. Now, that tells you that either our veteran teachers are seriously deficient or our certification program is outstanding.

Our plan is to scale up the value-added model for implementation statewide. Starting next year, in September 2010, we're going to be piloting the program, and then in September 2011, we're going to go full scale throughout the entire state. Whether value added is used for accountability purposes or not, it's going to give us tremendous insight into who's doing what. When you begin to identify who's doing what in classrooms, then people can change their behaviors. So we're looking for other hooks that we can create to take advantage of the value-added model. The potential for this tool is very promising.

Paul Pastorek was appointed Louisiana's State Superintendent of Education in March 2007 by the State Board of Elementary and Secondary Education (BESE) and was re-appointed to that position in January 2008. Mr. Pastorek served on BESE from 1996-2004, including the last three years as President of the Board. After stepping down from the Board in 2004, Mr. Pastorek formed Next Horizon, a non-profit organization that serves as a statewide think tank to connect Louisiana's leadership—education, government, business and community—as a force supporting school improvement.

Mr. Pastorek is an attorney and was licensed by Louisiana to practice law in 1979. In February 2002, Mr. Pastorek was appointed by President George W. Bush to serve as General Counsel to NASA. He served as both the chief legal official for the agency and as a trusted advisor to then NASA administrator Sean O'Keefe. In addition, he served on and led several senior management and leadership committees, including leading the team that developed NASA's 2004 "transformational" reorganization plan.

Look Before You Leap Into Privatization

Florida's Council on Efficient Government Sets a New Standard in Transparency, Due Diligence in Privatization and Contracting Decisions

Interview with Henry Garrigo, former Director, Florida Council on Efficient Government

The Florida Efficient Government Act of 2006 created a new Council on Efficient Government in response to a major push to outsource government services and activities that began during the tenure of former Governor Jeb Bush (1999-2007). Implementation challenges that arose with several big-ticket privatization contracts prompted policymakers to create the Council as a new center of excellence in state outsourcing. While Florida policymakers have been generally supportive of contracting out to lower costs and/or improve service delivery over the last decade, they also came to recognize a need for business cases that would evaluate proposed privatization initiatives for feasibility, cost-effectiveness and efficiency before an agency proceeds.

The Council's role is to review, evaluate and issue advisory reports on outsourcing business cases—as well as assisting agency staff in how to prepare them—and recommend innovative ideas to increase efficiency and lower costs. In 2008 alone, the Council evaluated 28 business cases with a cumulative value of over $244 million, identifying over $53 million in projected savings to the state.

In this interview with Reason Foundation's Leonard Gilroy, former Florida Council on Efficient Government Executive Director Henry Garrigo discusses the role and responsibilities of the Council; its mission to "advocate for innovation, educate on best practices and evaluate for value;" and what other states can learn from Florida's experience.

Leonard Gilroy, Reason: Could you describe the role of the Council on Efficient Government in Florida?

Henry Garrigo, Florida Council on Efficient Government: Currently the Council is set up in statute. It was created in 2006 through the Florida Efficient Government Act, and while there were some predecessors, that statute created us with the primary mission to have some sort of mechanism in place in state government where when an agency wanted to look at alternatives for sourcing service delivery—particularly outsourcing—that there was a body that could analyze that to make sure that those decisions were being done for the right reasons.

Here in the state, during the second Bush Administration there was a drive to look at privatization and outsourcing services to the pri-

vate sector as an alternative for government, so the legislature set up the Council with the cooperation of the governor's office to really have someone in place with that sort of oversight to make sure that the decisions that are being made are being done properly for the right reasons—both fiscal as well as public policy issues—and that if there's any impact on state government, that is comprehended in the analysis.

The requirement was that agencies that went to outsource services needed to prepare a business case and have that business case submitted to the Council on Efficient Government for review. And over time, we've taken that charter and expanded it a little bit, but essentially that's the primary function of the office under statute right now.

Gilroy: Privatization and outsourcing are issues that can easily become politicized when they arise in the public forum, and it can be difficult for policymakers to sort out myths from facts. What is the value of the business case in the policy decision-making process?

Garrigo: Well, a lot of times in organizations that want to try to implement change, it's generally an idea that comes from some source that's initiated somewhere. It gets buy-in, and it is executed. Sometimes they don't find out until after the fact that it possibly wasn't a good idea to do in the first place or that the planning to execute it hadn't been done appropriately.

By instituting a formal business case process, the Council looks at a couple of key factors. First, what is the problem we're trying to solve? Is there a legitimate problem that needs to be solved in state government? Secondarily, what are the options to try to institute that change, and what are the financial and public policy issues that need to be evaluated to make a determination on the options?

What we try to do through our business case process is have the agencies come up with a clear problem statement and look at the financial implications of alternatives, and we generally require three options to be considered. We ask,

"what are the financial implications, the potential savings and the public policy issues that need to be addressed?" Through that analysis you can come up with a fair evaluation of options and pick the alternative that makes the best sense for both financial and public policy reasons. And then we ask some follow-up questions through the business case process, such as how do you propose to execute the chosen option with regard to procurement and implementation?

Gilroy: What does the business case provide to policymakers that they may have lacked before?

Garrigo: What they may not have had before was a discussion of alternatives. If the agency had in the past wanted to go in a particular direction and they had legislative support for it, there was essentially just one voice—the department head that was trying to drive that conversation.

What the business case process hopes to do is have an unbiased, depoliticized environment where alternatives to a problem are evaluated—again, on fiscal and public policy factors—to determine what is the best course of action. We don't want to just outsource or potentially insource a project because we can or because somebody intuitively thinks it's a good idea. We do a full evaluation of the idea, as well as possible other options to ensure that the right decisions are being made.

Prior to that, the legislature in particular, which is the fiscal body, did not have a third party or independent body that could evaluate the alternatives to solving the problem and offer some sort of unbiased report on which is the best course of action.

Gilroy: One focus of the Council is on the structure and nature of contracting, and orienting those toward performance. Can you describe how performance plays into the work that you do?

Garrigo: As I mentioned, our business case process goes sequentially. What is the problem statement? Which are the options that are avail-

able? What are the implications of those options on fiscal and public policy? At that point, we begin to ask questions and insure that the agency considers appropriately the implementation of the project—and that goes from procurement all the way through the closing of the contract and seeing that performance metrics are in the contract.

Part of that is ensuring that certain things are built into the engagement, particularly things like performance metrics. Are those performance metrics in the scope of work? Do those performance metrics point to achieving the objective stated in the problem statement—not just are they activity-based, but are they functionally related to the primary objective? Are the measurements tied back to the objectives to ensure the performance is there, per the scope of work, to achieve those objectives?

Gilroy: Since the Council has been in operation, have you seen improvements in terms of agencies' use of performance-based contracting, and what has been the Council's role in that?

Garrigo: Yes. I would draw a separation, though, between the pre-execution phase versus the post-execution phase of an engagement or of a contract. The Council's work currently spends most of its time on ensuring that the right decisions are made and that a plan is in place for the execution. We will go into discussions regarding the performance metrics and measures in the contract, and how to measure and track that.

We aren't contract managers after the fact, so once we've issued an advisory report that we feel that there's a legitimate issue that has to be resolved here, that the analysis has been done and that the right course of action has been taken, and that the elements are in place to effectively execute that project—at that point, the agency then takes over. The contract/project management unit of that agency takes over the implementation and execution phase, so they will be responsible for ensuring that the contracting is complete, ensuring that the performance

measures are followed and that the vendors are held accountable.

In our short life—we've only been around for three years now—we have been relatively resource-constrained. We do have intentions to go back and measure some of the outcomes from the projects that we've evaluated, and we're working with the legislature to get more resources to be able to actually do that—to close the loop.

Right now we are more of a pre-budgetary process to make sure that the money goes to the right projects for the right reasons, and we're leaving the execution phase and the follow-up to both the agency as well as other departments. For example, the Department of Financial Services has a process to ensure that the dollars are being spent per the contract, and the Governor's Office of Policy and Budget—as well as legislature through the Office of Program Policy Analysis and Government Accountability—also have methods to ensure that we're getting what we are contracting for.

Gilroy: I would imagine that this is a different way of doing business than agencies were used to. How are agencies responding to the work the Council is doing, and what are you doing to facilitate these new practices?

Garrigo: I think the biggest change has really been that people now have the ability to stop and think and do an analysis before they even go ask for money from the legislature and implement a project. I've been speaking to department heads, secretaries, directors of different agencies and divisions, explaining to them the value of having a business case and doing a business case. They get it. Sometimes there's some resistance only because of the resource constraints and the learning curve that may exist.

It is something new in state government, particularly in the state of Florida. Before, things were done either through an executive order, an executive-level direction, department-level direction or legislative mandate. Things were generally done intuitively. People were just expected to

make the right decisions.

Now we actually have a much more formal process that helps agencies evaluate options and determine what the right course of action is. Now when they go to ask for a budget and/or go to the contracting phase, they've already got all the information they need, and they appreciate that.

We've seen several agencies jump on board right away. The Department of Juvenile Justice is one. The Department of Corrections and our own Department of Management Services have also seen the value in what we do. The value in having an artifact of the deliberation that shows that there was a logical thought process behind this, and it wasn't just driven by intuition, legislative mandate, lobbyists—that this was actually a thought-out and reasoned decision.

> **In the private sector, there's much more focus on the fiscal justification of what you want to do, why you are doing it... [T]hose are business fundamentals that don't always exist in state government.**

Gilroy: What sort of training or educational services are you providing to the agencies?

Garrigo: That's interesting that we got to that subject. Since I've been on board, we've created this mantra, this mission statement, of "Advocate, Educate and Evaluate" as our three goals and our three business lines. Coming from the private sector, this is my first foray into this public sector. This "Advocate, Educate and Evaluate" approach has really become how we try to drive our business. We're advocating for innovation, we're educating on best practices and we're evaluating for value.

The statute really helps us with our third vector—"evaluate for value." It tells us what we need to do as far as the business case process. And as we began to get our legs under us and

grow, we went to agencies and we told them this is a statutory requirement. You need to do this. Here are the elements of the business case—please comply. In some cases, we got a shoulder shrug. "Hey, that's great but we don't know what a business case is and we've never had to write one. What are the elements? Can you help us?"

And that's how we got into our other business line which is "educate on best practices." We developed a curriculum on a couple of things. In particular, what is the statute and how do you comply? What are the necessary elements for compliance? What needs to be the business case? Why is the Council a good idea, and how are we going to help you?

The other curriculum covers the business case and how to write it. It's a longer course, and we went through the different elements on what's in a business case and the information you might need to create one. We've trained over 100 program and procurement people over at the Department of Environmental Protection, and we've done several trainings over at the Department of Corrections, Department of Juvenile Justice, where we've done face-to-face training on both of those elements. It's been very well received, quite honestly.

We're in the process right now of trying to evolve that into an online solution so we can touch more people—again, going towards efficiency—and let people self-select and self-train through new online learning and web tools. It's been pretty well received, and I think that's a high value mission for the group right now.

Our third vector is "advocate for innovation," and we are still trying to find some resources for that. That's more of a research-driven thing, looking at trends in government, trying to find solutions and then building cases for them. We want to look for ways the state might be able to deploy some of these either enterprise-wide, or possibly localized efficiencies that we might pick up from other states—maybe even from Reason Foundation—and to bring

them into state government to have people evaluate and consider as an option.

Gilroy: Can you give a sense of some of the implementation lessons learned along the way, particularly with regard to how you do your work, how you communicate your work to others and what policymakers do with the products that you helped create?

Garrigo: Having executive support is obviously very important. The governor at the time and the legislature got together and decided this was a good idea. They did staff us to get the job done and gave us support and authority to go into agencies at all levels and begin to have the discussion. Unfortunately, we ran into a very difficult budget time and we realized very quickly that our resources were going to be impacted negatively. We weren't going to be able to have the reach that we wanted, so a key lesson there is make sure you have the resources to execute the mission. That's fundamental in business.

We've been through five budget cycles, so three regular sessions and a couple of special sessions—all really focused on budget—and we've been impacted to varying degrees. We have been able to stabilize now with our staff. It's only a staff of four, two analysts, an admin and myself. We have been able to augment our staff a little bit with interns and temporary work, when necessary. And we've been successful, quite honestly, achieving some results through that as well. But obviously with such a small staff we are limited, so that's a key thing as well. Having the executive support is fine, but having the resources is really fundamental.

Those are probably the two key lessons. Everything else has been going pretty well. The agencies are receptive, but they are in somewhat the same predicament that we are in: they would like to invest more resources for the analysis and the compliance, but they're losing people and losing funds, and that's impacting the way they're able to interact with us.

Gilroy: Who else is doing this sort of work in other states?

Garrigo: Well, if we define the work that we do as this pre-budgetary analysis of project identification and the decision-making process on how to execute a plan to solve that problem, I'm not sure that I've run across anybody that has.

I know through some of the work that Reason has done that some other states have begun to look at incorporating some of our key learning and some of our language into organizations in their own states, other councils on efficient government. And I would encourage that. But quite honestly I haven't come across anybody that is within state government—as opposed to the private sector—that has that role of "advocate, educate and evaluate" in looking enterprise-wide at the possibility for implementing efficiencies in government. But I think there should be more of it, obviously.

As I mentioned, I come from the private sector. In the private sector, there's much more focus on the fiscal justification of what you want to do, why you are doing it, what the problem statement is, how much it's going to cost, what's the return on investment, and how's it going to positively impact the corporation. Those are business fundamentals that don't always exist in state government.

A lot of times, things are done either through a legislative mandate, or perhaps an agency head or other individuals just decided to do something on intuition because they feel that this is the right thing to do and the right way to do it. Not enough time is really spent on deciding whether we should go down the path before we go down the path. Let's evaluate if that's the right path to take, and then determine how we're going to go and execute this before we move forward. We've had some experiences here in the state—and I know other states have had similar experiences—where there's this impetus for change, a decision is made to go down a particular path, and it just doesn't end well or it doesn't execute.

Here in Florida, we wrote a report for the governor and legislature a while back on a couple of large projects (People First, My Florida

Marketplace and the Project Aspire). Some of them were classic outsources, some of them were more hybrid approaches and some of them were internal developments and deployments that weren't going well. In the report we pointed out that very thing—that you need to have a good plan, make sure you've made the right choice before you get involved, have a plan to execute it well and in the end, you have a plan to get out of it. And I don't think, from either my experience here or from what I've read doing the research, that there are too many places where that thought process is really done—or done well. That's what we're here for, and we'll continue to do our work.

Gilroy: Regarding the report you just mentioned on the large enterprise IT outsourcing projects, I found the level of rigor and analysis to be quite impressive, and what it brought to the table was a very fair and dispassionate analysis of what at the time were controversial initiatives. The report was very balanced, both in terms of assessing the implementation challenges and the relative contributions of both the public and private sector to those challenges.

Garrigo: I appreciate that you took the time to read through it and took that away from it because that's exactly what we were trying to do. I think the uniqueness of the Council is that regardless of where we are housed administratively, we do try to be unbiased and depoliticize certain issues. We do try to bring an objective take on the issue that we're dealing with. In that particular case, it was a special report requested by the governor and we tried to take a very middle-of-the-road approach to it—depoliticize the activities, which at that point were highly politicized—and take a clear, logical approach to it. I think to the staff's credit, we were able to produce a report and reinforce the activity.

Now, I would hope that the Council continues to be a neutral organization. We have a balance of public and private sector members on our Council. We here on the staff do try to remain as neutral as we can. Analysts some-

times get very excited about certain things and it's incumbent on me, particularly, to make sure that we keep the emotion out of it and look at it much more empirically. We want to focus on the facts, not the feelings.

We haven't approached any of our business cases as an advocate for any particular decisions. So we don't go in thinking outsourcing is good, and contrarily, we don't come in thinking that outsourcing is bad either. We want to look at the facts, evaluate the options and determine which is the right course. I hope to continue to drive the Council to that.

Gilroy: If you were advising a policymaker in another state trying to create a similar council, what sort of advice would you offer in terms of how to approach it and how to prioritize what these days would likely be limited resources for any new shop coming into existence?

Garrigo: Well, if it were for a similar council, obviously there are a couple of places that you need to have participation. You have to have executive support to be able to work through the agencies, and you have to have legislative support to get the right charter, get the statute and then get the funding. If you get those two in alignment, I think you have the good probability of success if you go forward.

The statute that created us is pretty narrow in that it speaks mostly to outsourcing. I would also encourage legislatures setting similar councils to potentially broaden the mission in the statute to allow for not only the review of outsourcing projects, but also for *any* projects to go through a business case or some sort of evaluation process before they execute. That would include insourcing or any variants of a combination of what I call "right-sourcing," such that there's consideration on how to right-source a solution, as opposed to just going down a path because that's what someone's particular preference is.

Gilroy: The type of work that the Council on Efficient Government is doing in Florida would seem to be a fairly ubiquitous type of practice in

the private sector, yet a relatively new one in the public sector. Were you surprised at how fresh this approach is in government?

Garrigo: In Florida, I think it was the right time for it. There had been initiatives from different facets of government to push for one thing or another—whether it was bigger government or smaller government or outsourcing or privatization—and I think it was the right time and place for it. It was the right time for people to raise their hands and ask "why are we doing this?" and "is this the right decision?"

I think as we've gone out to try to educate the agencies on best practices, they get it. There are a lot of people that are long-time state employees at different levels who don't have the private sector experience, but still understand the need to justify things—both financially and for public policy—before they implement. This gives them the opportunity, if not the excuse, to do that. Sometimes things have been done in the past where it's just been a mandate, and people have tried to execute whatever that role is without really doing the analysis. So I think they're receptive to it.

Our approach is new, and it is a different thought process and different execution process. But state government is going to have to figure out how to do it, especially in these tight budget times when every project needs to be evaluated. Efficiencies are more important now than ever, and that requires a full analysis of projects before you implement them.

It's the proverbial "ready, aim, fire" as opposed to "ready, fire, aim." It is more important now than ever, and I think people are more receptive to it now than they have been in the past.

Henry Garrigo served as Executive Director for Florida's Council on Efficient Government within the Governor's Office and the Department of Management Services. The Council serves as an advisory board to the Governor and state legislature in reviewing business cases for proposed outsourcing projects. In September 2009, Mr. Garrigo returned to the private sector to continue to advocate for efficiencies in the government and the public sector.

Prior to joining the Council on Efficient Government, Mr. Garrigo was employed by the Intel Corporation for 10 years in a variety of operational, management, and sales roles. Most recently, he worked as the Worldwide Program Manager focusing on the design, development, and deployment of the worldwide system integrator marketing program.

We Have to Do Better: Fiscal Challenges Demand Creative Government

Interview with Indianapolis Mayor Gregory Ballard

Since taking office in January 2008 with the support of a citizenry frustrated by rising crime and taxes, Indianapolis Mayor Gregory Ballard has undertaken a variety of reform initiatives designed to control costs, improve government performance and address core city needs. In many ways, Mayor Ballard's policy and management agenda echoes the entrepreneurial approach to governance demonstrated by Indiana Governor Mitch Daniels and former two-term mayor and current Harvard University professor Stephen Goldsmith.

Reason Foundation's Director of Government Reform Leonard Gilroy interviewed Mayor Ballard in November 2009 on his broad-ranging reform agenda, the city's new public-private partnership initiatives and lessons learned thus far on institutional change.

Leonard Gilroy, Reason Foundation: Your administration is garnering attention for a wide-ranging set of government reform initiatives you've put into place. Can you describe what's driving these initiatives?

Mayor Greg Ballard: I think it helps to paint a picture of the challenges that we're up against. While we may have wanted to be creative, regardless of the challenges, the challenges here are significant enough that they demand tremen-

dous creativity from my administration.

When I came into office in 2008, we had just come off a period of consistent tax increases, and we had a property tax crisis so tax bills were literally going through the roof, increasing by as much as 200% in some places. At the same time, the city suffered revenue shortfalls as early as 2007, and we had at least a $50 million projected shortfall by 2012. On day one when we walked in, we had a $20 million operating deficit

on a budget that was passed on August 2007. That budget borrowed against the next year's revenues to pay for today, and our balances were precariously low. It's somewhat like the homeowner that maxes out their credit cards and has refinanced their mortgage too many times.

Not only was the financial house not in order, but we also faced a challenge of rising crime. One of the major things that affects economic development is public safety. The previous administration implemented a consolidation of the police department but unfortunately had delegated authority to an official falling outside the mayor's authority, so my first initiative was to regain control of the entire police department to bring crime down.

We really had operational challenges and excess government across the board. Many departments that we've since eliminated just weren't operating in sync with the rest of the city. For example, one in five citizen help calls were not just dropped or took a long time to get answered—they were just not answered. That's where citizens call in to report nonemergency problems like potholes. In 2003, they flatlined the budget for crack-sealing on roads. Well, it won't surprise you that when it rains and gets cold, potholes occur. In 2008, that manifested itself into a very cold, wet season of more potholes, and with one in five calls not answered by the call center we inherited, we started out well behind where the city should have been.

These huge challenges demanded a number of different solutions. We began slashing duplication and eliminating overlap, which helped lead us to a balanced budget for two years in a row with no tax increases. In fact, to the extent our state allows, we returned a tax back to the citizens. Our state law doesn't allow us to tax or return tax revenues without approval by the state legislature, but the one time that we've had the permission to do it, we've done it to the tune of roughly $12 million.

Gilroy: With seemingly so many challenges, where did you direct your staff to start?

Ballard: It was a two-stage process. The first few months of the administration, we spent a lot of time on kind of creating a baseline of performance measures, which is very important. If you're going to evaluate your performance, you've got to know what you're measuring against. You've got to know what your baseline is so you can tell the citizens whether or not you've improved or done worse. We spent time establishing financial performance measures that we would use to hold the departments accountable to expenses, revenues, overtime spent, and operating versus capital budgets. We also created a tool called Indy Stat, similar in some ways to the Baltimore City Stat tool developed under mayor, now governor, Martin O'Malley. The difference with our Indy Stat is that its purpose is to identify hard dollar savings that equate to budget savings, as well as driving service improvements using existing resources or fewer resources, not trying to expand our spending on services. We're trying to accomplish more with less.

Every month or so, we have an Indy Stat meeting with myself, our department heads and several cabinet members where we ask pointed questions and hold departments accountable to these performance measures. We don't use these meetings to embarrass people; rather, if a department's overtime spending has gone up in a particular quarter, for example, we talk specifically about ways we can drive that back down.

So that's how we started in the first half of 2008. It's been interesting because once we started down that road with performance measures—and the continuous revisiting of those performance measures—a number of competition opportunities began to emerge.

Gilroy: Can you describe some of the competition opportunities the city is advancing right now?

Ballard: The first area that emerged was public utilities because there's simply so much potential there. Our water utility is owned by the city but operated and maintained by Veolia, the French company. The previous mayor bought the

waterworks in 2002 for about $550 million. Fast forward to 2009, the water company has a debt of $920 million, which is more than the back of the envelope value of the enterprise itself. This is really serious because the only way, barring some kind of a major structural change, that you can turn that around financially would be through significant rate increases.

The wastewater system is also publicly owned but run by United Water, a subsidiary of Suez. The previous mayor entered into a consent decree with the U.S. Environmental Protection Agency that committed the city to spending more than $3.5 billion from 2007 to 2025 on sewer system improvements. So the wastewater is being managed in a separate silo from the water system, and we've got $3.5 billion of improvements to make to the system. That's significant because the rate increases necessary to make those improvements that the previous mayor entered into were so significant, it was taking us from a monthly sewer bill of about $20 a month for the average household in 2008 to over $100 a month in 2025 if we did nothing.

It's different than the situation Mayor Goldsmith faced in the 1990s, where he entered into a wastewater O&M contract that generated 50 percent in operating and capital savings, which was really significant. By contrast, we're dealing with a situation where you've already got part of the management outsourced, so it's not as clear-cut as "should this be in-house or should this be outsourced" because we already have two large contractors on the system. So we started looking at the "silo" nature of public utilities and how much they're costing the rate bearers. Water and wastewater have a lot of common management functions—such as vehicle fleet, human resources, customer service, and billing and collections—and we wanted to see if there might be synergies between water and wastewater that we could translate into millions of dollars of rate relief. If only our predecessor had combined water and wastewater when they acquired the waterworks, we might not be in the position we

are in now.

We've been in discussions with our two incumbent providers—Veolia and United Water. We also started talking to the gas company, Citizens Energy Group, which is a not-for-profit charitable trust that shares a lot of the same functions as water and wastewater. In July these talks culminated in a release of our Request for Expression of Interest for the potential consolidation of the two systems. That document described the financial situation and asks potential suitors for operating savings in the tens of millions, potentially a hundred million dollars. We are also looking for construction savings and are open to alternative ownership, risk sharing and consolidation scenarios.

When we issued that request, I was hoping for perhaps a half-dozen quality responses, and the fact that we received 24 submissions the following month validated that there's a real opportunity here. It also shows that this really basic principle of bringing these things together—bundling services and finding synergies—is really powerful.

We're evaluating responses to the request now and are having detailed discussions with several of the respondents who had the most creative approaches. We think if you draw all of our options on a continuum, at one end of the continuum is status quo, do nothing. That's certainly not an option. On the other end of the continuum would be to take these utilities fully from public to private. Now, so far, we haven't seen a model that compensates for the advantages of tax-exempt financing in a government or a not-for-profit's ability to issue tax-exempt debt to get this massive scale of capital improvements done over the next 20 years.

What has emerged, though, is the concept of a new not-for-profit that would allow us to potentially combine water and wastewater with a private or not-for-profit partner who would assume a lot of the risks. A combined municipal utility would bring these separate utilities under one roof, would allow them to take advantage

of all those operating synergies and would create a situation where you could refinance the debt. We could essentially create a new public-private partnership that would manage a consolidated municipal utility, and we could monetize tens of millions—if not $100 million or more—in savings that could be used for critical city infrastructure improvements and mitigate the water and wastewater rate increases over the next 15 years.

I realize that that's a tough sell, rate mitigation, because the improvements that we have to make to the water and wastewater system are so significant that it's not going to result in a rate decrease over time. Some rate increases are going to be necessary, but we can still in a meaningful way flatten the curve and create a significant capital infusion that could be used on general infrastructure, without raising taxes.

Gilroy: You're also considering the possibility of a public-private partnership involving city parking assets, along the lines of Chicago's recent parking meter system and parking garage leases.

Ballard: Yes, another initiative that's in development involves our parking facilities. It started off as a project where we were focused on the parking meters. Then we recognized that the Capital Improvement Board that runs our sports stadiums and the convention center has had its share of financial challenges in the last two years. The city and the Capital Improvement Board own parking lots and garages together. Then we started looking beyond that, and we saw that Health and Hospitals owns the parking garage, for example. So we began looking at a downtown parking transaction—a long-term operating contract—that would take advantage of the economies of scale and efficiencies that a private operator could bring to many of the publicly owned downtown parking facilities, including garages, lots and meters.

By necessity, it's a bigger deal in scope than Chicago because we simply don't have as many parking meters, and we don't have parking garages that could get us anywhere near as

blockbuster as the billion-dollar deal Chicago entered. We're also dealing with a more price-sensitive shopper or visitor to our city than in Chicago. But we still think there's significant value there, and it's also quite frankly a business that we don't need to be in, operating our own garages and lots. We've talked to downtown merchants and businesses about the parking meters specifically, and they've all said that they really want us to increase turnover at the parking meters, as current parking is prohibitively cheap in the downtown. Now, they also want us to be careful because they don't want us to price the meters so high that people take their business out of downtown. Still, they would like to see increased turnover at the meters, period, because they think that metered parking is so cheap that people are almost using the parking meters as parking lots right now. It's a good example of a government's reluctance to price things where the market would normally price them.

For both of these opportunities—the water/wastewater and parking—we want to put any monies the city may receive upfront into long-term, critical infrastructure. We've made enough cuts in the 2009 and 2010 budgets that we don't have to resort to monetization of assets or monetization of savings to fund ongoing operating expenses. That's another difference between us and Chicago. We respect what Mayor [Richard] Daley's done—he's really been a leader in these types of things. But we continue to find cost savings to the extent that we don't need to put this money into operating, which Chicago has set aside some of its upfront revenues for. We want to put any one-time revenues into long-term streets, bridges, curbs, sidewalks and other types of city infrastructure.

Gilroy: Can you describe the infrastructure challenges Indianapolis is facing? Why is infrastructure such a priority for your administration?

Ballard: It's because we're spending a lot of money to maintain a failing infrastructure. For instance, the Department of Public Works

estimates that to get the thoroughfares and residential streets up to fair condition, the cost is about $180 million. The cost to get the bridges up to fair condition in the county is about $290 million. Curbs and sidewalks add an astronomical number, and there are a lot of areas of the city that don't have curbs and sidewalks where there's a high demand. So there's demand for it, and we're spending so much money maintaining infrastructure that already should have been rebuilt. It's the same with a vehicle—once a vehicle gets past its useful life, if you lack the funds to replace that vehicle, you're still going to pay a lot of money to maintain it.

Our infrastructure has been neglected for a long time, and there was really no comprehensive plan in place to address that. If we go into the community and a hold a town hall, we're going to hear about the condition of streets, bridges, sidewalks. It's not something that we've decided is important. It's something the community is telling us is important.

Gilroy: What sorts of competition initiatives are you advancing on the general-services and activities front?

Ballard: First, we renegotiated some of our current contracts for immediate savings. For example, we saved a couple of million dollars off of our IT contract with Northrop Grumman through renegotiation. We did the same thing with United Water for our wastewater contract, and we removed performance criteria that were there that frankly were not important performance indicators, but rather were causing them to do things that they didn't need to do at higher costs.

Another tool we're using to meet our budget in 2010 is the competition of support services. For example, our parks and public works departments have three Requests for Proposals (RFP) on the street that deal with parks maintenance, including plumbing, HVAC and electrical work. We're working with the unions to try to help them identify significant cost savings in the area of mowing, trash pick-up in the parks, and for-

estry. And we're still looking for further savings there, so it could potentially result in an RFP for mowing, trash pick-up and forestry.

There are a number of other areas that we are looking at that will result in RFPs, including fleet management, which is a large operation. We're also profiling a number of other areas that could result in RFPs. The common thread is they're the support services, the background work that's still very important.

We've also rebid the golf courses. Mayor Goldsmith privatized the management of the 13 city golf courses in the 1990s. He kept them under public ownership but outsourced them to private operators and pros. We just did a massive RFP for 12 of the 13 courses where we're offering 10-year terms and giving them the incentives to provide significant capital improvements to the golf courses so we don't have to on property-tax-supported funds. By the beginning of next year, we'll have operators with new 10-year contracts with significant millions of dollars in capital improvements made to the golf courses on the operator's dime, not on the taxpayer. We hope that also drives higher revenues to the city that can support the parks and other functions.

We also hired a marketing firm called Third Street through a Request for Information process, and they're working with us to help find new revenues to fund the city's needs. We're actively pursuing not just naming rights and sponsorships, but also deals where corporations and not-for-profits would donate or sponsor specific city needs to help us offset our expenses. We have two really successful examples in the parks with Brightpoint, the cell-phone distributor, who donated a lot of money and made significant capital improvements to Watkins Park. We also have a great partnership with Citizens Energy Group, which donated approximately $50,000 and made significant improvements to Brookside Park. We're aggressively pursuing those types of partnerships to help us offset our expenses because we're finding that while a corporation isn't thrilled about just donating money to city

government, a corporation will fund a specific need that works with the image that they're trying to market.

With the many types of public functions that could be jeopardized in a down economy, why not try to find through the not-for-profit sector or the corporate sector a willing sponsor for those services if they're in demand?

Lastly, implementing shared services—consolidating functions and then putting controls in place so that they simply must streamline and achieve the same levels of services with less people—is one of the critical tools that we have for doing more with less. For example, we've found that we had different types of code inspectors in many different departments across the city government, so we consolidated things like licensing, permitting, inspection and maintenance of violations—common functions undertaken separately by numerous agencies. We consolidated all of that into our new Department of Code Enforcement, which we're transitioning into a fully self-funded organization. This streamlined operation is keeping the city clean like never before and making it easier for businesses to quickly get what they need from city-county government. This is one example among many others, including our efforts to consolidate our township fire departments into our city fire department.

Gilroy: Indianapolis seems to be revisiting its roots, in a sense, as it has long been recognized as a leader in competition and competitive service delivery. Can you briefly reflect on how your administration's work ties back to a deeper lineage on government reform and privatization?

Ballard: I think that's true to a certain degree. We had a mayor in the 1990s who was definitely highly influential and was kind of a visionary in this area—Steve Goldsmith—and so in one sense, I think you've got an engaged citizenry who understands that there's a lot of money to be saved through competition. Many people recognize that government has its functions that should be limited and that it should do well, but that there're a lot of other functions of govern-

ment that can be provided as well or better by the not-for-profit and the private sector. In a sense, then, all the changes that happened in the 1990s set people's expectations, and I believe that they have a real openness to it that you don't see in a lot of other places.

I think the other thing is that given where we are in this economy, it's really forcing us and a lot of other cities to look and ask "what's next?" Mayor Goldsmith did a lot by outsourcing the management of wastewater, for instance, and saved a lot of money. Now, we're looking at the fundamental structure of the ownership of our water and wastewater utilities and saying, "can we do something even more substantial in a public-private partnership or something similar there?"

Last, there's just an entrepreneurial culture of government here that I think we share with not only former Mayor Goldsmith, but also with Governor Mitch Daniels's administration. It's helpful to have an entrepreneurial governor down the street.

Gilroy: Could you reflect on some of the challenges or lessons learned thus far along the way in implementing your reform agenda?

Ballard: First, creativity is absolutely necessary to meet our challenges, and we cannot be afraid to take on the status quo. Creativity is nothing to be applauded. It's what you should expect from your mayor and your elected leaders. It's what we used to bring crime down in some categories by 20 percent. It's how we turned a $200 million shortfall projected for 2012 into a $50 million surplus. That doesn't happen by mistake. That didn't happen because of tax hikes. That didn't happen because property values went up. It happened because we're managing the city, thinking big and being creative.

Also, we cannot be afraid to make mistakes. We shouldn't be afraid to suggest the most radical or creative idea because of the politics of it. We don't want to see our department directors allow politics to cloud the best ideas. We'll have other people worry about the politics, so don't

be afraid to make mistakes. Great deals make good government, and frankly, people tell me that's good politics too.

We also need to embrace transparency and being totally forthright with citizens on city government's performance. Transparency means sharing all the information—the good and especially the bad—and then engaging the community and the private sector to do something about it. For example, we adopted a Six Sigma Program involving corporations who embrace that particular kind of process. By the way, we're not partial to Six Sigma or any of these other methodologies; it's just a useful tool where you use data to drive decisions.

Our Six Sigma Program involves a pool of private-sector Six Sigma black belts trained in the approach who volunteer their time to spend with city employees on one problem, one initiative like potholes or trash complaints. Our potholes-resolution time went down from 13 days to 2 days now based on our last Indy Stat meeting. It used to take people five months, or 150 days, to get a new 96-gallon trash can from the Department of Public Works; now it takes 1.5 days. There are some significant process improvements that have been done just by partnering with Six Sigma black belts from the private sector who volunteer their time to work on one public problem. That necessitates being very open about how poor some of our processes actually are.

You can't be embarrassed about it. You just have to be very upfront and not blame individuals. I believe that governance demands a process

of continuous improvement. Here in Indianapolis we're getting to the point where we really see people at the middle-management level embracing performance measurement and management. It's not easy to do and requires constant follow-up, but now that we start to see it being embraced at the middle-manager level, it's pretty exciting.

Another key lesson is that in finding efficiencies and better operations, improving service has to be a central priority. We have to maintain or improve the level of service that citizens expect. In many cases, we have improved it. But we have to have a clear focus on delivering services to citizens the way they should be delivered, and the end goal should really be to make government provide the core functions that it's supposed to provide.

Last, I try to remind my staff and city taxpayers that no matter where we are, we have to do better. Even for all the improvements we've made, we've still got a long way to go and have to do better. Our taxpayers deserve no less.

Gregory A. Ballard is the mayor of Indianapolis, Indiana. After earning his undergraduate degree in economics from Indiana University, Mayor Ballard entered the United States Marine Corps. During his time in the Marines, he served in the Persian Gulf War, and upon his retirement, was awarded the Legion of Merit. He retired as a lieutenant colonel after 23 years' service.

After leaving the Marine Corps, Mayor Ballard successfully transitioned to the corporate world. He worked for several years as North American operations manager for Bayer in Indianapolis. He also is the author of *The Ballard Rules: Small Unit Leadership.* Mayor Ballard has been active in the community, serving as a tutor and an advisory board member for the Lilly Boys and Girls Club, as a contributing editor to both the *Indiana Minority Business Magazine* and the *Indiana Parenting Magazine,* and as founder of the Indianapolis Writers Group.

Chicago's Parking Meter Lease: A Win-Win-Win for Motorists, Taxpayers and the City

By Gene Saffold, Chief Financial Officer, City of Chicago

The City of Chicago, under the leadership of Mayor Richard M. Daley, has led the nation as the first local government to pursue and successfully close innovative leases of a toll road and an underground parking system. Most recently, the City of Chicago entered into an agreement for Chicago Parking Meters, LLC, to operate, maintain, and collect its parking meters. Together, these transactions have provided nearly $3.6 billion for Chicago residents and taxpayers.

Mayor Daley has prudently and responsibly used the proceeds of these concession agreements to protect taxpayers over both the short and long term, improving the quality of life for Chicago residents.

The Chicago Skyway, downtown parking garages, and citywide metered parking assets generated money used to establish a perpetual long-term reserve fund of $900 million to replace revenue generated by the Skyway and parking meters, retire $925 million in debt, reserve more than $700 million for mid-term budget relief, and invest more than $322 million in neighborhoods, parks, and programs that serve people most in need.

Each of these transactions eliminates long-term risks like operating and capital expenditures and changes in driver behavior.

After the $1.83 billion Chicago Skyway transaction closed and a long-term reserve was established, all three rating agencies upgraded the City's credit. Today, the City of Chicago enjoys its highest credit rating since 1978.

The $563 million lease of the downtown

parking garage paid off the City's debt used to build Millennium Park, a world-class attraction. The transaction also allowed for $122 million to be invested in Chicago's neighborhood parks.

While asset concessions have undoubtedly resulted in substantial financial benefit to the City, the City only privatizes areas that are not core competencies of government. Private operators can often bring experience and established management processes to bear, increasing capital investments, bettering efficiency, and improving quality of service. These were the tenets that guided the City during the metered parking concession.

The Metered Parking Concession

In June of 2007, the City of Chicago began conducting preliminary due diligence on the potential metered parking concession. A request for qualifications was distributed to more than 150 infrastructure investors and parking operations. True to its ongoing commitment to provide transparency and competition in the bidding process, the City issued press releases in several trade publications and posted the RFQ on its website.

The City received qualifications statements from ten prospective bidders in March 2008. They provided presentations regarding their technical and financial experience. Six were deemed qualified and were offered an opportunity to bid on the same concession package. Two placed bids. One bidder was ultimately selected based on a single determinant: who submitted the highest responsive bid.

The City was not under obligation to accept the highest bid. It only determined to contract with the winning bidder after determining whether doing so was consistent with its goals of (1) maximizing the amount of the net present value of financial consideration received from a potential concession while (2) promoting the implementation of innovative parking technology and (3) maintaining and improving the service levels to users of the metered park-

ing system. Using these factors as a baseline, the metered parking concession has been a success.

Maximizing Value and Use of Proceeds

The City valued the parking meter system prior to soliciting qualifications and bids. In determining the future value of the parking meters, the City discounted the value of future dollars because of risks like costs and utilization. There's a very real risk that meters will be used less in the future because of population trends, economic activity, alternative modes of transportation, and technology. To illustrate, the Model T is less than 100 years old, and Chicago did not have parking meters just 50 years ago. Technology will change how motorists park (if they continue to do so) in seismic and unforeseen ways.

The City utilized discount rates of 10% (the approximate discount rate used to value parking garages and similar assets) to 14% in its calculation. Further, the City factored a range of other assumptions, including rates, utilization, and risk allocation, to determine a value that would fairly compensate the City for a 75-year concession. Ultimately, the City and its third party financial advisors determined the value of the asset to be between $650 million and $1.2 billion. Based on this analysis and the City's budgetary goals, a minimum threshold of $1 billion was established.

The City received two bids, one meeting the minimum threshold at $1.008 billion, and one that did not at $964 million. To ensure the greatest value from the transaction, the city called a best-and-final bid phase, a right under the bidding terms if two bids were with 10% of each other.

In the best-and-final round, the bids were $1.157 billion and $1.019 billion, respectively. This final round heightened competition and ensured the City received an addition $148 million, the absolute highest bid.

The Mayor allocated the proceeds with an eye toward the future:

- $400 million in a long-term reserve/revenue replacement fund to offset the $19 million in parking meter revenues that were brought into the corporate fund in the year preceeding the transaction. This addition brought the City's reserves to $900 million and provided a financial cushion most cities do not have;

- $325 million in a mid-term budget relief fund to help balance budgets through 2012;

- $100 million toward projects helping those most in need through meals programs, heating assistance, emergency home repairs, and ex-offender and jobs programs; and

- The balance, nearly $320 million, in a budget stabilization fund to help bridge the recessionary period. Approximately $150 million of this fund was used to help balance the 2009 budget, avoiding tax increases (a 19% increase in property taxes, a 60% increase in sales tax, or a tripling of the vehicle fuel tax) and cuts (a 15% cut in

police, a 30% cut in the fire department, or a 50% cut in garbage collection and snow removal services).

Despite the market bearing out the system's true value, some have speculated that the City could have received more for the metered parking system. Unfortunately, those assertions did not utilize accepted financial valuation methods for infrastructure assets. They did not properly account for discount rates, risk, or for ongoing operational and capital costs. Further, they fail to recognize the money the revenue replacement fund will generate.

Innovative Parking Technology

The concession agreement calls for the replacement of all single space meters with a cashless option by 2011. The concessionaire began adding new multi-space, "pay-and-display" meters (or "pay boxes") to the street at an unprecedented rate in April 2009.

The pay boxes have a number of benefits:

- They provide more payment options for motorists, including coin, credit card or debit card.

- Motorists can pre-pay for time when there are no posted restrictions.

- Meters can be programmed for variable timetables and rates and can track utilization.

- Receipts can be used for business and tax purposes.

- Pay boxes reduce clutter on sidewalks and add to neighborhood beautification efforts.

Pay boxes are "green." They notify operators wirelessly when they require collection or are broken. Consequently, collection and maintenance crews need to visit meters less often. Travel reductions shrink the carbon footprint of collectors and mechanics and reduce congestion. Further, the devices are solar-powered, eliminating the need to dispose of more than 45,000 lithium and 9 volt batteries each year. The pay and display receipts are biodegradable.

Pay boxes allow motorists to take unused time with them. For example, if a motorist parks in a neighborhood parking spot ($1 per hour), he or she may use that pay and display receipt to park in another $1 per hour space at a pay and display anywhere in the City as long as the receipt has not expired.

To date the concessionaire had already replaced 24,000 meters with 3,500 new pay boxes. By the end of 2009—two years ahead of schedule—the concessionaire expects to finish the replacement of 30,000 meters at an overall expense of between $40 and $50 million. The concessionaire is prepared to make additional capital expenditures over the life of the deal, as pay-and-display meters are typically replaced every seven to 10 years. By contrast, the City was only able to fund and install 198 pay-and-display meters in a five-year period prior to 2009. Those pay boxes have already been replaced with 207 newer models.

Service Levels to Consumers

During the initial transition, the operator experienced some difficulties that caused motorists pain. Namely, the concessionaire misjudged necessary collections, leading to jammed and broken meters. The Mayor and the concessionaire have apologized for the transition, noting that it should have taken place gradually over several months so that the concessionaire's performance could be better monitored and problems addressed.

That said, the concessionaire's performance has improved immensely. In March, it took the concessionaire approximately 8 days to fix a meter. By April, it was addressing problems in just 1.6 days, better than the City was able to perform when it operated the system. Performance has steadily improved since. Today, the concessionaire repairs meters in just 2/10ths of a day.

The City has audited the system and has seen marked improvement. During the City's last audit, it only found 8 jammed meters out of 36,000 spaces. System operability is at better than 96%, a significant improvement over the City's past performance.

The City's parking meter division operated between 9 a.m. and 5 p.m. on business days. The concessionaire also operates a 24 hour call center to assist motorists.

Summation

The parking meter system today is a vastly different system than that provided to the concessionaire in February. Today, the changes implemented by the concessionaire provide parkers more convenience. These changes would have been difficult, if not impossible, to fund for the City.

Further, technology improvements ensure that the system will evolve with the needs of businesses and motorists. Traditional parking meters could not do that. The pay boxes provide the City with a myriad of options to creatively add or remove meters, modify hours of operation, vary period of stay, and adjust rates. These improvements afford the City the tools to make and implement decisions promoting meter turnover and availability, making businesses served by meters more popular, and reducing congestion and pollution.

Gene Saffold was appointed Chief Financial Officer of the City of Chicago by Mayor Richard M. Daley in March 2009. Prior to his appointment, Saffold was Managing Director–National Accounts for JP Morgan Chase & Co. and previously served as Head of Public Finance Investment Banking for J.P. Morgan Securities, Inc.

He has served as Trustee of the Chicago Board of Education and of the Teachers Pension and Retirement Fund of Chicago, and has been honored for his public service by organizations such as the Chicago Youth Centers, National Conference for Community and Justice and the Urban Financial Services Coalition of Chicago.

Public-Private Partnerships for Local Governments: The Sandy Springs Model

By Oliver Porter, former Chairman, Sandy Springs (Georgia) Charter Commission

In the past one hundred years there has been little change in the model for providing services by local governments. In what other area of life can we say that? In those 100 years we have seen the automobile flourish, air travel, space travel, computers and the internet. Yet, despite millions of innovations, we plod along with the same old inefficient and unresponsive model for local government services.

It is time that local leaders, at the very least, consider innovative ideas for improving a deteriorating system. Under the heading of innovative ideas, consider this.

Imagine starting a new city of over 90,000 people with only two employees. We did it. Imagine improved employee attitude, less cost, more responsive government, decreased long-term liabilities and happier citizens. We did it.

Now imagine the application of this model to your existing city. You can do it.

Four years ago, if anyone had suggested that I would be writing an article on local government, I would have laughed. The events of the past several years—which have included the implementation of a new city, providing advice to four additional new cities, writing two books on the subject of local government and becoming an advisor to local governments in Japan—have changed my view.

It might be helpful to offer a brief background on how my involvement with local government occurred.

The Sandy Springs Model

My community, Sandy Springs, Georgia, had for over twenty years been attempting to gain legislative approval to incorporate. It was clear that Fulton County was not providing services commensurate with the tax burden on the community, and incorporation seemed to be the only
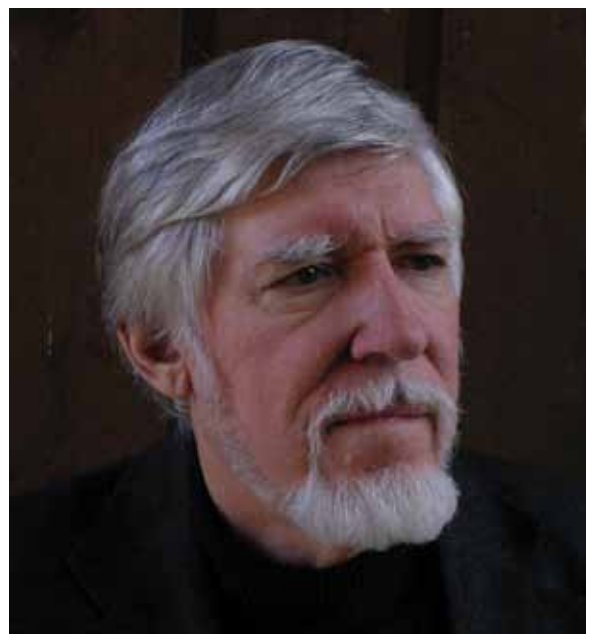
solution. The political party in power over that period had blocked the bills that would have authorized a referendum on cityhood, and promised to continue that position forever. In late 2004, there was a shift in control of the House (control of the Senate and Governor's seat had shifted in 2002), that suddenly made passage of the required legislation likely.

Suddenly faced with the probability of legislative success, the leadership of the cityhood movement had to change its focus from the legislative battle to the challenge of actually implementing the new city.

The committee asked me to be responsible for the implementation and conveyed the title of Interim City Manager, an unpaid position. My first step was to form a dozen task forces to address functions and services that were considered vital to the operation of the city. Sandy Springs is blessed with an abundance of talented and dedicated volunteers who stepped up to serve their community. The initial charge to every task force was to: (1) evaluate the needs of the community, (2) determine the level of service being offered by the county and the resources being devoted to those services, and, (3) determine the resources that would be required to provide the services under the new city.

The assumption as the task forces began their work was that we would be forming the city in the traditional manner, that is, by hiring employees and purchasing or leasing materials, systems and facilities.

In March, after only two months of diligent study it became obvious that it was not possible to implement the city in the traditional manner! The legislation that was proceeding toward passage included a very specific timeline. The referendum would take place in June 2005. Election of the city officials follow in November, and the incorporation would be on effective on December 1, 2005. Under any circumstances it would be difficult to start up a city of over 90,000 citizens—at birth, the fifth largest city in the state—in that short period of time.

Sandy Springs faced even more serious obstacles. The legislation was clear that until one minute after midnight December 1, there were no funds available to start the city, and no one had the authority to hire, make contracts or any expenditure on behalf of the new city. With no funds, no staff and no authority, we could see no method by which traditional city services could be established.

At this point, it was obvious that an alternative model was required and we began to explore options. There had been a limited number of cities that had turned to private industry for the provision of some municipal services. In most cases the services were limited to such functions as road maintenance, water works, etc. There were no examples of a city as large as the future Sandy Springs that had contracted for a package of services as broad as we were seeking. Recognizing that we were taking a risk by breaking new ground, I began to formulate a plan to provide all of the city's services—except for public safety, which is required to be provided by public bodies under Georgia's Constitution— through a partnership with private industry.

The first step was to convince the leadership of the organizing committee to consider the public-private partnership (PPP) option. Once again, we were blessed with intelligent and determined volunteers, who having devoted years to this undertaking, were determined to make it work. After due diligence, the organizing committee agreed to allow me to begin the preparation of Requests for Proposals (RFPs) that would place the broadest possible scope of services up for bid by private industry. At this point the only commitment was to explore the PPP option while keeping open any other possible models. It was plain that many in our leadership were not sure that the PPP option could become a reality.

Possibly my own optimism was the by-product of many years in the corporate world and a familiarity with the capabilities and resources that major companies could offer. So I dived into the unfamiliar task of writing the voluminous

RFPs to cover the wide array of functions and services that would be required. Included were the functions of administration, accounting, finance, purchasing, information technology, human resources, and the backroom support for the police, fire and municipal courts. The services to be provided were community development (planning, zoning, permitting and code enforcement), parks and recreation, and public works (road maintenance, traffic design and waste water).

The cityhood bill was passed by the legislature and signed by Governor Sonny Perdue in late April.

The bill authorized a referendum of Sandy Springs citizens in June 2005 on the question of incorporation, which passed with a 94 percent positive vote. The people of Sandy Springs were ready for a new city, but few had a good understanding of the complexity associated with the implementation of a full-scale municipal government.

The Governor, in accordance with the bill, appointed a Commission on Sandy Springs to advise and assist in the formation of the city. Unfortunately the Governor's Commission was also without funds, staff or authority. I was appointed to the five-person Commission and elected to be chairman at the initial meeting on June 29. At that meeting I presented the massive RFPs and asked approval to issue the requests under the sponsorship of the Commission. Showing an enormous amount of trust, the Commission voted to issue the RFPs with a response date from bidders of August 24.

In addition to the broad scope of services that companies were being asked to bid on in a very short response time, there was also a major financial risk that the firms were being asked to accept. Remember that no one had the authority to approve a contract until the elected officials were seated on December 1, 2005. The RFP clearly stated that the company that was selected would be required to spend millions of dollars to hire staff and provide materials and facilities months before a contract could be approved. In

fact, there was no guarantee that the contract would ever be signed. This was the first link in the chain of trust that would be required to make the PPP work.

Companies did step up to the challenge and a thorough bid and selection process took place. A selection committee appointed by the Governor's Commission did a very effective job of analyzing and rating the bids. The company that this committee recommended was CH2MHill – OMI. The next phase—contract negotiation—was also carried out by a committee of the Commission. During the negotiations, the CH2M had already begun assembling the required workforce and selecting sub-contractors to perform a major portion of the work of providing the city's services.

To provide an idea of the tight time frame for starting the city, it should be recognized that there were only nine weeks between the recommendation to select CH2M and the December 1 start date for the city of Sandy Springs. Anyone who has ever been involved with the start up of a major operation can appreciate the difficult and complex problems that had to be overcome to create city operations to serve over 90,000 citizens in such a short period of time. Suffice it to say, the job got done and it was done very successfully.

At one minute past midnight on December 1, 2005, the newly elected Mayor and City Council were seated with a full agenda of statutes, codes, contracts and other critical matters to act upon.

Sandy Springs has been a success story. Within the first year, a large police force and fire department were established in addition to the wide scope of services provided under the public-private partnership. The city has now been efficiently running for three and a half years. The citizen response has been overwhelmingly favorable. Up to this point the city has experienced a surplus of revenues over expenses in every year of operations.

While surrounding traditional cities have experienced severe budget problems during the current recession, Sandy Springs has enjoyed a

$14 million surplus, in addition to funding a $21 million reserve.

During the three and a half years of operations, Sandy Springs has paved more roads in the community than the county had in the past 20 years, created new parks, established a 125-person police force, and 89 firemen with all new equipment. The new city has vastly improved EMS capability, and has established a state-of-the art, joint electronic 911 service with another of the new cities. Cost sharing in many areas between the PPP cities has aided in keeping costs down. A much needed modern traffic control system has been installed. Local control over zoning, planning, permitting and code enforcement has been gained. The list of improvements is very extensive, and all of these changes have been introduced without tax increases. In fact, the city's taxes are lower than the taxes on the unincorporated areas of the county.

The PPP that looked so risky at first has been an outstanding success.

Additional New Cities Adopt the PPP Model

Taking note of this success, two additional cities in Georgia (Milton and John's Creek) were incorporated in December, 2006. I was asked to advise the organizing committees of both of these cities. In both cases the cities chose to adopt the PPP model. These cities serve smaller populations and have significantly smaller revenue streams than Sandy Springs, so it was imperative that services be provided as efficiently as possible. Once again, the firm of CH2M Hill emerged as the winning bidder from the selection process, and once again the cities were started on schedule and within their budgets.

In December 2007, a fourth Georgia city (Chattahoochee Hill Country) was incorporated, and it too followed the Sandy Springs model. Here again, I was involved in advising the Committee—this city was very small, only 2,500 citizens—so the PPP model had to be tailored to fit the restricted budget of the new city. The flex-

ibility inherent in the PPP model to handle such diverse sets of resources was indeed remarkable. However, in spite of the great start that city acknowledges that the PPP facilitated, severe revenue shortfalls have forced the city to cut back on the contract to make ends meet.

Finally, just over a year prior to this article, on December 1, 2008, the fifth new city in Georgia (Dunwoody) was incorporated. It probably is no surprise that this city has also adopted the PPP concept as its service model. A variation on the theme occurred when the elected officials chose to bid the services in three separate packages, but essentially the concept is the same.

Adapting the PPP Model for Existing Cities

The results are clear. The PPP is a successful method for implementing new cities. I am firmly convinced that the same level of success can be achieved by the conversion of existing cities to the model.

Certainly the success of Sandy Springs and the other new cities should be enough to create interest among existing cities. Five new cities, ranging in size from 2,500 to almost 100,000, are evidence of the effectiveness of the model.

This initial success of the PPP model has caused me to consider the advantages and obstacles that would be found in conversion of existing cities. We acquired a great deal of knowledge and experience with the model in a short period of time. In 2006, I decided to attempt to write a book on the creation of the city of Sandy Springs and the PPP model. My intent was to capture the information in writing, so that ensuing cities would have a blueprint for action. The title of the book was long, but descriptive: *Creating the New City of Sandy Springs* (subtitled: *The 21st Century Paradigm: Private Industry*).

The organizers of the new cities have read and expressed appreciation for the guidelines that the book provided. Leaders of many other communities across the nation have also indicated that they have benefitted from the descrip-

tion of a working, broad scale, PPP.

The interest expressed by existing cities led me to consider a second book that dealt with the conversion of "traditional" cities to the PPP model. Actually, when I speak of cities, the reader may also think counties, or other forms of local government. The PPP model is well suited for all local governments.

The fundamental question that was being asked was whether I thought that the PPP model could be applied to their situations. The answer was always: yes, the economic and service benefits are there for the taking, but the political challenges will be difficult.

In the case of the new cities we started with a clean sheet of paper and there were no embedded self-interest groups to overcome. Existing cities face several such elements, the most obvious being the existing work force. Unions, civil service rules, and sometimes state laws can reduce the flexibility of cities to affect any form of change. If the PPP model is to maximize efficiency and responsiveness, there must be an inevitable change in the work force. However, there are ways to mitigate the impact on employees, and these must be a vital component of introducing the PPP model.

While considering both the opportunities and challenges of converting cities to the PPP model, I began to realize that a second book was needed. The new book should address the benefits and problems that would be inherent in such a conversion.

As I formulated the framework for this new book, it became clear that to provide evidence of the superiority of the PPP model, an objective study of the costs associated with PPP cities versus comparable traditional cites would be helpful. Since Georgia Tech, an institute of excellent reputation, is located in my area, I opened discussion with representatives of that institution on the possibility of conducting such a study. There was significant interest from a research arm of the school, however funding was required, so I raised funds from a number of private sources interested in good government. All the sponsors shared the belief that an objective comparison of the two cost models would be very beneficial.
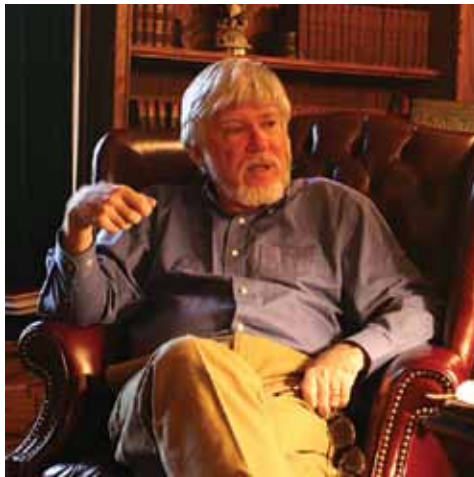
A preliminary draft of the study which compared five PPP cities with five comparable traditional cities showed that in every case the PPP city had a lower cost per capita than the comparable traditional city. The average cost per capita of the traditional cities was 128% higher than the cost for PPP cities!

This cost advantage alone should prompt the officials of existing cities to initiate feasibility studies of the PPP model in their cities.

International Interest

As I began to give thought to writing my second book, encouragement came from a very unexpected source. Representatives from Toyo University in Tokyo, Japan, visited Sandy Springs. My interview with them, scheduled for an hour, stretched into a half day, and at the conclusion they extended an invitation to lead major symposia in Tokyo and Osaka.

In February 2008, with more than 700 government, business and academic leaders in attendance, we kicked off the campaign to introduce the PPP model to Japanese cities. Later in the year I returned to Japan to address a conference of mayors, and will speak again to a symposium in Tokyo this Fall.

Japanese cities are burdened with an extraordinary level of debt. On average one-fourth of

their operating budgets are required to pay interest alone. To effect positive change, a combination of improved operating efficiencies through the adoption of a PPP, and debt reduction through privatization is needed.

My second book, published in 2008, is aimed at existing cities and is titled, *Public Private Partnerships for Local Governments*. This book addresses the benefits and hurdles involved with the conversion of traditional cities to the PPP model. Both books have been published in a combined version in Japan.

To date we have identified a pilot city in Japan with a population of approximately 50,000 to introduce the Sandy Springs PPP model. I am honored to serve on the PPP committee to recommend the process for introducing the new model.

The Future of PPPs in Local Governments

In the U.S, governments at all levels are bloated and have become increasingly less efficient. Federal and state governments are growing at an alarming rate and are daily becoming more intrusive into business and the private lives of citizens. Since the beginning of this year, the nation has made a head-long plunge into socialism. Under the cover of the current dismal economic picture, socialist-leaning politicians have taken the opportunity to introduce programs that would never have been acceptable in the past history of our nation. Many state governments have also succumbed to the siren call of federal funding and more government.

There is nothing that I, as an individual, can do about this horrible movement, but I have found the opportunity to address the direction of local government.

My work to date on behalf of cities has been offered without compensation. I am so convinced that something must be done about the growing cost of government that I have been willing to give freely of my time. It has become evident that a "voice in the wilderness" is not

sufficient, so we have formed a small consulting firm—PPP Associates—to assist existing cities in America and Japan as they seek more efficient and effective government.

Every city and county official should give serious consideration to converting to a PPP.

The economics support the superiority of the PPP model. The taxpayers deserve to be provided the most efficient and effective services that can be obtained. The success of cities that have adopted the PPP model should be sufficient evidence to compel leaders of traditional cities to, at a minimum, explore the opportunity.

The academic data and real life experiences are readily available. All that is required is the political will to consider alternatives. We need local leaders—heroes—who have the courage to investigate the PPP model.

When they do investigate, they will be convinced that local government services can be provided at a lower cost and with more responsiveness. I guarantee it!

Oliver Porter is a leading proponent of public-private partnerships (PPP's) for local government. In his role steering the start-up of the City of Sandy Springs, Georgia, he served as chairman of the Charter Commission, volunteer Interim City Manager, and Chairman of the Governor's Commission. Subsequently, Mr. Porter has served as the principal advisor to four new contract cities in Georgia, and to communities in a number of other states. His two books *Creating the New City of Sandy Springs* and *Public/Private Partnerships for Local Governments* (AuthorHouse: 2006 and 2008) have been used as blueprints by many communities. Currently, Mr. Porter is advising communities in Japan on conversion to the PPP model.

Oliver Porter is a retired corporate executive (Sales V.P. - AT&T) and a Registered Professional Engineer. An active volunteer at the national, state and local levels (past national chairman of the National Kidney Foundation, the Combined Health Appeal of America, and founder of a number of state and local charities), he has a lifetime of community service.

Tracking Taxpayer Capital: Recovery.org vs. Recovery.gov

By Eric Gillespie, Chief Information Officer, Onvia

"Good afternoon, Ms. Flores, thank you for taking my call. I know how valuable your time is and this will only take a minute. I want to talk to you about a ground-floor stock investment opportunity.

This particular company has been around for a number of years, although certain aspects of the business remain opaque. But let me tell you what we do know: There isn't really a historic track record of performance metrics on which you can rely. There have been consistent delays in delivery and more often than not the company has been significantly over budget on initiatives. They are almost always overleveraged and undercapitalized. That said, as part of this investment program, when they do run out of budget they will automatically debit your savings account to replenish their capital— but your ownership and return won't change. They may also choose to redistribute some of your investment to other shareholders based on who they deem more worthy. The board of directors is typically re-elected independent of the company's financial performance. And on average about 7% of your investment will be lost to fraud and waste right off the top. The minimum investment required is a third of your total annual income.

To what address can I send your investment prospectus?"

This scenario would obviously never play out

in an efficient, market-driven economy. Yet, this is the very scenario that America was presented with in the passage of the American Recovery and Reinvestment Act of 2009 (ARRA). With the passage of ARRA, there has been a ground-swell of expectations for efficiency and responsibility put in motion by the current Administration's statements about transparency, account-ability, and efficacy of the largest spending bill in American or European history. Unfortunately, the federal government has failed to make use

of the troves of available data to follow through on the commitment to bring change to spending transparency. And that is where my company, Onvia, and the private sector stepped in to fill the gap.

In the United States the balance sheet analytics conducted by a typical company in the private sector serve to guide decisions about future spending. Basic principles and historic performance of capital allocation, return on investments, efficacy, profit and loss are used as critical business intelligence to improve future performance. Without debating the merits or faults of Sarbanes-Oxley (SOX) regulation, suffice it to say that for publicly-traded companies SOX-level data informs both internal and external decisions for and about the company. Shareholders no longer tolerate a lack of transparency and technology ensures that they have thorough visibility at their fingertips.

Unlike corporate shareholders, taxpaying Americans have long tolerated a lack of transparency in how the government spends their capital. The level of data and the corresponding analytics that exist in the private sector rarely, if ever, exist in the public sector. When they are developed, they typically represent a discrete "point" solution crafted for a specific purpose. There is no comprehensive cradle-to-grave view of spending or its efficacy, much less for spending that begins at the federal level and filters through states and municipalities before reaching its destination. The audit process to root out fraud, waste and abuse is a latent view of events that provides no ability to change course but rather to only—in the best case—identify and prosecute the bad actors after the fact.

A shift toward intolerance of this lack of transparency, however, is being driven by the advance of technology, the internet, and the assumption that information is and should be easily accessible to taxpayers. The internet generation has a new set of expectations from its government. Although the volume has been increasing across the spectrum of discussions about transparency and accountability in government, the government's ability to provide this level of insight is severely encumbered. There is no prognostic dashboard with metrics, gauges, or dials on which the President's Council of Economic Advisors works to plot the impact of federal spending at the regional level or convey those expected impacts to local leaders who can positively influence the outcome.

When looking for a comparable analog for the components required to track spending on a federal scale through to its local impact, it is helpful to consider both the "revenue side" and the "expense side" of the federal budget. On the revenue side, the Internal Revenue Service (IRS) tracks the flow of capital in granular detail: every citizen and entity in the country reports his income, number of dependents, profits and losses on investments, the home he owns and interest paid on his mortgage, and the taxes paid on the car he purchased, as examples. On the expense side where the purchase of goods and services occurs, the government marketplace is by far the largest vertical "industry." Citizens, businesses, non-profit organizations, state and local agencies, and schools are all involved in spending. However, the level of transparency and tracking on the expense side pales in comparison to that on the revenue side. From a technology perspective the IRS is able to sift through massive amounts of data on the revenue side because it has established standardized forms for processing, invested in large data centers, and employs countless programmers. For the federal government, the expense side of the equation is just as complex as the revenue side; it just isn't tracked and reported with the same veracity.

In order to achieve even an initial modicum of transparency in government, a basic set of data about spending is requisite. The mantra "If You Can't Measure It, You Can't Change It" is just as true in the public sector as it is in the private sector, and without this data neither government nor taxpayers will be able to hold government accountable for decisions.

Recovery Act Data

Since the passage of the ARRA, government, industry and taxpayers have turned the spotlight on the obligation and allocation of stimulus capital in particular and government spending in general. The difficulty of executing on the promised level of transparency in stimulus spending brought the oft-blurry line between the public sector and the private sector into full focus, and my company was thrust to the forefront of the dialogue about transparency, government data, accountability and innovation.

For more than a decade Onvia has invested in the development of proprietary technologies and processes that track the purchasing activities of federal, state and local government agencies. We aggregate this information for our clients: the small and medium businesses around the country that sell their goods and services to these sundry government agencies. We also partner with organizations such as local chambers of commerce to provide government contract visibility for their members. Our products contain information about government spending, built up from millions of goods and services transactions from across every vertical industry—from construction, engineering, and architecture to health care, energy, water, and information technology.

As draft versions of the ARRA were being published by the House and Senate at the beginning of 2009, we recognized that Recovery Act funds would be primarily distributed through existing programs—from federal agencies to states and municipalities—and ultimately end up in the hands of contractors and subcontractors who would create jobs in local communities. The expected beneficiaries were a diverse group of mostly small and medium businesses where economists agreed that, if anywhere, a "flywheel effect" of job creation would happen. Tracking these funds down to the local level is, however, stunted by a "transparency barrier" that exists between the federal government and state and local governments, exposed with the passage of the Recovery Act and with the speed at which the funds were intended to be disbursed.

With the transparency and accountability provisions in the final bill, we knew that we had a unique set of capabilities to track how stimulus funds would be spent, capabilities that the public sector would struggle to recreate even with the $84 million allotted in the legislation for the creation of the Administration's Recovery.gov website and board. When combined with the multiple bailouts, the stimulus legislation represented a historic shift of power to Washington D.C.; we believed that filling the visibility gaps in the flow of capital from D.C. out to the thousands of government agencies that perform various functions in the communities in which we all live was an important and necessary role. We decided to leverage our unique assets to provide as much visibility as possible, in as close to real-time as possible, into stimulus-funded projects for the broader business community, and to demonstrate what could be accomplished for far less than $84 million.

We launched the website Recovery.org at the end of March 2009 to accomplish several goals including: accelerating capital absorption in local economies and creating jobs, driving down the cost of goods and services purchased with taxpayer dollars by broadening the set of qualified vendors that bid on the projects, and reducing fraud and waste, all while demonstrating capabilities that already existed in the private sector. It took us less than four weeks to develop an initial version of Recovery.org and the initial version cost less than $10,000; in its final version today, with a greatly improved user interface, security platform and data warehouse, we have invested less than $100,000 total in the website. Compare that with the recently announced $18 million contract, awarded by the Recovery Accountability and Transparency Board, to redeploy Recovery.gov. Although the sites were developed with different intent and scope, the underlying premise and approach is almost identical; it's hard to fathom what might warrant spending at two orders of magnitude greater.

As examples of government using data to hold itself accountable, 13 out of 15 of the most

frequent recurring visitors to our website Recovery.org are federal agencies including the Department of Energy, the Department of Transportation, the Department of Labor, the Government Accountability Office, and the General Services Administration among others. In addition to federal agencies using the site to identify how states are spending stimulus funds, states are using the site to determine how counties and municipalities are using stimulus funds. We recently assisted the Department of Energy with a multibillion dollar reporting error in their data which they uncovered by using our website.

The need to get capital moving in local economies, to create jobs as rapidly as possible, combined with an unprecedented level of spending, presented an opportunity for unprecedented waste and fraud. Earl Devaney, Chairman of the Recovery Accountability and Transparency Board, has estimated that $55 billion of taxpayer dollars may be lost to fraud, which is particularly true at the state and local level where the Administration has very limited visibility.

That number is half the GDP of New Zealand, Egypt and Iraq; about the same as the GDP of Vietnam, Luxembourg, and Ecuador; and five times the entire GDP of Afghanistan. According to figures from the World Bank and the International Monetary Fund, the fraud alone in our ARRA spending would represent the 60th largest economy in the world.

Eliminating the transparency barrier with only a 1 percent improvement in fraud would save the American taxpayers $550 million, or the equivalent of the annual salaries for more than 10,000 teachers. With the aggressive spending timeline, we predicted there was going to be little opportunity to stop waste before it began. Instead, investigations into fraud and waste would only happen *after* spending occurred.

With the availability of data, the Recovery.org website and our approach to the market via the website provide a good case study for analyzing the spectrum on which the public sector stops and the private sector starts in terms of providing transparency resources. The Recovery.org website also highlights the upside economic value of cost reduction and wealth creation in unleashing government data.

The Sleeping Giant: Standardized Formats

The economic and societal impacts of exposing government-wide data, like ARRA information, in standard formats are profound and have the potential to spawn a new era of innovation-driven economic activity. There are many challenges, however, with aggregating and presenting vast amounts of unstructured data in meaningful ways. The federal government has made an effort in recent years to open some of its data coffers, some successfully and some unsuccessfully. While there has been significant progress at the federal level as a result of the Coburn-Obama Act and USASpending.gov for tracking and reporting, the process of obtaining quick, accurate information about federal spending remains difficult at best. The government has focused more on creating user interfaces, often struggling to do so, and less on simple, standard data formats that expose the core data in a way that it can be repurposed.

Add to this that much of the most interesting information is not in the coffers of the federal government but in the highly fragmented state, local and education marketplace—data about the communities in which we all live. For state and local levels of government, there is no ecosystem of interaction, no interoperability, and no single source of truth. There is no parent-child relationship between the federal, state, and local governments, and thus there is no comparable USASpending.gov-like platform for state, local and education procurement. In actuality there are almost as many programs, rules, and platforms as there are agencies around the country—more than 89,000 in all.

The Role of Innovation in Government

History shows us that attempts at innovation fail more often than they succeed, and the

bolder the innovation the greater the risk. In both the private sector and public sector this often leads to significant monetary losses, but the risk-reward framework could not be more different when comparing the private sector with the public sector.

The federal government has recently adopted the "innovation" buzzword as part of its agenda, and with the launch of its website Data.gov it has started the process of exposing troves of as yet untapped datasets. But does exposing data mean the government should attempt to have an innovation agenda?

The government was purposefully built to change slowly and remain stable. Inherent in this structure is a culture of assuming as little risk as possible in decision making. The pillars of transparency and openness in government have historically discouraged innovation. The fear of public scrutiny creates a high level of risk-aversion and often undermines efforts of reform. In most cases there is little incentive to explore breakthrough solutions. Caution is rewarded, not risk, and process, regulation, rigidity and hierarchy are prized over innovation. For these reasons, one could argue that the government is not structurally capable of assuming risk and moving fast to capitalize on innovation.

Contrast that with the culture of Silicon Valley where failures are seen as a rite of passage or badge of honor. Risk is measured, discussed, and assumed with aplomb by informed investors instead of obfuscated for taxpayers. In the private sector there is a Darwinian accountability for losses and a financial incentive for gains; greed and fear serve as the two primary motivators of innovation in the capitalist system. Ideation, experimentation, and inventiveness are rewarded. Companies and divisions within companies are started, structured and staffed with a stated purpose, not retrofitted to match a long-standing, preexisting paradigm.

The historic innovations of government have been in areas where big challenges are met with significant force and a methodical, structured approach. You don't have to go back as far as the Apollo space program to find good examples of where government has been successful at promulgating data and innovations: the global-positioning satellite system (GPS), supercomputers, the human genome project, the internet, and the intellectual property marketplace, among others.

However, in all of these recent examples the real economic and societal value came not from the big transformational innovation in the government, but rather from the incremental innovations from private industry which followed. Innovation is a process through which economic value is extracted from knowledge and ideas. Innovation is only as good as the economic value it creates, and government data is a terrific starting point.

Going Forward

The Obama Administration has outlined an agenda for energy independence, education, climate change, healthcare, and Wall Street reform. As government spending increases in the coming months and years, the innovation, data and analytics related to these programs becomes hugely important. Instead of maintaining the status quo with existing paradigms and programs, these ambitious agenda items can, and should, all be heavily supported by free enterprise with proper incentives and new approaches that are not constrained by existing ones. If constituents want bold change, we collectively need to ensure that government is optimally leveraged when and where it can have the greatest benefit and incentives are provided for private sector innovation.

Looking ahead, the government should focus on accelerating the movement of its data and innovations into the hands of the private sector. To accomplish this a new framework is required in order to identify transformational innovations to which scarce taxpayer resources can be judiciously applied, as is a codified process to isolate the variables that will continue to spawn new opportunities. Precious taxpayer

resources should be concentrated on the areas that have the highest propensity to be a catalyst for growth. The old approach may be insufficient to address the challenges that come with being competitive in a global market, but a new approach of focusing on the raw materials, like standardized data, of transformational innovation and allowing the private sector to create the finished product of incremental innovations will allow us to tap the entrepreneurial genius in the United States.

Lastly, the data and technology exist today to bring high-level scrutiny to government spending. Our elected officials, effectively our public sector board of directors entrusted with protecting our resources and interests, should certify finances and decisions no differently than those of us who are officers in publicly traded companies. Unleashing these troves of data will, over time, organically guide government to make the right choices and focus on the right things—the

things that matter to us as shareholders in the American experience.

Eric Gillespie serves as senior vice president and chief information officer of Onvia. He leads marketing, human resources, products and services, as well as technology, content and research for the company. Prior to Onvia, Gillespie served as executive vice president and chief operating officer at The Patent Board. His experience also includes senior positions at Scient, Computer Sciences Corporation, and IBM. Gillespie's views on creating value through innovation and technology have been featured on National Public Radio, *The Economist, The Wall Street Journal* and the *Washington Post* among other leading publications, and in testimony before the U.S. Congress.

Innovators
in Action