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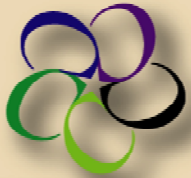
# *Transforming Government Survival in the Age of Permanent Fiscal Crisis*

***David Osborne***

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Group

[www.psg.us](http://www.psg.us)

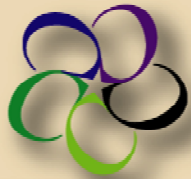
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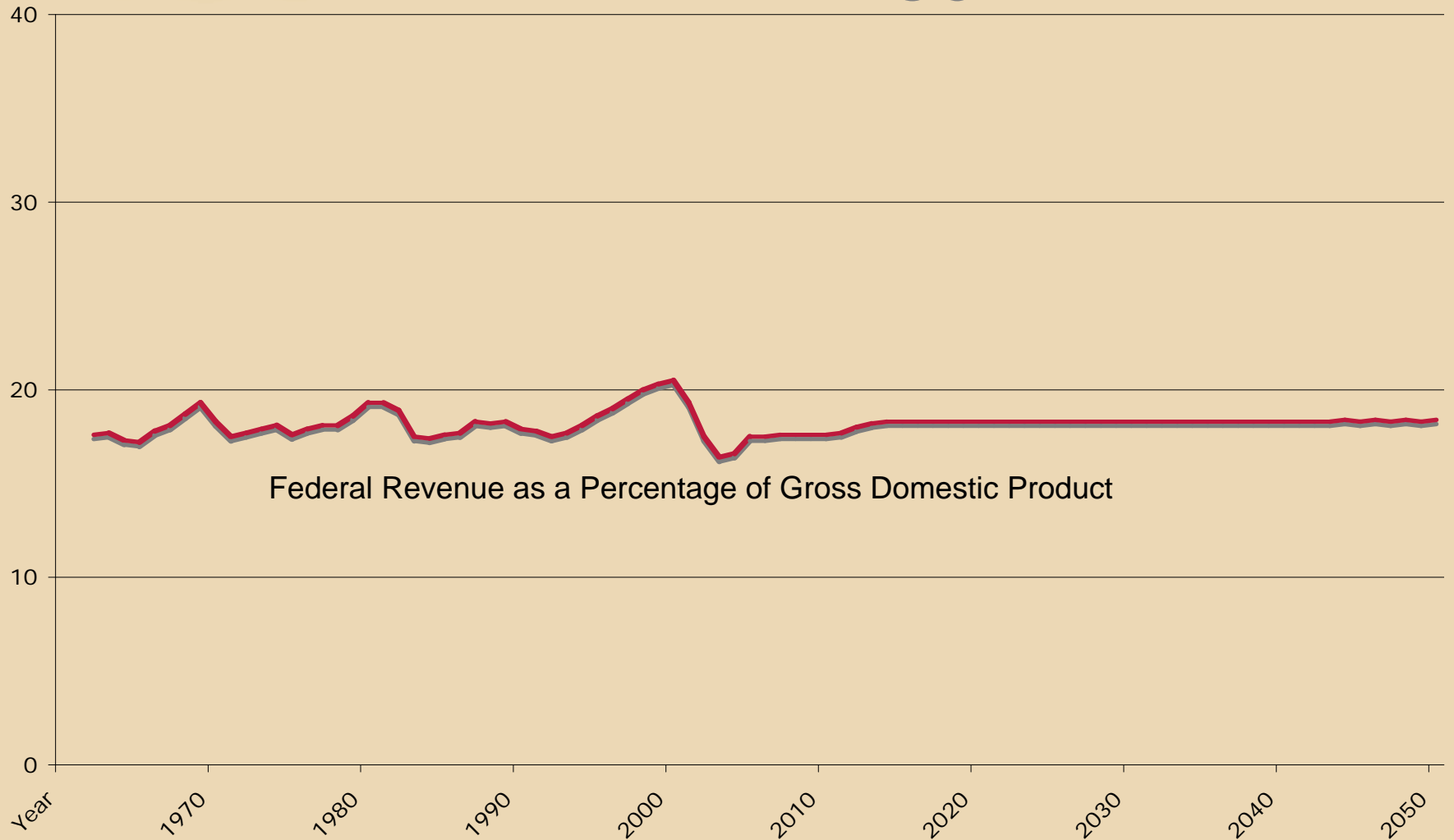
*“The trouble with our times is that the future is not what it used to be.”*

*Paul Valery*

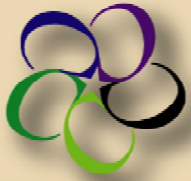


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# The Coming Federal Train Wreck

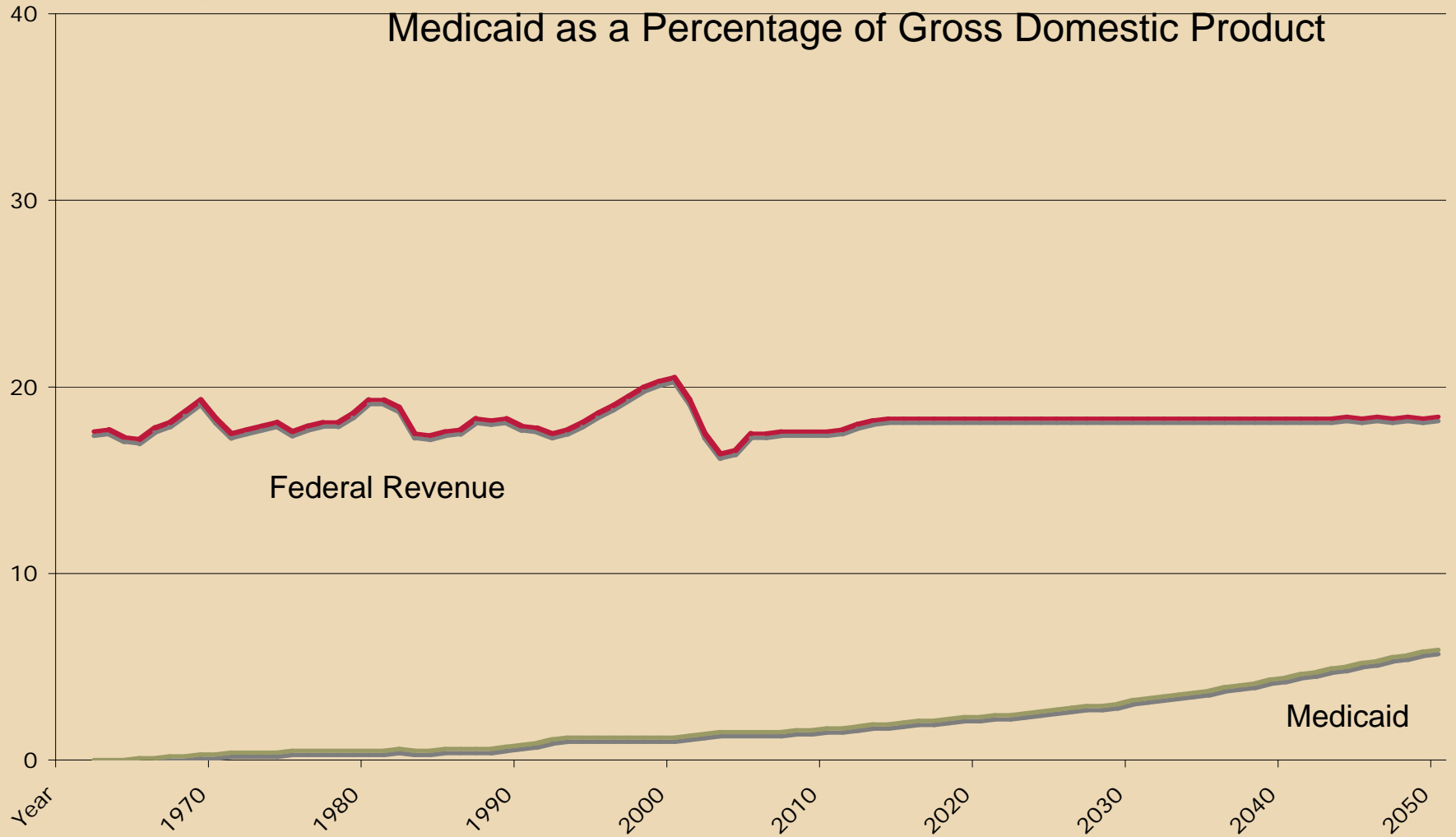


Source: Congressional Budget Office: The Long-Term Budget Outlook 2005

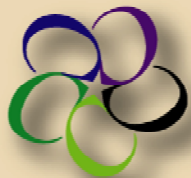


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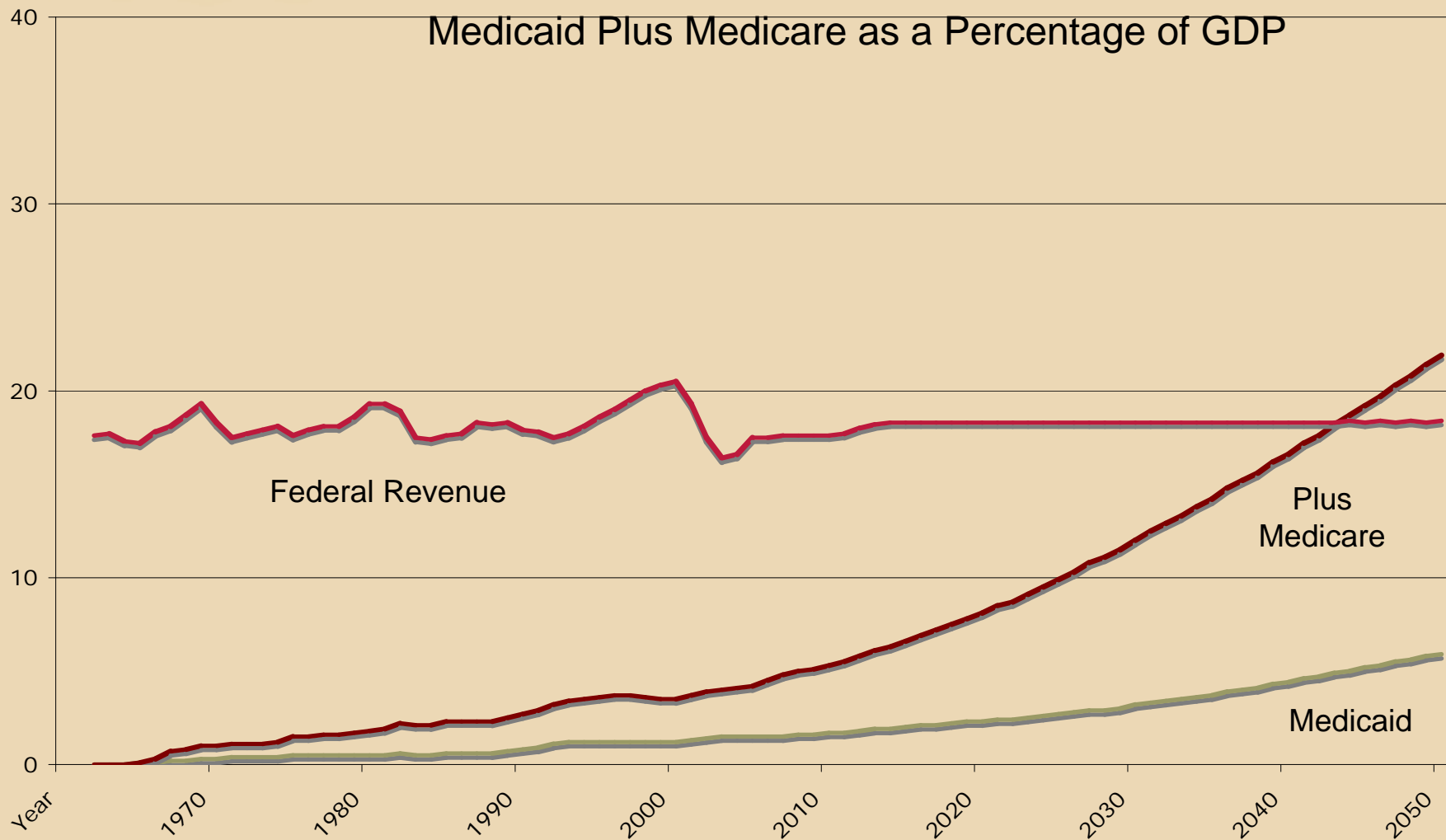


Source: Congressional Budget Office: The Long-Term Budget Outlook 2005

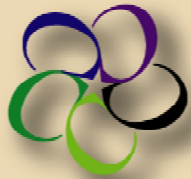


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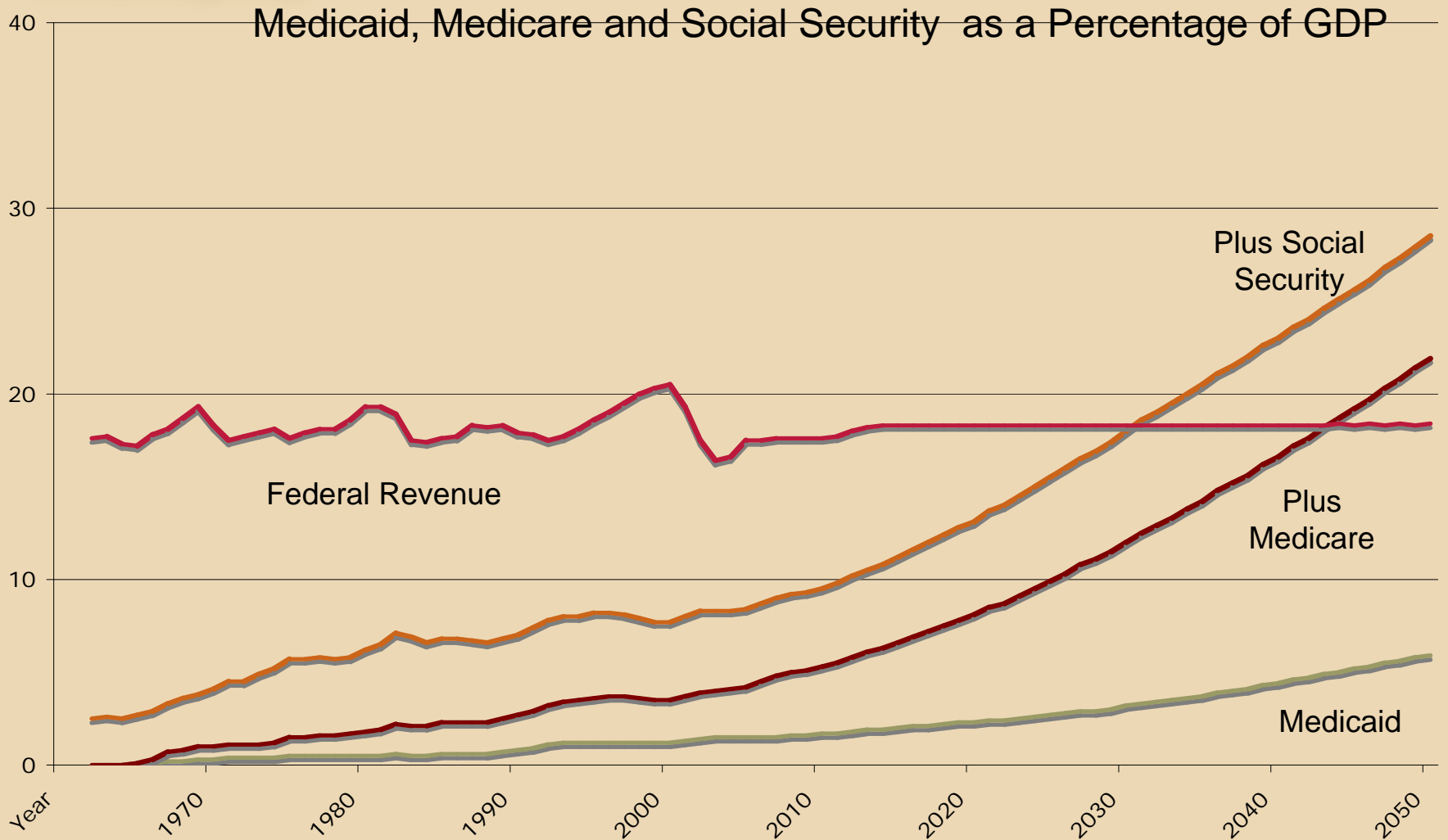


Source: Congressional Budget Office: The Long-Term Budget Outlook 2005

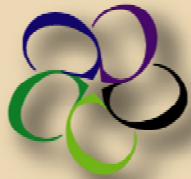


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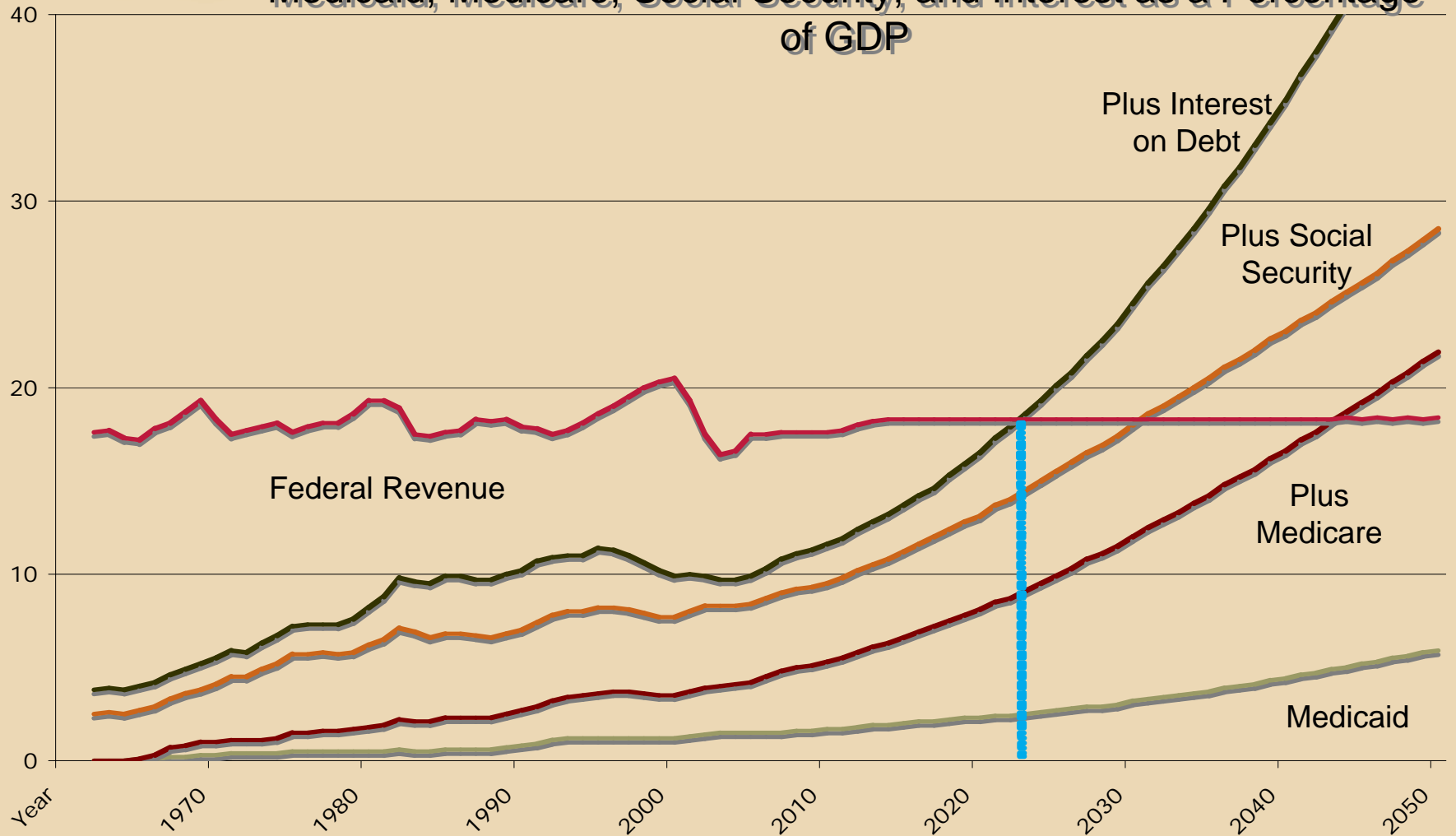
Source: Congressional Budget Office: The Long-Term Budget Outlook 2005



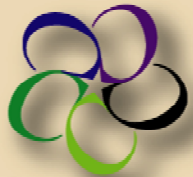
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# The Coming Federal Train Wreck

## Medicaid, Medicare, Social Security, and Interest as a Percentage of GDP

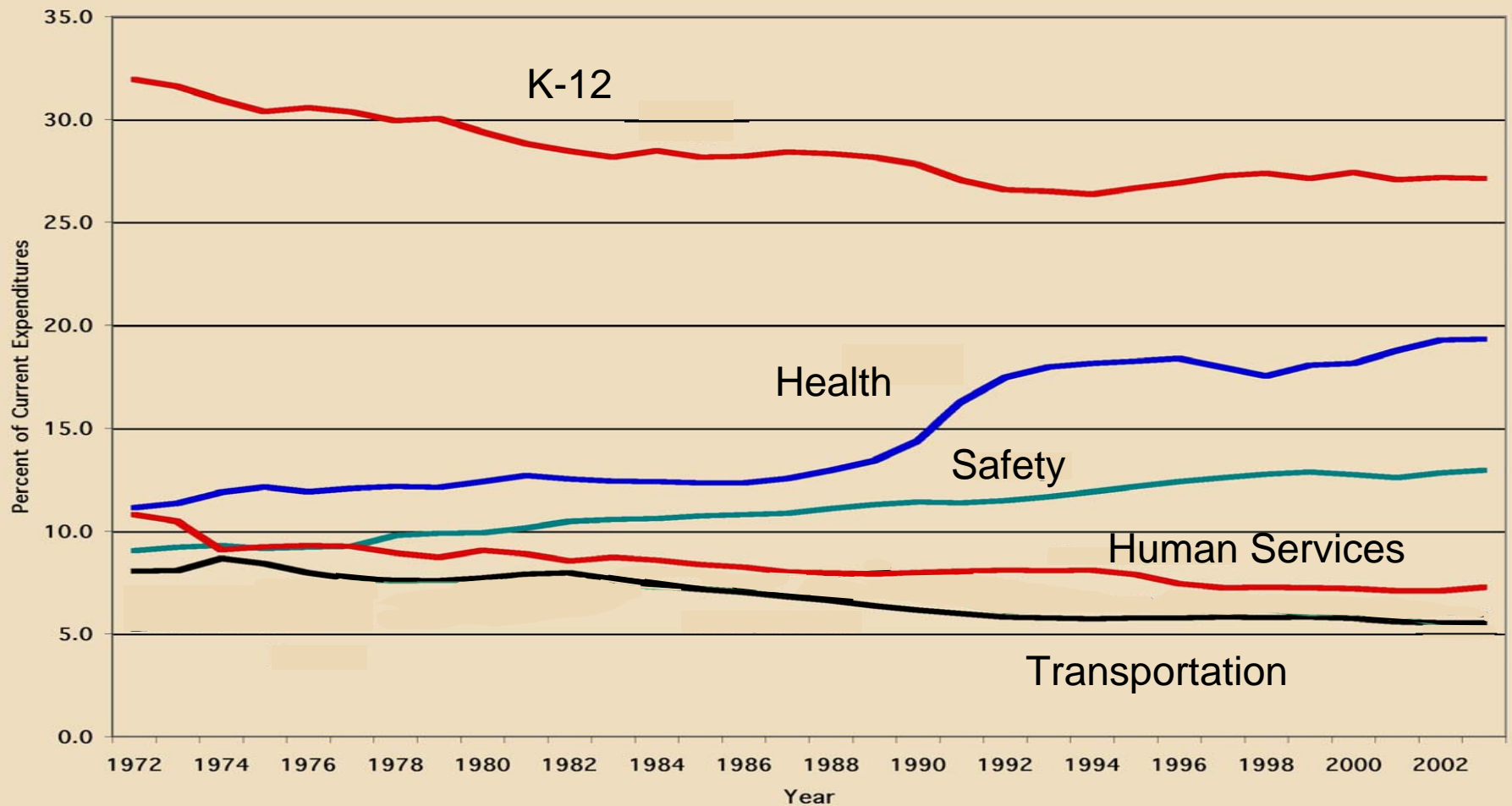


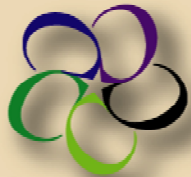
Source: Congressional Budget Office: The Long-Term Budget Outlook 2005



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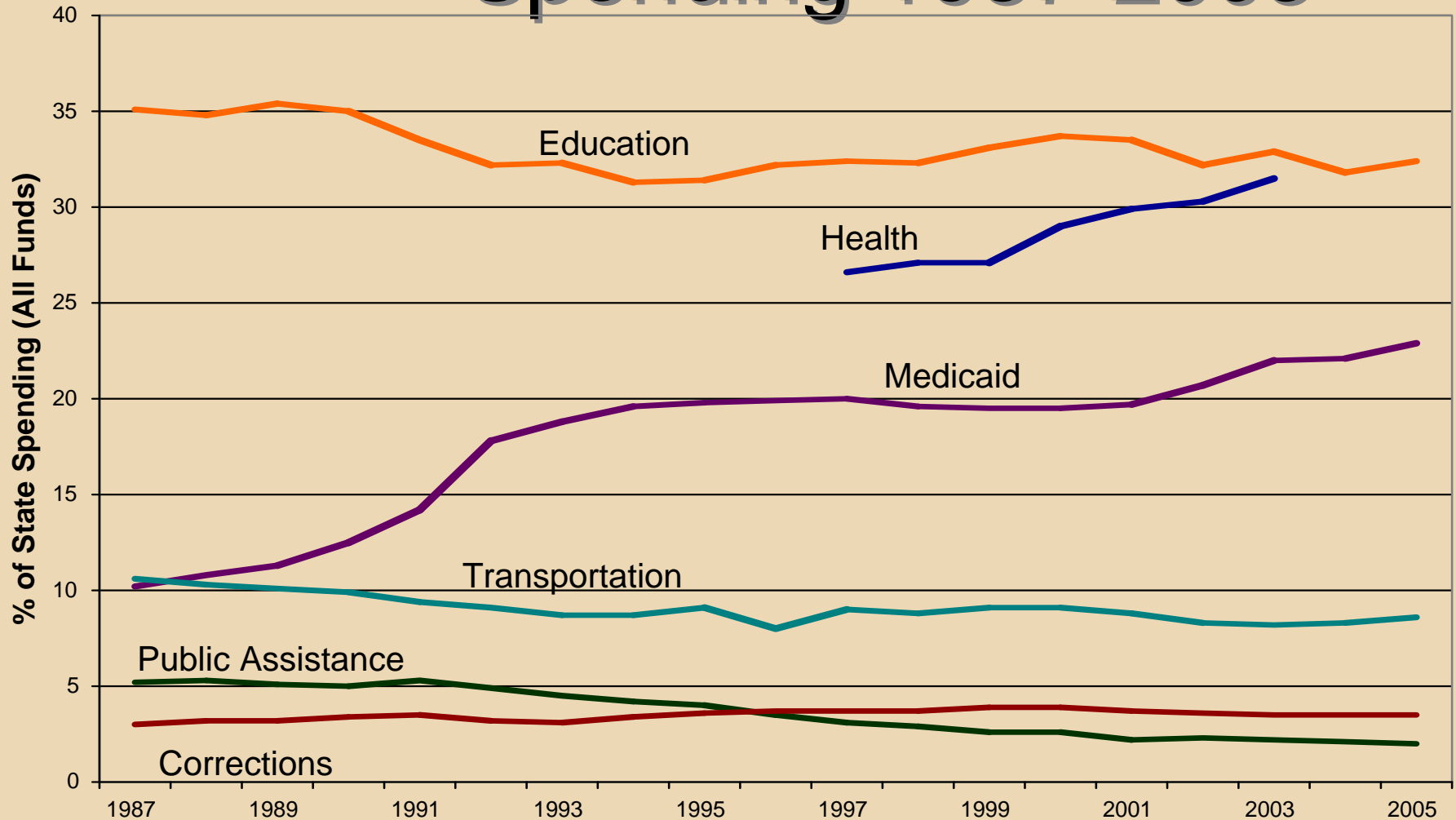
# Distribution of State and Local Spending, 1972-2002



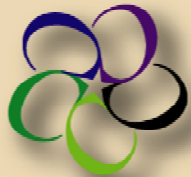


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# Distribution of State Spending 1987-2005

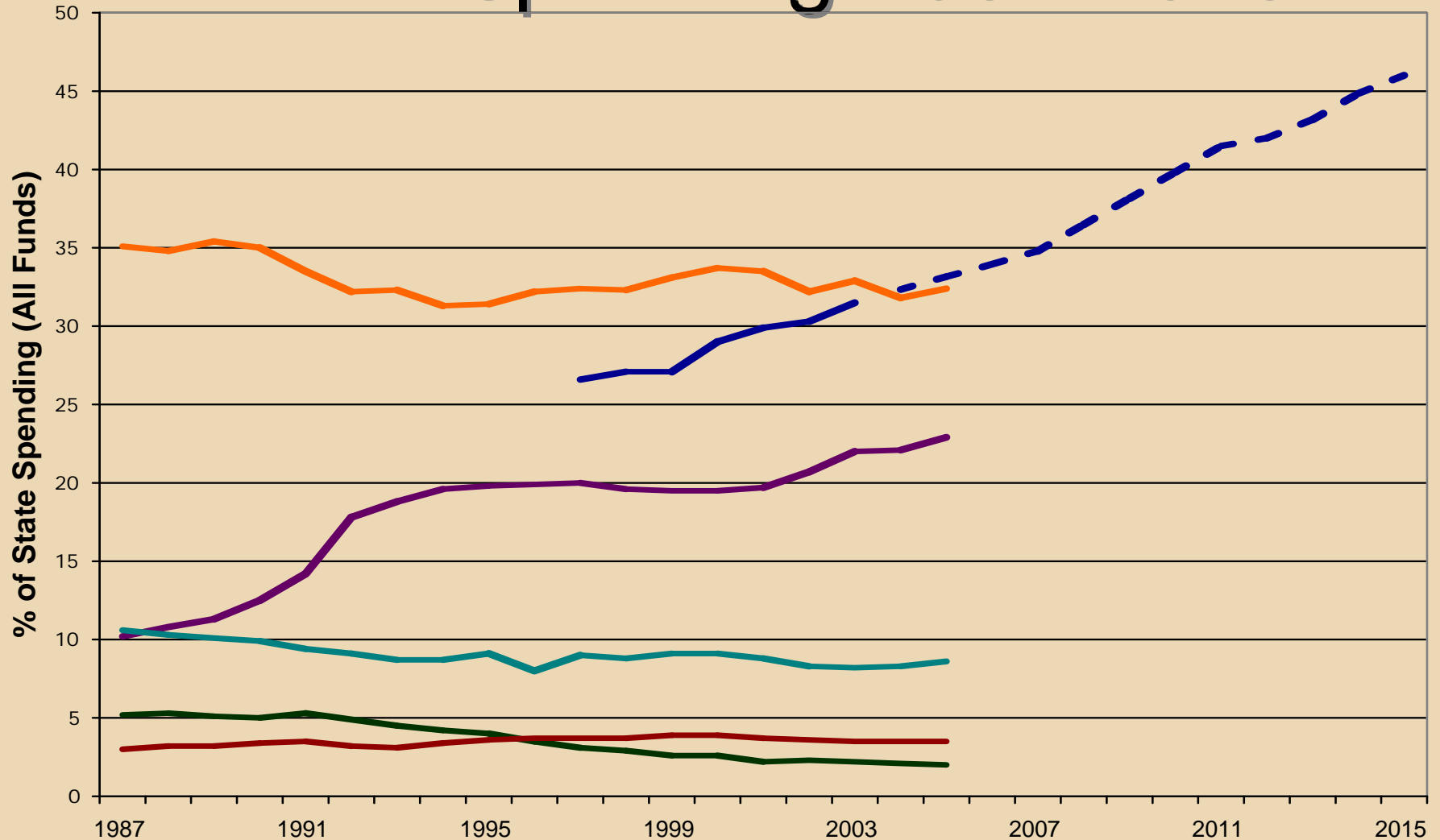


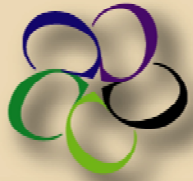
Source: National Association of State Budget Officers



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# Distribution of State Spending 1987-2015

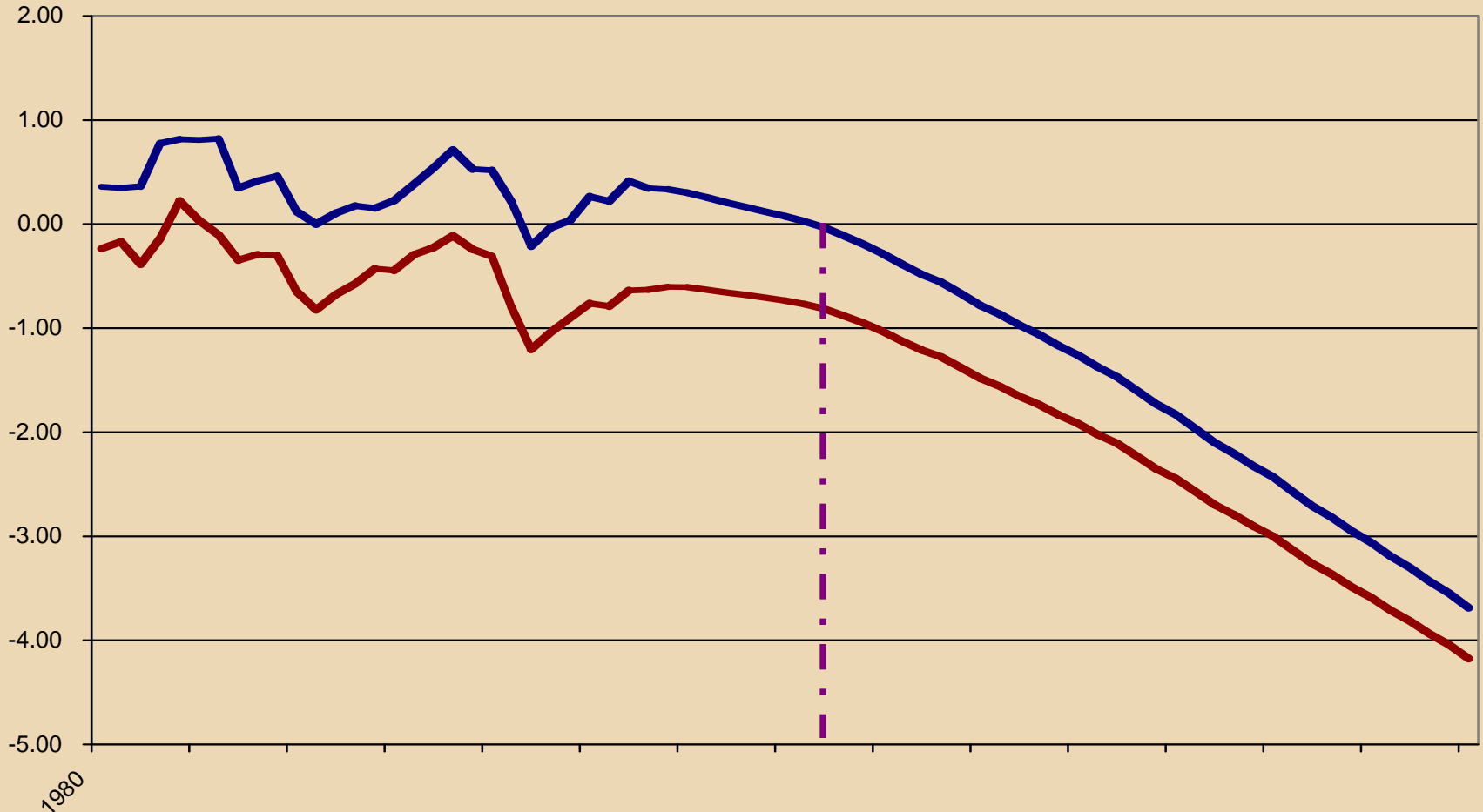


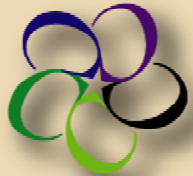


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# State and Local Government Surplus and Deficit 1980-2050

As a Percentage of GDP



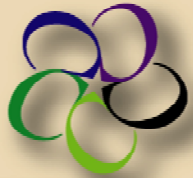


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# The Fiscal Crisis is Permanent

A “perfect storm” – the convergence of inexorable cost drivers:

- 10% annual increase in health care costs.
- Pension (and Social Security) obligations as population ages.

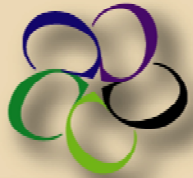


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# The Fiscal Crisis is Permanent (2)

## Obsolete revenue systems:

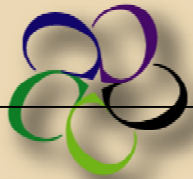
- No sales tax on most services
- No sales tax on most Internet transactions
- Corporate tax revenues declining as global market moves profits offshore



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# Is a Solution Possible on the Revenue Side?

I.e., can we tax our way out of this  
problem?



# Connecticut State and Local Price of Government 1972-2005



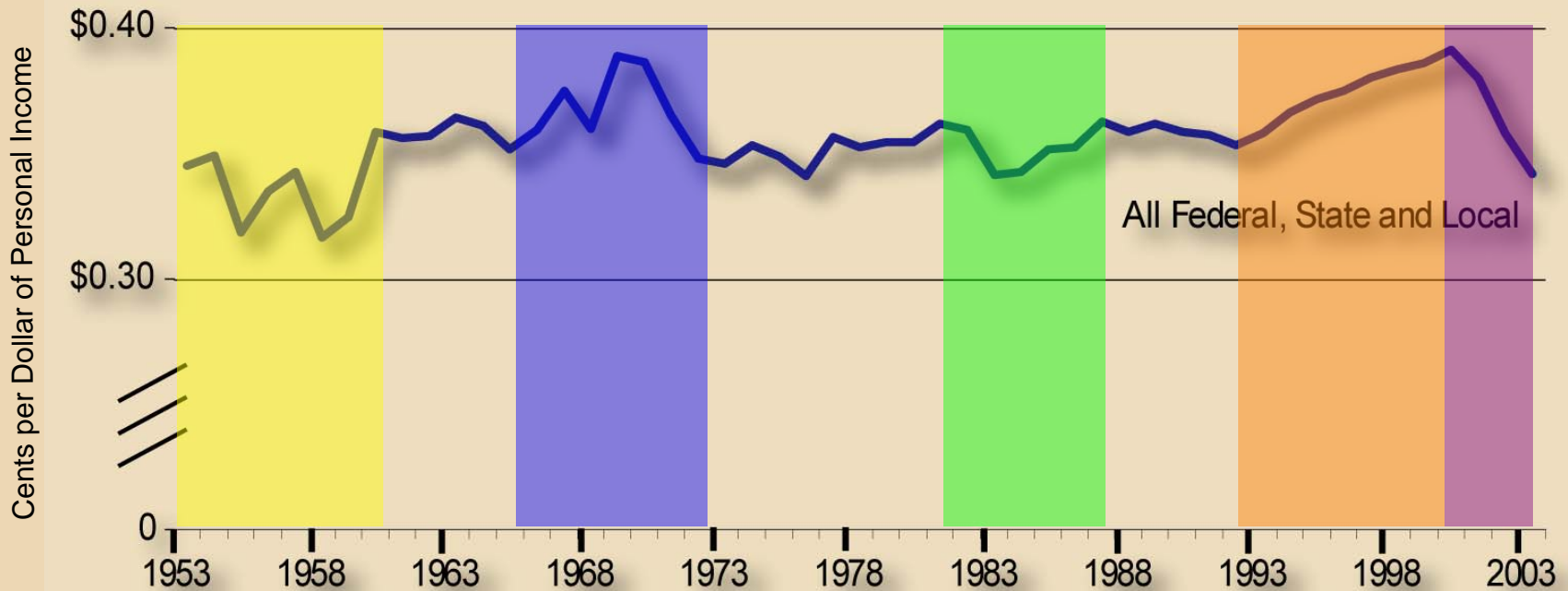
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# The Price of Government in the US 1953 to 2003

Cents per Dollar of Personal Income

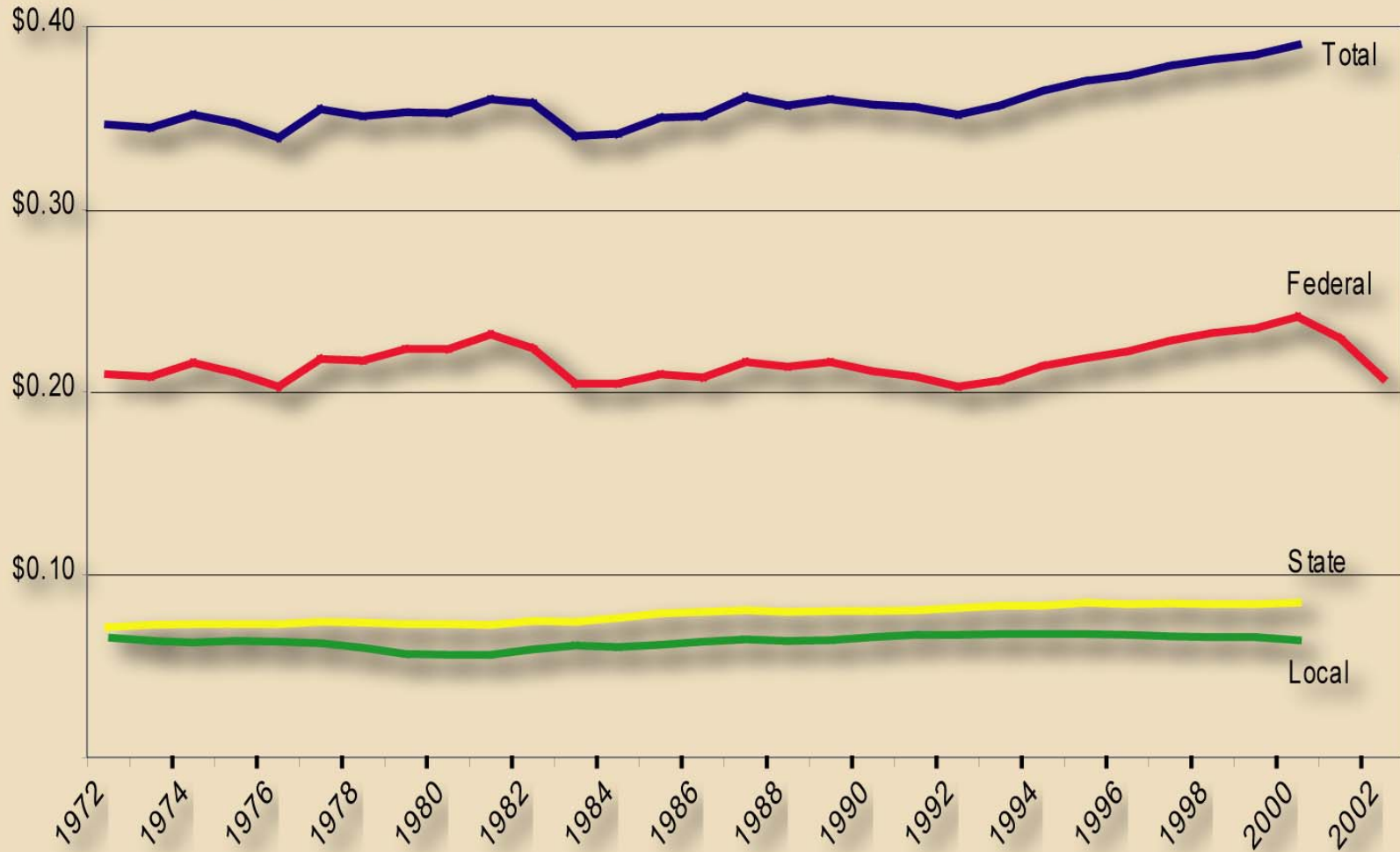


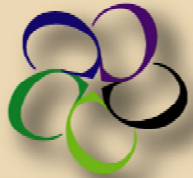


# Price of Government by Level

Cents per Dollar of Personal Income

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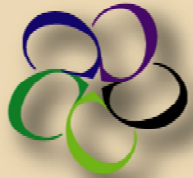




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# That Means...

1. Connecticut needs to reprioritize: get rid of low-value spending and invest in high-value spending.
2. Connecticut needs to get control of health care cost inflation.
3. Connecticut needs to reinvent its public institutions, so they can deliver better results with less money.

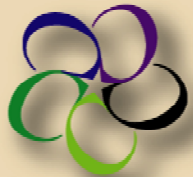


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# I. Reprioritizing

State priorities are set in the budget process.

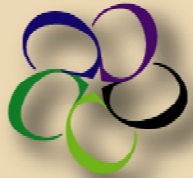
So, how does that work?



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# The Current Budget Game

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



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# The Current Game (cont'd)

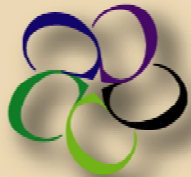
Incentives	Build up costs - make cuts hard
Analyst's job	Find hidden/ unnecessary costs
Elected's job	Choose to cut services, OR Raise taxes to cover costs <b>GET BLAMED!</b>
Focus of debate	What to cut What to tax
What drives decisions?	Avoiding pain before next election



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# Changing the Budget Game

- Wouldn't it be nice if Connecticut could develop a real strategic plan and use it to drive its budget decisions?
- Wouldn't it be nice if it could integrate performance budgeting into the process?
- And wouldn't it be nice if it could throw in a little zero-based budgeting?



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# A New Game: Budgeting for Outcomes

## States

- Washington
- Iowa
- South Carolina
- Michigan
- Louisiana Dept. of Culture,  
Rec & Tourism

## Counties

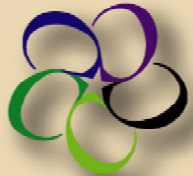
- Snohomish, WA.
- Multnomah, Oregon
- Mesa County, CO
- Polk County, FL

## Cities

- Azusa, CA
- Los Angeles
- Spokane, WA
- Dallas, TX
- Ft. Collins, CO
- Northglenn, CO
- Redmond, WA
- Eugene, OR
- Tacoma Parks District

## School Districts

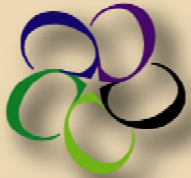
- Jefferson County, CO



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# Budgeting for Outcomes Asks Four Basic Questions

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



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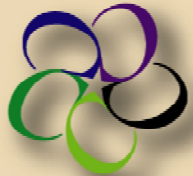
# 1. Decide How Much to Spend

- It's a choice: Raise taxes or fees? Cut spending?
- Look at the historical data: citizens have been telling you how much they are willing to spend for decades.

The Price of Government =

All Taxes + Fees + Charges

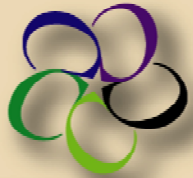
All Personal Income



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## 2. Set the Priorities of Government: the Outcomes Citizens Desire

- Ask the citizens:
  - Surveys
  - Focus groups
  - Internet surveys
- But elected leaders make the final decisions.



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# WA Priorities of Government

## Results

Increase student achievement K-12.

Improve the quality and productivity of the workforce.

Deliver increased value from post secondary learning.

Improve the health of Washingtonians.

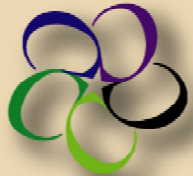
Improve the condition of vulnerable children and adults.



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# WA Priorities of Government

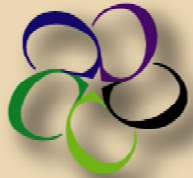
Results
Improve economic vitality.
Improve the mobility of people, goods, information and energy.
Improve public safety.
Improve the quality of WA's natural resources.
Improve cultural and recreational opportunities.



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### 3. Price the Priorities: Decide How Much to Spend on Each

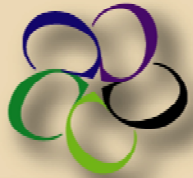
- How much are they each worth? Not how much do they cost?
- It's judgment--a strategic choice--not science.
- These numbers can be adjusted later in the process--but they serve to create a finite pot of money for each outcome goal.



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# Washington State: Pricing its Priorities

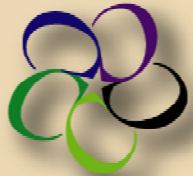
Results	
Increase student achievement K-12.	29%
Improve the quality and productivity of the workforce.	6.5%
Deliver increased value from post secondary learning.	9%
Improve the health of Washingtonians.	11%
Improve the condition of vulnerable children and adults.	10%



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# Washington State: Pricing its Priorities

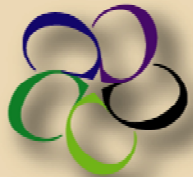
Results	
Improve economic vitality.	5.5%
Improve the mobility of people, goods, information and energy.	12%
Improve public safety.	8.5%
Improve the quality of WA's natural resources.	5%
Improve cultural and recreational opportunities.	3.5%



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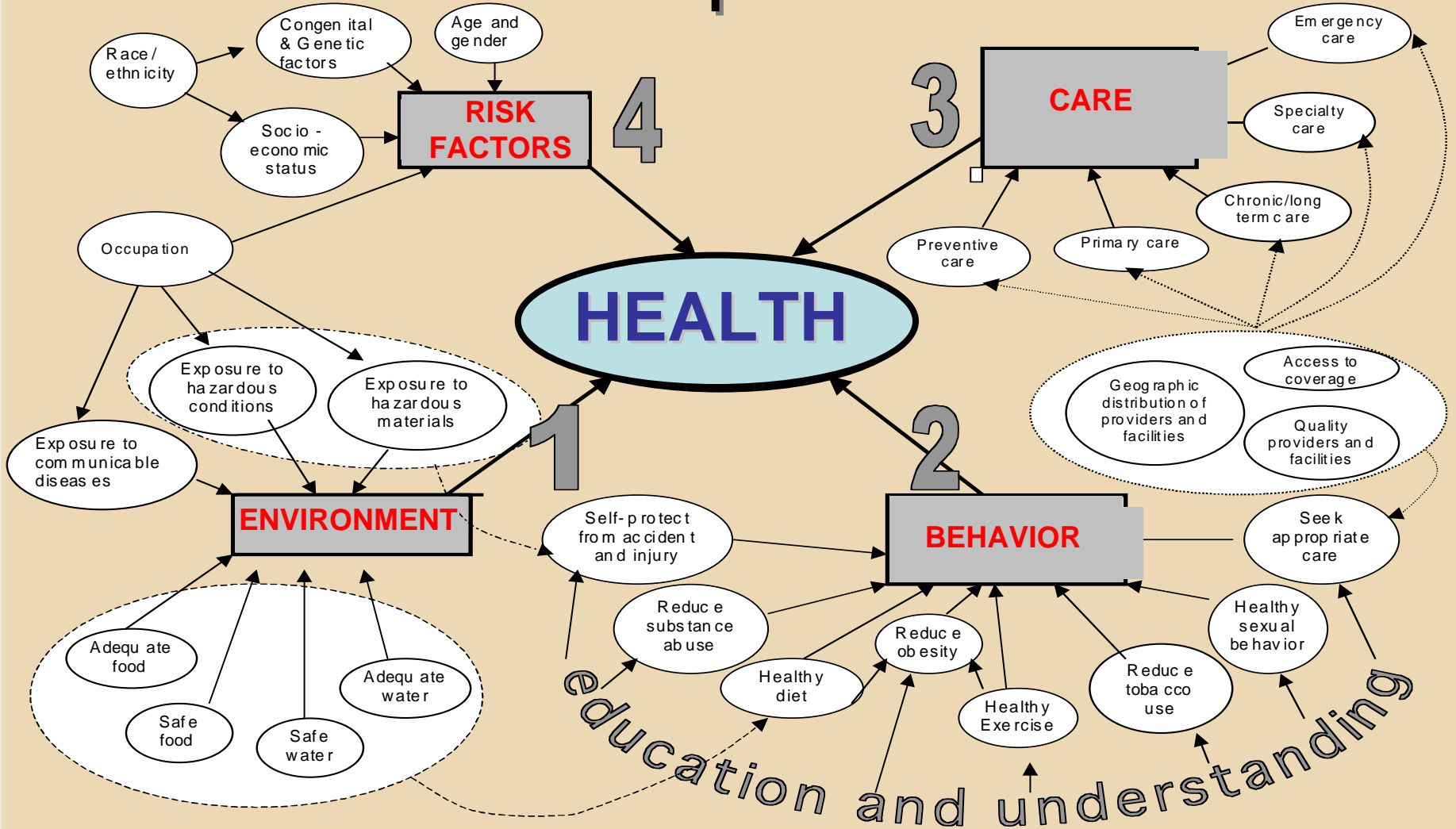
## 4. Deliver the Outcomes: Results Teams Create Purchasing Strategies

- Results Teams are “Buying Agents” for citizens
- First task: Define 3 key indicators.
- Second task: Figure out what really matters.



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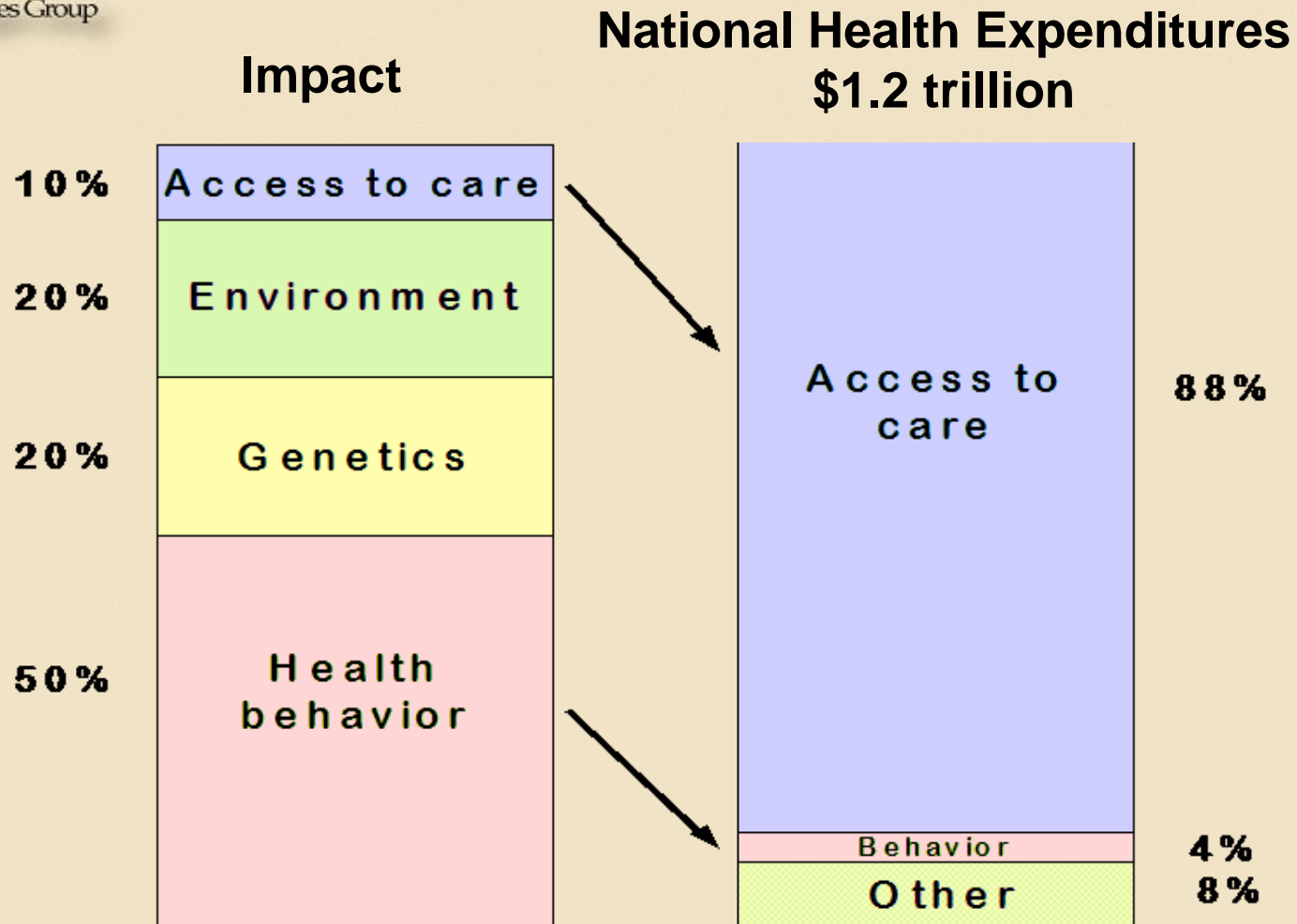
# Sample Cause-and-Effect Map for Health



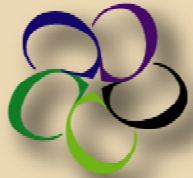


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# Health Impact vs. Spending



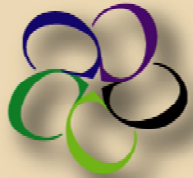
Source: Centers for Disease Control and Prevention, University of California at San Francisco, Institute for the Future



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# Possible Health Strategies

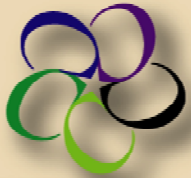
- Focus on changing lifestyle choices (smoking, drinking, diet, exercise, etc.).
- Focus on prevention: pre-natal care, immunizations, educating new parents, etc.
- Stop high-cost, repetitive cycles of care in emergency rooms.
- Electronic health records, to eliminate duplicate tests, increase quality and cut costs.



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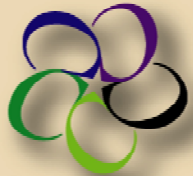
# Results Teams Issue “Requests for Results”

- Define basic purchasing strategies: What matters most?
- Those strategies go into “Requests for Results,” which take the place of Budget Instructions.
- Ideally, “sellers” would include other government agencies, non-profits, and for-profits.



# “Sellers” Make Offers

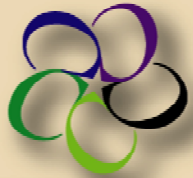
- Offers promise a specific level of performance at a specific price.
- They include proposed measures of performance.
- Offers assume no guarantee of funding based on historic levels.
- Offers are opportunities for departments to propose new, innovative practices.



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# Buyers Seek the Most Results for the Money

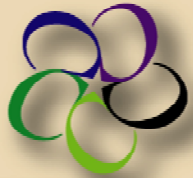
- Results Teams rank order offers
- Start buying from the top
- Draw a line when they run out of money



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# Results Teams Send the Rankings Out and Ask Sellers to Prepare Better Offers

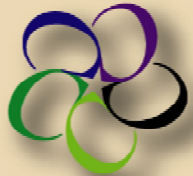
- Sellers get serious when they see they're below the line or near the line.
- In one jurisdiction, 80% of second-round offers were changed.



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# Innovative Offers: Examples

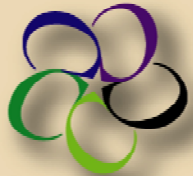
- Iowa: Reinvented the Corrections Department, to drive down recidivism
- Washington State: Moved \$45 million from ER care to drug and alcohol treatment under Medicaid
- Los Angeles: New method to repave streets, using cold slurry seal



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# Results Teams do Final Ranking

- Results teams do new ranking and buy from the top
- They draw a line when they run out of money
- They present their recommendations to the Executive.



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# Executive Makes Final Decisions, Submits Budget

Adjustments are always necessary:

- For political reasons
- Because low-ranked programs are mandated
- Because the executive wants to shift money from one outcome to another
- Or because the executive decides more money is needed



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# WA. Budget: A Sample Page

## Health Care Spending Plan

**\$3.7 billion**  
GF-S and  
Health  
Services  
Account

**Savings:**  
**\$328 million**

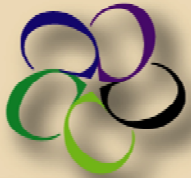


### Key Purchases

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

### Examples of what's not purchased

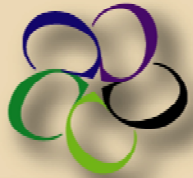
- *Basic Health Plan coverage for 59,800 adults*
- *Health coverage for the medically indigent*
- *Optional Medicaid coverage for workers with disabilities*
- *Optional adult dental, vision, and hearing services*



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# The Bottom Line

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



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## II. Taming Health Care Inflation

1. Launch a massive effort to maintain *health* by encouraging healthy behavior.
2. **Replace fee-for-service payment with managed competition between integrated health plans that charge annual per-patient fees.**
3. Create a statewide, interoperable electronic health records (EHR) system.
4. Adopt policies to encourage rational end-of-life care.
5. Create a new system of health courts, modeled loosely on the Worker's Compensation system, to contain malpractice costs.

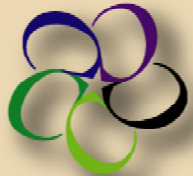


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# The Fee-For-Service Problem

***Fee for service payment is the biggest driver of high costs and low quality, because:***

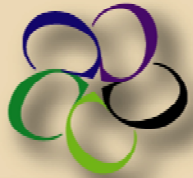
- It rewards those who do more procedures.
- It even rewards those who make mistakes and must readmit patients and/or perform more procedures.
- It punishes those who figure out how to prevent disease or treat it with fewer, more effective procedures--they make less money.



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# Dartmouth Research on Medicare Data Base

- Dr. John Wennberg and his team have proven that regions with more doctors and hospitals per capita have far higher rates of hospitalization and procedures--often twice as high as other regions.
- *In these regions, OUTCOMES ARE WORSE!*
- Other studies show the same pattern with Blue Cross & Blue Shield.
- Dr. Wennberg believes up to 1/3 of our \$2.4 trillion annual health care expenditures are wasted.

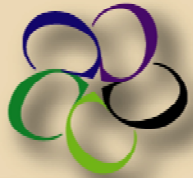


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# The Fragmentation Problem

***Our fragmented delivery system creates high costs and low quality:***

- It creates waste:
  - With everyone billing everyone else, administration overhead is 25-30 percent.
  - One in 5 lab tests are repeated because records are not available, and one in 7 hospital admissions occur for the same reason.
- It creates quality problems when patients fall through the cracks.

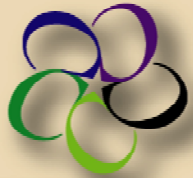


# Solutions:

## *1. Push for Integrated Delivery Systems:*

Regions dominated by integrated systems have costs up to one-third lower than other regions, according to Dartmouth's John Wennberg, because:

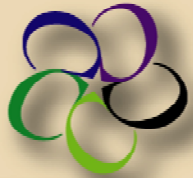
- Integrated delivery systems can examine the full spectrum of care to find opportunities for lower costs, better methods.
- Integrated systems are ahead in using IT, evidence-based medicine, performance feedback, disease management, etc.



# Solutions:

## ***2. Replace Fee-for-Service Reimbursement with Managed Competition based on Price and Outcomes:***

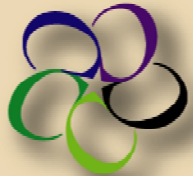
- Between health plans, based on (risk-adjusted) annual fees for care of individuals and families, not fee-for-service reimbursement.
- Within health plans, between provider groups, based on set payments for full cycles of care for medical conditions, not fee-for-service reimbursement.



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# How Do We Get There?

- The state should create a purchasing pool that covers at least 30 percent of the market.
- Create partnerships with employers: include private employees, public employees & retirees, and public programs: Medicaid, SCHIP, etc. (You could add an individual mandate to purchase health insurance.)
- Use managed competition, on the Wisconsin State Employees model.



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# Wisconsin's State Employee Model

- Defines basic benefit package.
- Asks health plans to submit bids specifying the annual dollar amount they would charge for this package, per individual and family.
- Ranks those bids by quality and price into three tiers.
- Tier one is free or low cost; tiers two and three are more expensive.

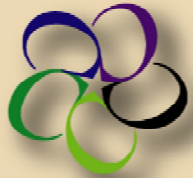
In Dane County, where state employees are 25-30% of the private market, costs quickly dropped 14% below the statewide average and 30% below most expensive regions.



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# Growing the Purchasing Pool

- With 30% of the marketplace, the state pool can push the system toward integrated delivery systems, outcome measurement, etc.
- As health care inflation slows, the state could offer employers guaranteed prices for several years to induce them to join the state pool.
- As the pool reaches 50% of the market, the state could tackle the question of shifting from an employer-financed system to tax-financed system.



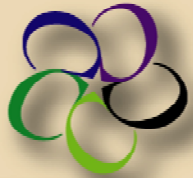
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# III. Reinventing Our Public Institutions...

... so they can produce better results with less money.

Strategies:

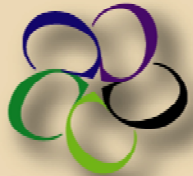
- Focusing on **Core** Purposes
- Creating **Consequences** for Performance
- Creating Accountability to **Customers**
- Decentralizing **Control**
- Creating **Cultures** of Continuous Improvement



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# A Quick Example: Public Education

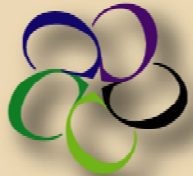
What do we know about what works in public schools?



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# 1. We Need Smaller Schools

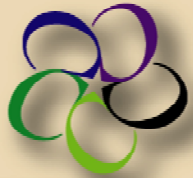
- Research shows that past 800 students in a middle or high school, results decline.
- In large schools, students slip through the cracks.
- Some districts have broken large high school and middle school campuses into multiple schools.



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## 2. We Need Closer Student-Teacher Relationships

- Every student needs a close relationship with at least one teacher.
- Some middle and high schools now organize themselves so that each student is part of a “family” of 15-20 students and one teacher, with whom they spend a significant part of every day.

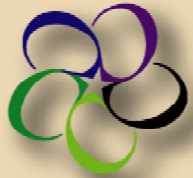


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# 3. We Need Diverse Pedagogy

- Research has proven that there are multiple intelligences and multiple learning styles.
- Therefore, teaching every student the same way is profoundly unfair to about 80 percent of students.
- The solution: Offer students a choice between a variety of learning-styles, language paths, and, in high school, subject-area concentrations.

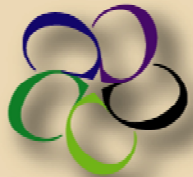
*CREATE DIFFERENT SCHOOLS FOR DIFFERENT KIDS.*



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## 4. We Need to Capture the Power of Technology

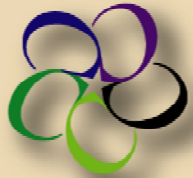
- Computer based instruction has been successful for the U.S. Army for 20 years, and it works with most children as well.
- Computers can't replace teachers, but they can help teachers let children move at their own pace through many subjects: math, science, foreign languages, reading, even writing.
- Yet we barely use computer-based instruction in most schools.
- The solution: Shift resources from hiring more teachers to using more technology.



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# So Why Don't More Public Schools to Embrace Such Changes?

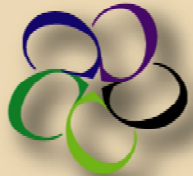
- Public schools improve so slowly because so many groups can block change: teachers, administrators, parents, even custodians.
- We can't convince them with more money, because it isn't there.
- So how do we create enough urgency to overcome the inertia that reigns in most public school districts?



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# Competitive Customer Choice & Decentralization of Control

- To create incentives for schools to change, make them accountable to their customers:
  - Give parents choice of public schools, and let the dollars follow the student to the school of their choice.
- Encourage the creation of new public schools--*charter schools*--that are empowered to innovate.
  - Open enough schools to create real consequences for those that lose too many students.
  - Studies show that districts and schools that lose 3-5% of their funds make changes.

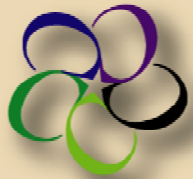


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# Imagine if We Could Create a Permanent Sense of Urgency

- If poor schools shrank and failing schools were closed down, teachers, principals and parents would work together to overcome the obstacles to improvement.
- Imagine districts full of the equivalent of charter schools, with real independence but real consequences for performance.
- Imagine if every public school had to compete every 5 years against all comers, to keep operating their program.

*THAT WOULD BE A 21ST CENTURY SCHOOL SYSTEM*



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# There's More ...

