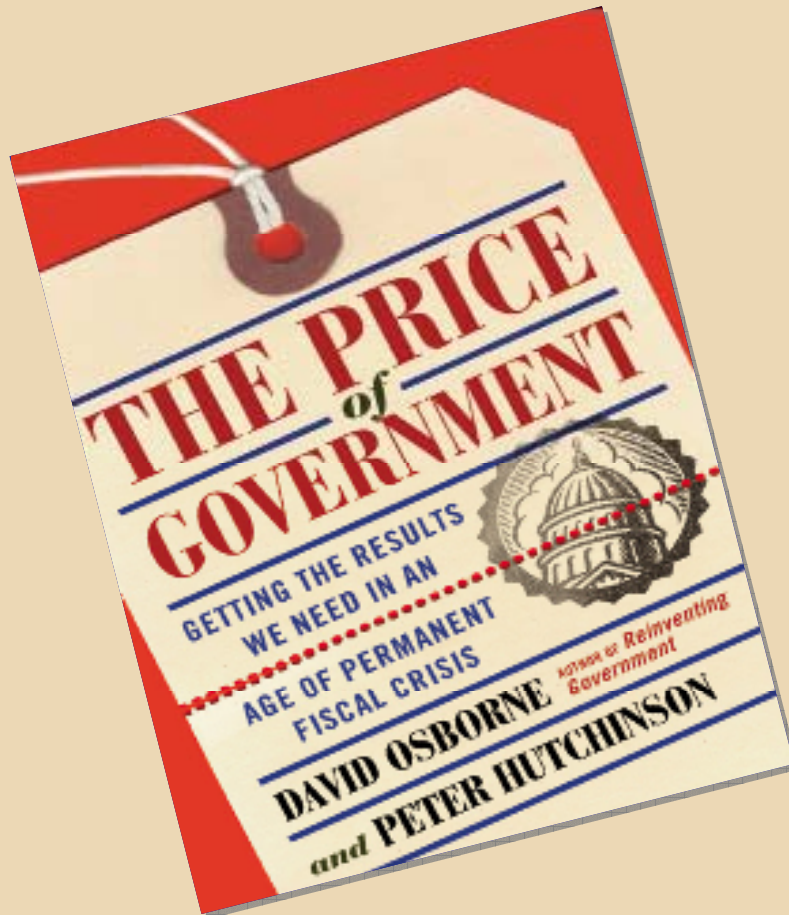


The Public Strategies Group

Transforming Government Survival in the Age of Permanent Fiscal Crisis



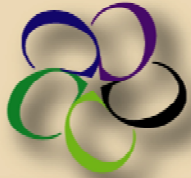
David Osborne

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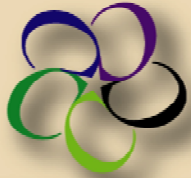
www.psg.us



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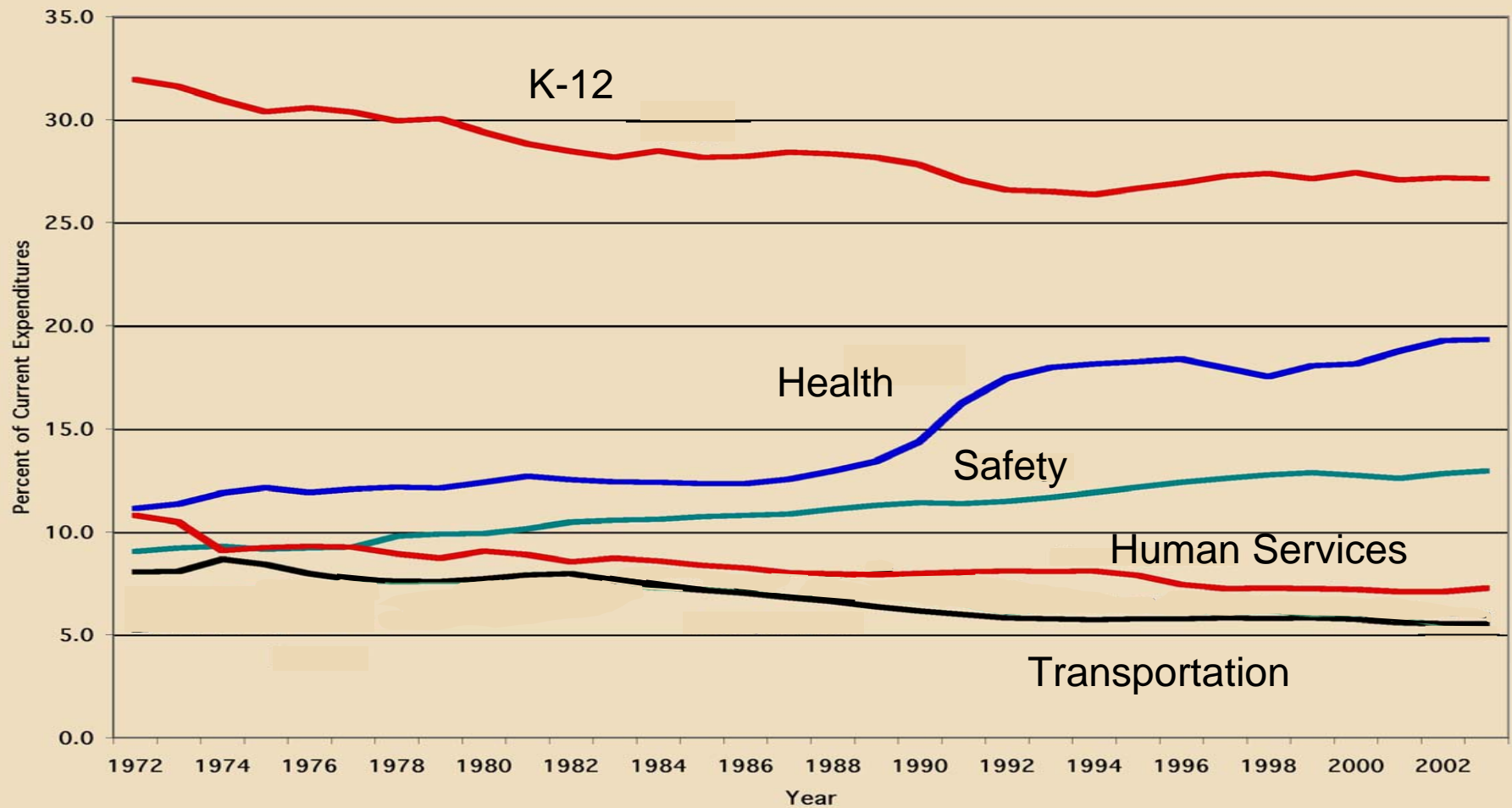
“The trouble with our times is that the future is not what it used to be.”

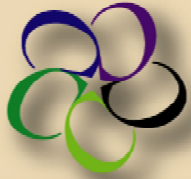
Paul Valery



The Public Strategies Group

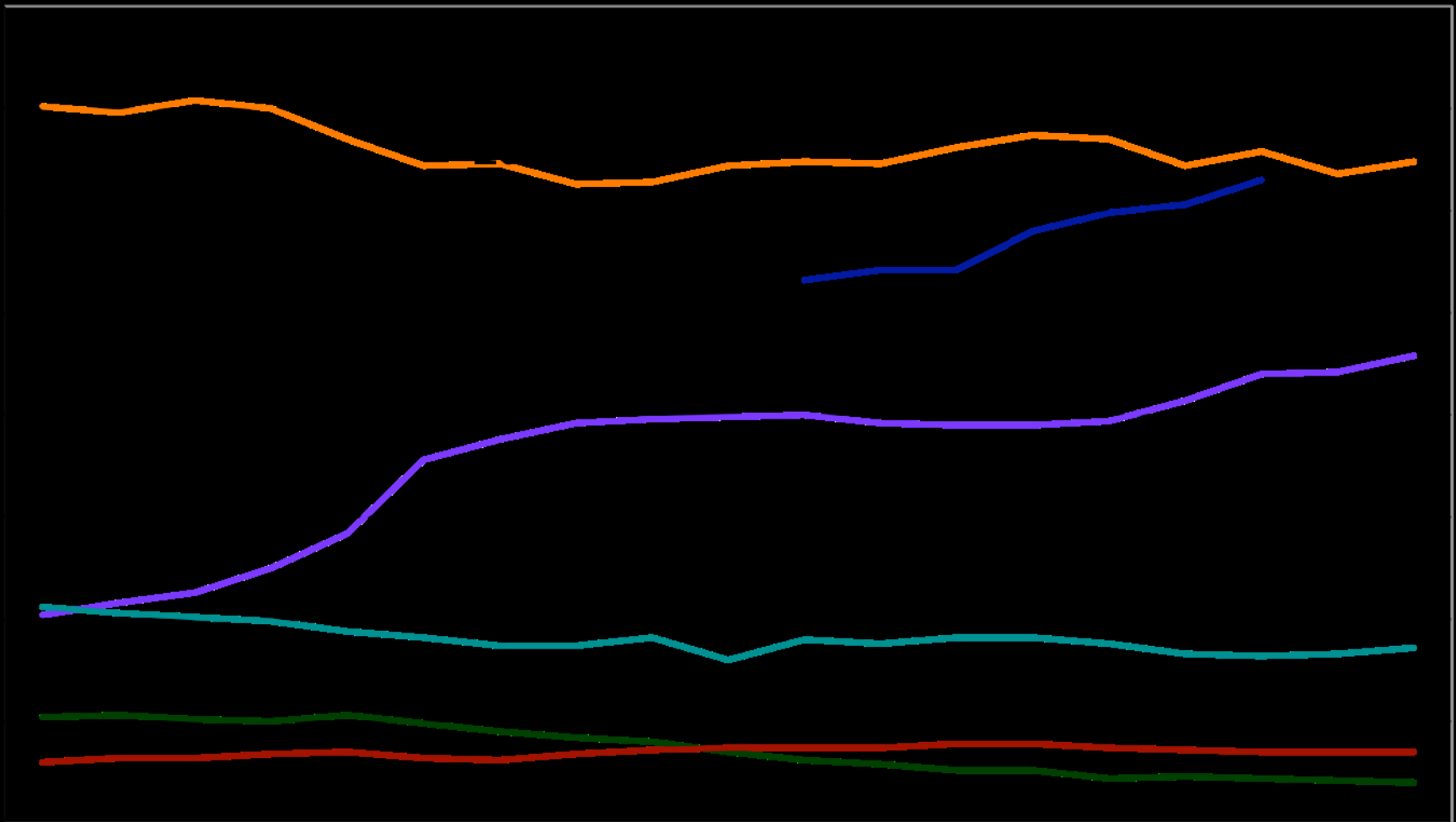
Distribution of State and Local Spending, 1972-2002

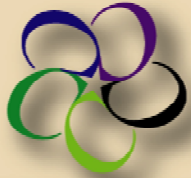




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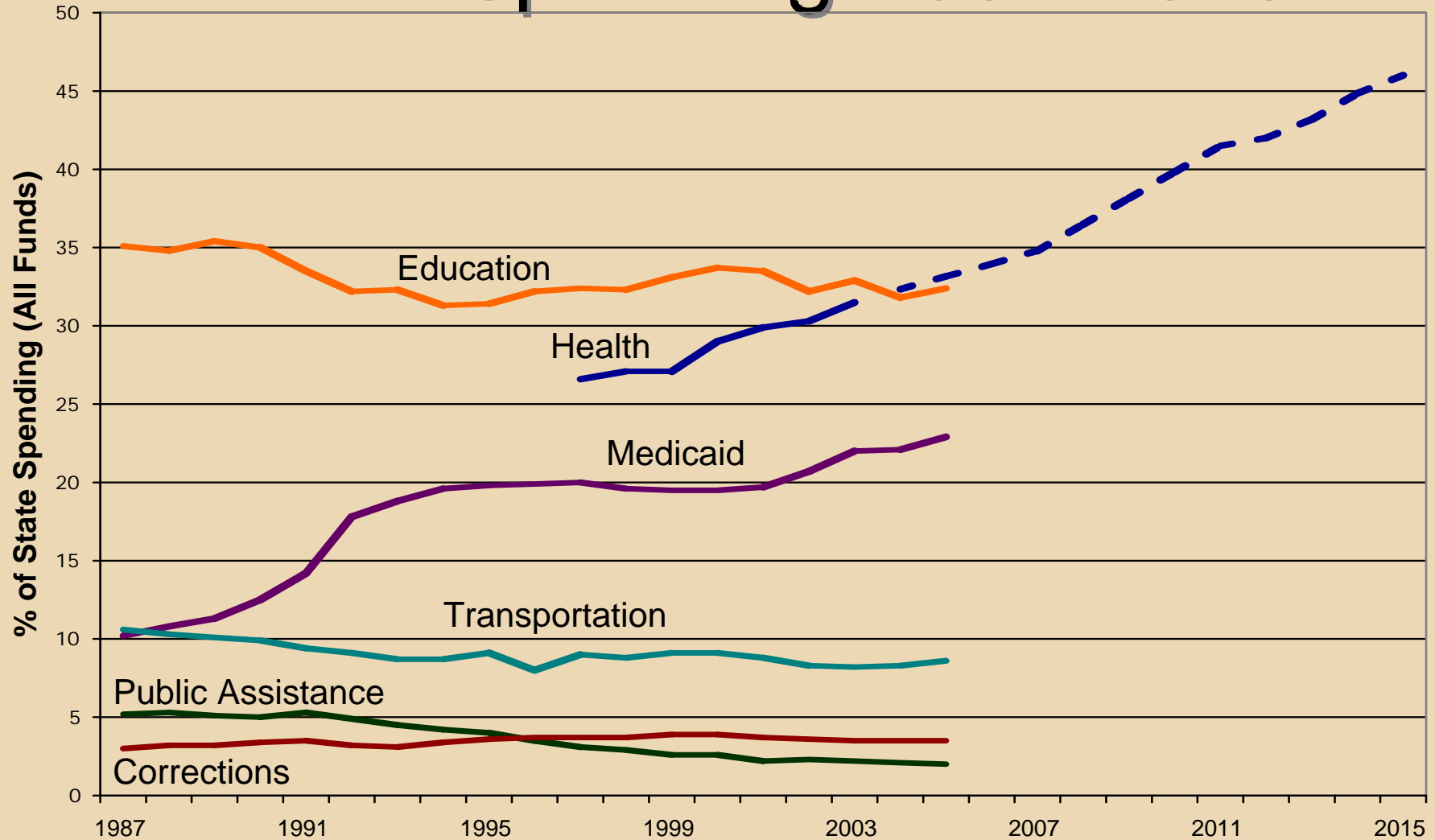
Distribution of State Spending 1987-2005

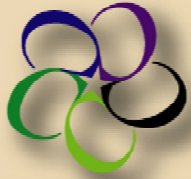




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Distribution of State Spending 1987-2015

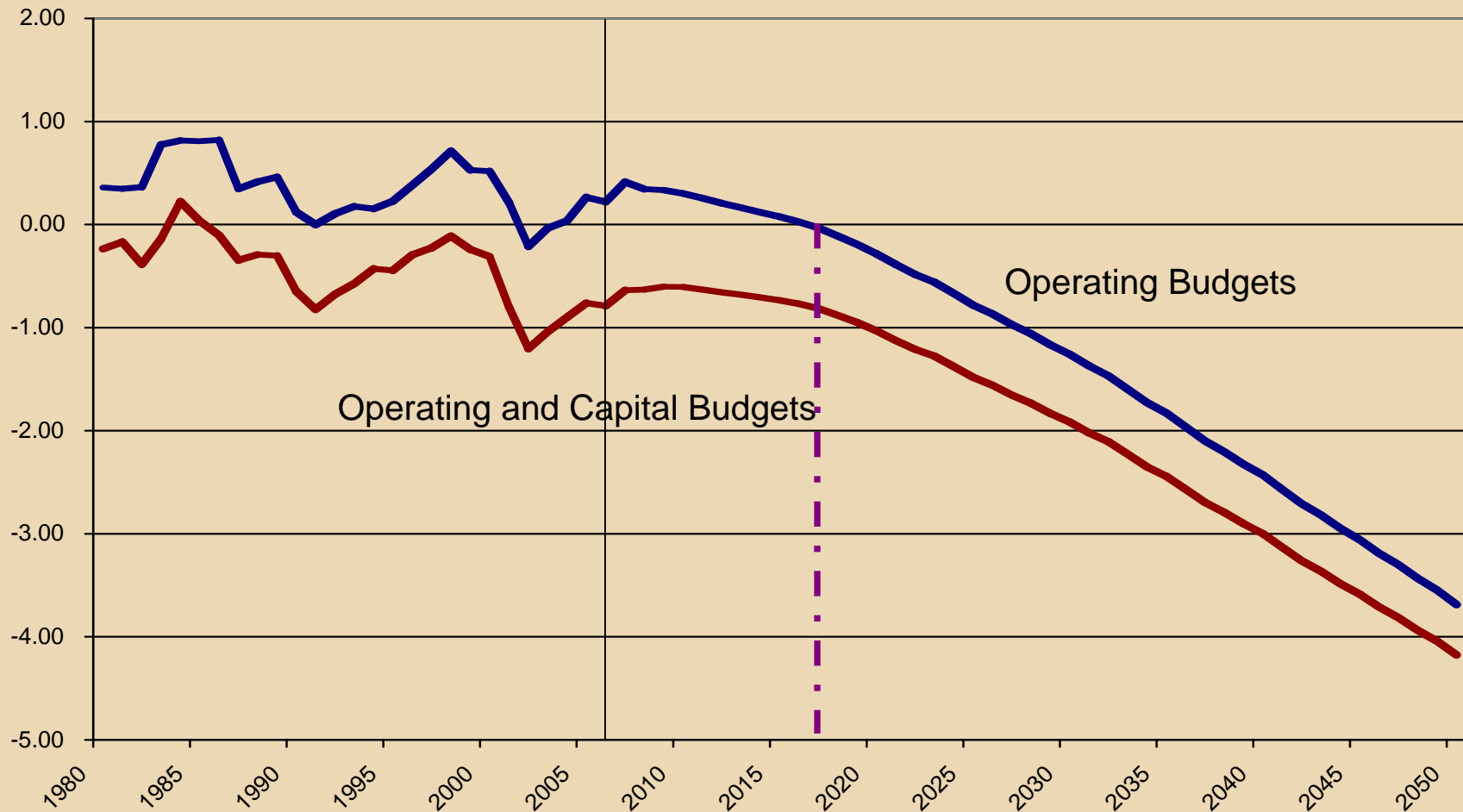




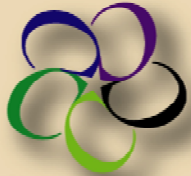
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State and Local Government Surplus and Deficit 1980-2050

As a Percentage of GDP



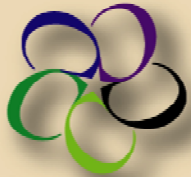
Source: U.S. Government Accountability Office (GAO)



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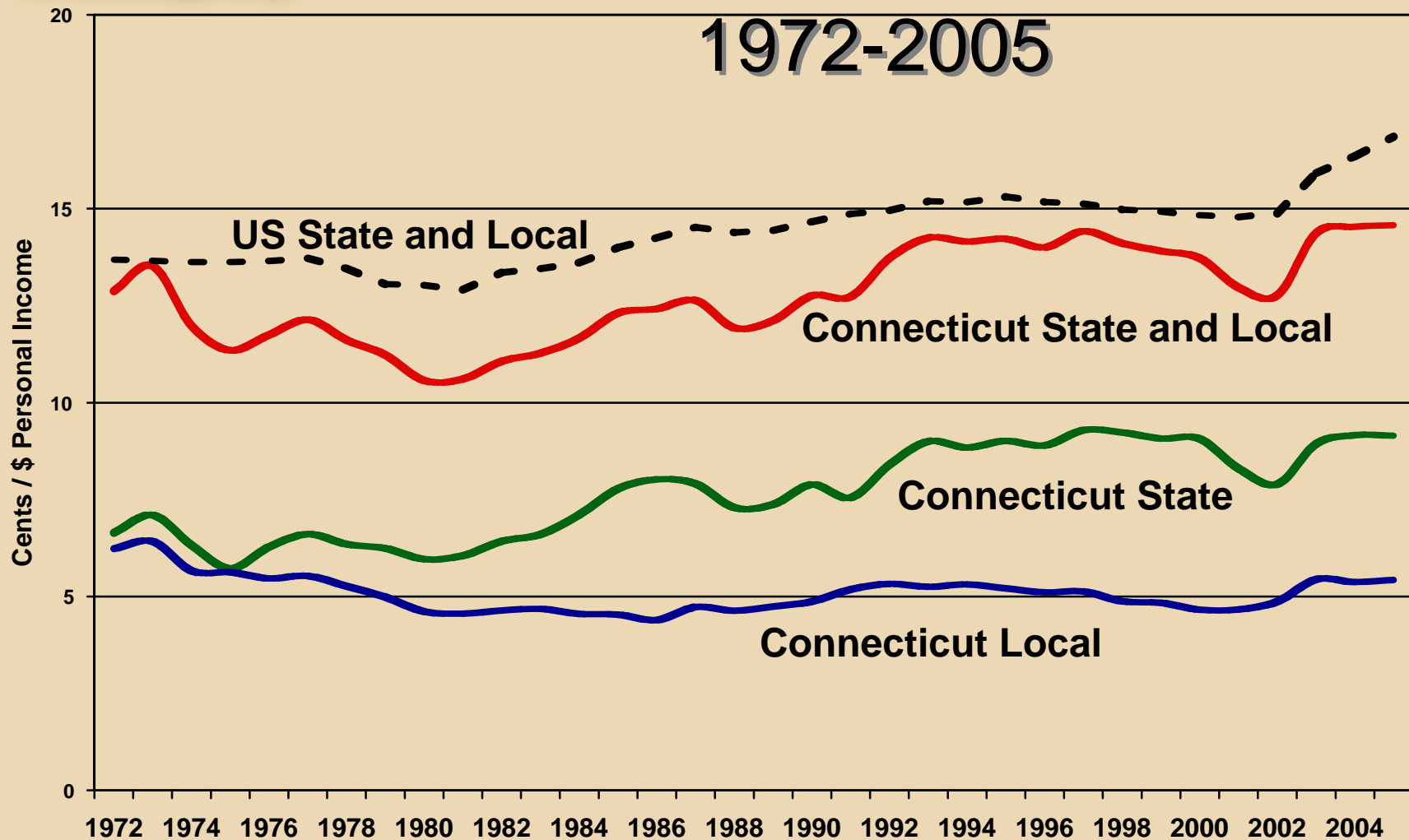
Can We Solve This on the Revenue Side?

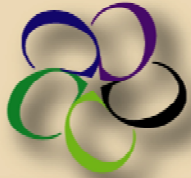
I.e., can we tax our way out of this
problem?



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Connecticut State and Local Price of Government



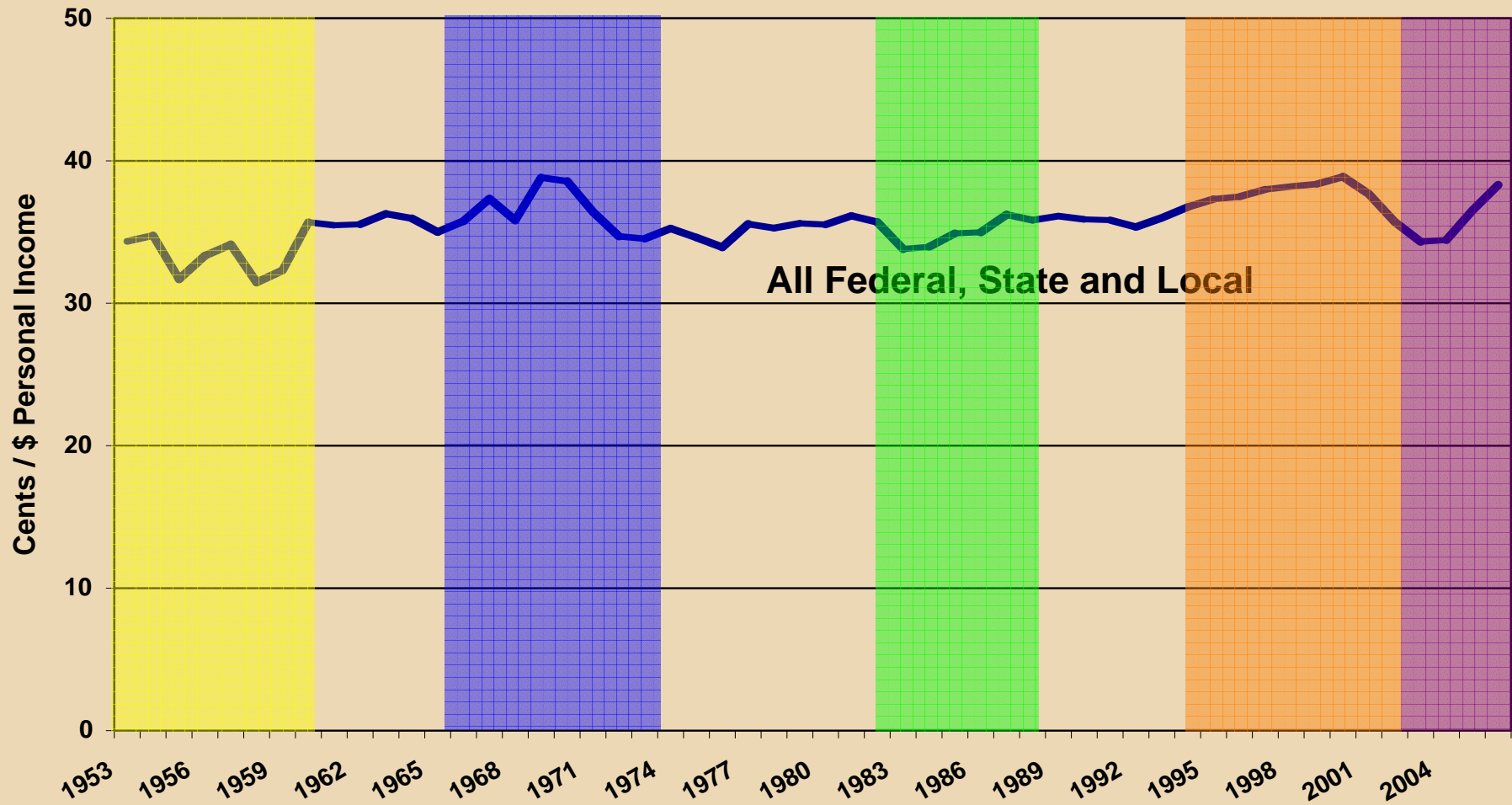


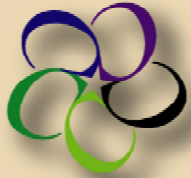
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U.S. Price of Government

All Governments, 1953-2006

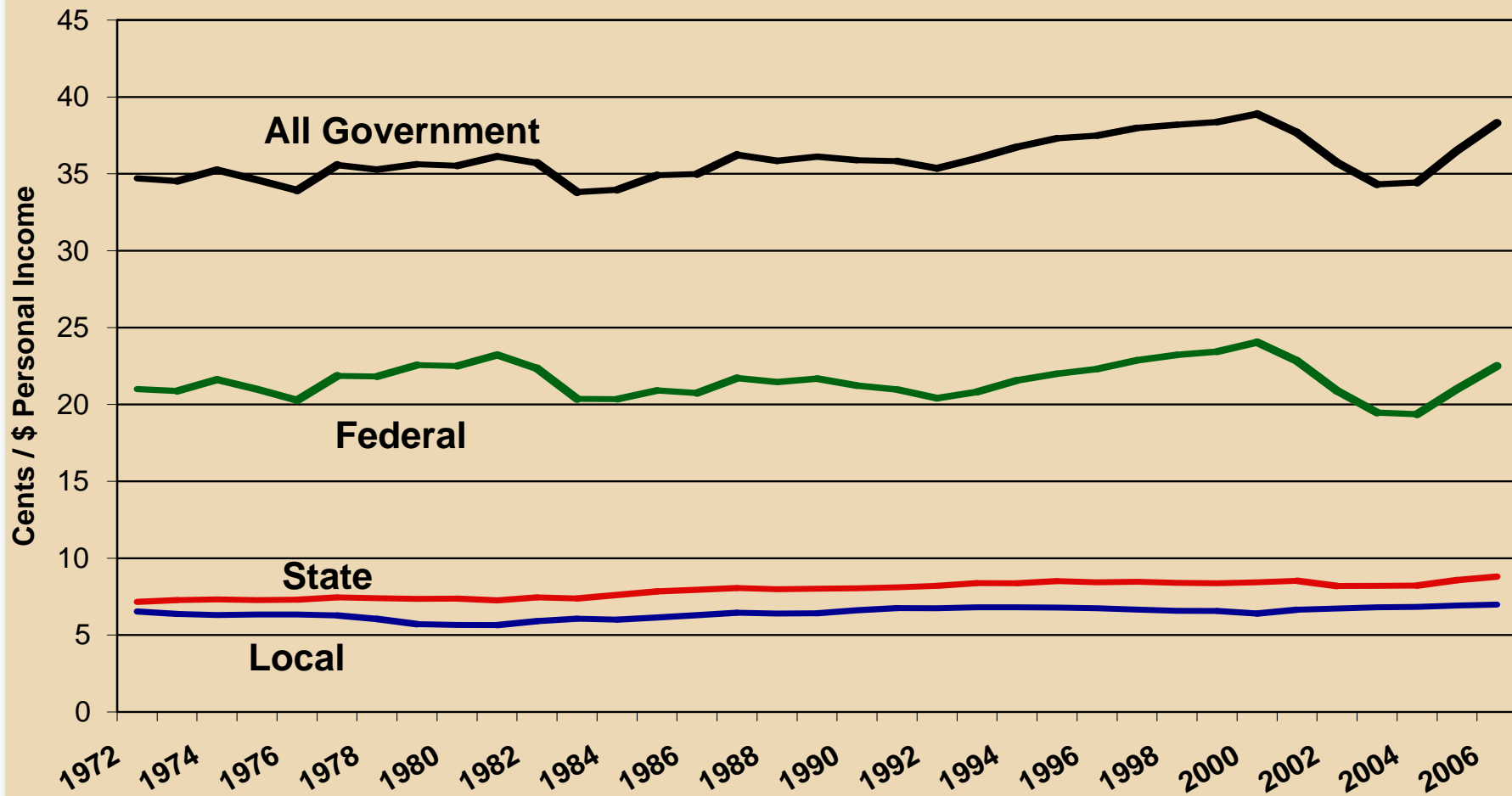
Cents Per Dollar of Personal Income

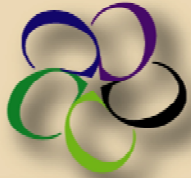




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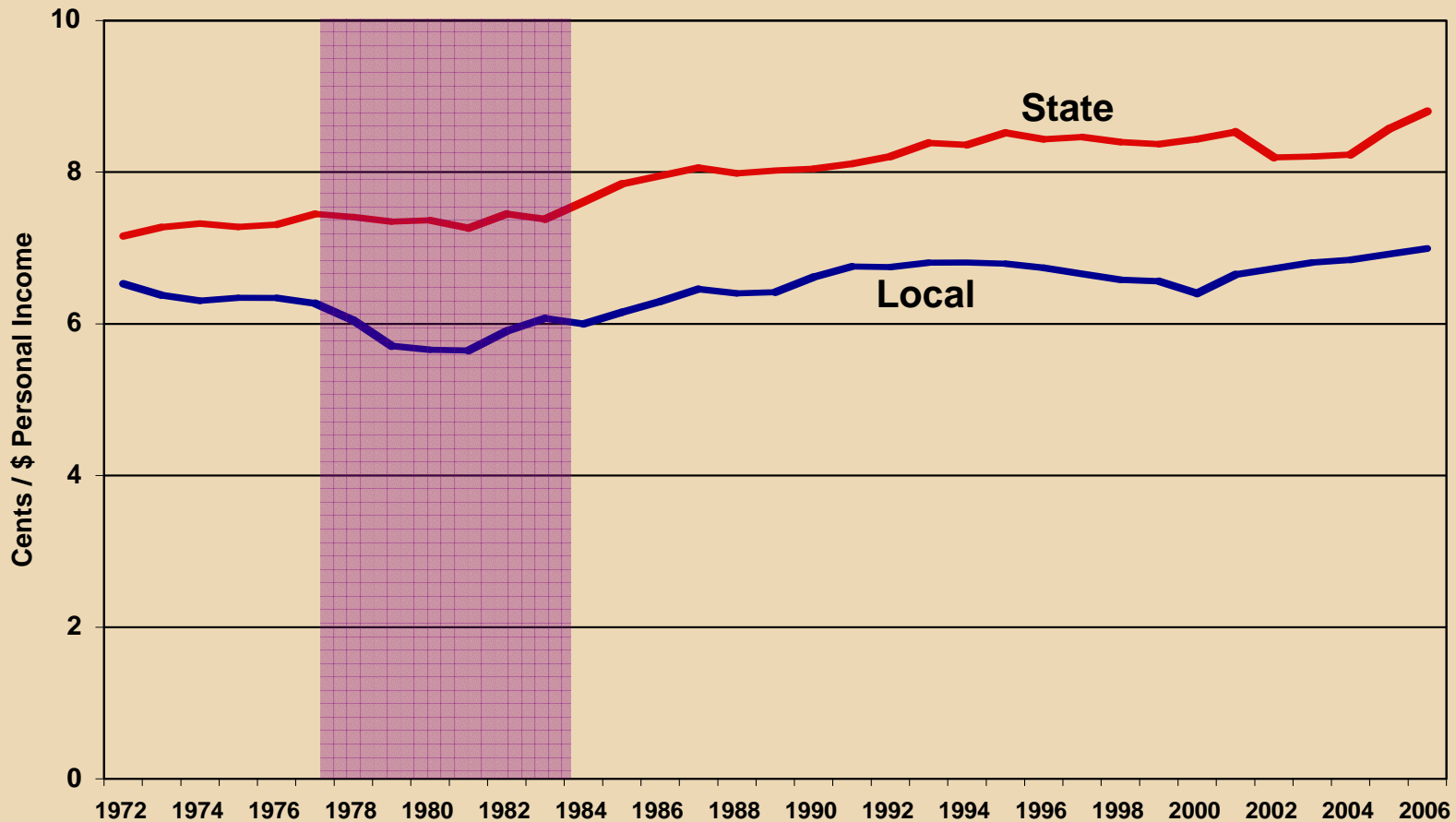
The Price of Government by Level, 1972-2006

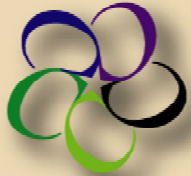




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State and Local Price of Government 1972-2006

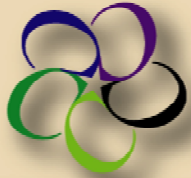




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The Big Three:

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

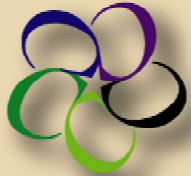


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I. Reprioritizing

State priorities are set in the budget process.

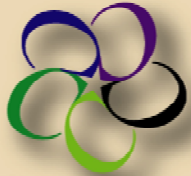
So, how does that work?



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The Current Budget Game

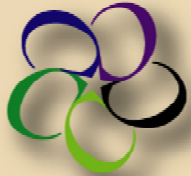
Cost- Based Budgeting	
Starting Point	Last Year = BASE costs
Focus	Add/ Subtract costs re: BASE
Addition	Autopilot increases = new BASE Plus "needs"
Subtraction	"Cut" from <u>new</u> BASE
Submission	Justification for needs/costs -- plus a little extra



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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 GET BLAMED!
Focus of debate	What to cut What to tax
What drives decisions?	Avoiding pain before next election

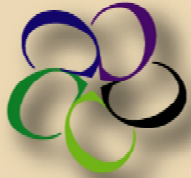


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President Barack Obama

January 20, 2009:

“The question we ask today is not whether our government is too big or too small, but whether it works — whether it helps families find jobs at a decent wage, care they can afford, a retirement that is dignified. Where the answer is yes, we intend to move forward. Where the answer is no, programs will end.”



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A New Game: Budgeting for Outcomes

States

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

Counties

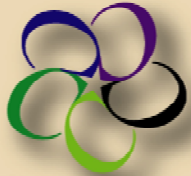
- Snohomish, WA.
- Multnomah, Oregon
- Mesa County, CO
- Polk County, FL

Cities

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

School Districts

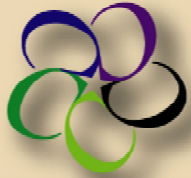
- Jefferson County, CO



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Budgeting for Outcomes Asks Four Basic Questions

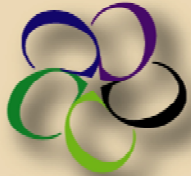
- How much revenue will we have: What price of government will we charge our citizens?
- What outcomes matter most to our citizens?
- How much should we spend to achieve each outcome?
- How can we BEST deliver each outcome that citizens expect?



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1. Decide How Much to Spend

- It's a choice: Raise taxes or fees? Cut spending? Or both?
- A Leadership Group should make the decision:
 - Legislative leaders
 - And the Governor?
 - You could even invite business, education, community, and labor leaders, as Gov. Locke did in Washington.



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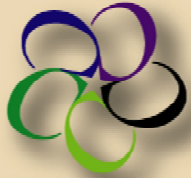
The “Price of Government” is a Useful Tool

- Look at the historical data: citizens have been telling you how much they are willing to spend for decades.

The Price of Government =

$$\frac{\text{All Taxes + Fees + Charges}}{\text{All Personal Income}}$$

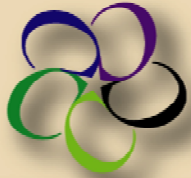
- Pick a target; you can always change it at the end of the process.



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2. Set the Priorities of Government: The Results Citizens Desire

- If you have time, ask the citizens:
 - Surveys
 - Focus groups
 - Internet surveys
- This input creates legitimacy for the process.
- But the Leadership Team should make the final decisions.



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WA Priorities of Government

Results

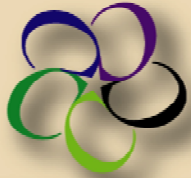
Increase student achievement K-12.

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

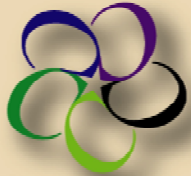
Improve economic vitality.

Improve the mobility of people, goods, information and energy.

Improve public safety.

Improve the quality of WA's natural resources.

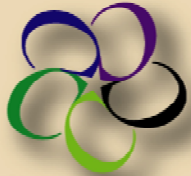
Improve cultural and recreational opportunities.



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3. The Leadership Team Then Prices the Priorities: How Much Should CT. Spend on Each?

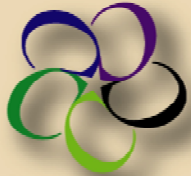
- How much are they each worth? *Not* how much do they cost?
- It's judgment--a strategic choice--not science.
- These numbers can be adjusted later in the process--but they serve to create a finite pot of money for each outcome goal.



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Washington State: Pricing its Priorities

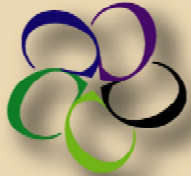
Results	
Increase student achievement K-12.	29%
Improve the quality and productivity of the workforce.	6.5%
Deliver increased value from post secondary learning.	9%
Improve the health of Washingtonians.	11%
Improve the condition of vulnerable children and adults.	10%



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Washington State: Pricing its Priorities

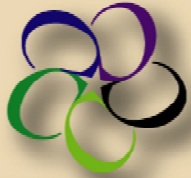
Results	
Improve economic vitality.	5.5%
Improve the mobility of people, goods, information and energy.	12%
Improve public safety.	8.5%
Improve the quality of WA's natural resources.	5%
Improve cultural and recreational opportunities.	3.5%



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4. Deliver the Outcomes: Results Teams Create Purchasing Strategies

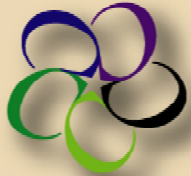
- Results Teams are “Buying Agents” for citizens
- They include strategic thinkers who do not have an axe to grind or a program to protect.
- They could include legislators, legislative staff, executive staff, and knowledgeable outsiders (from academia, think tanks, etc.).



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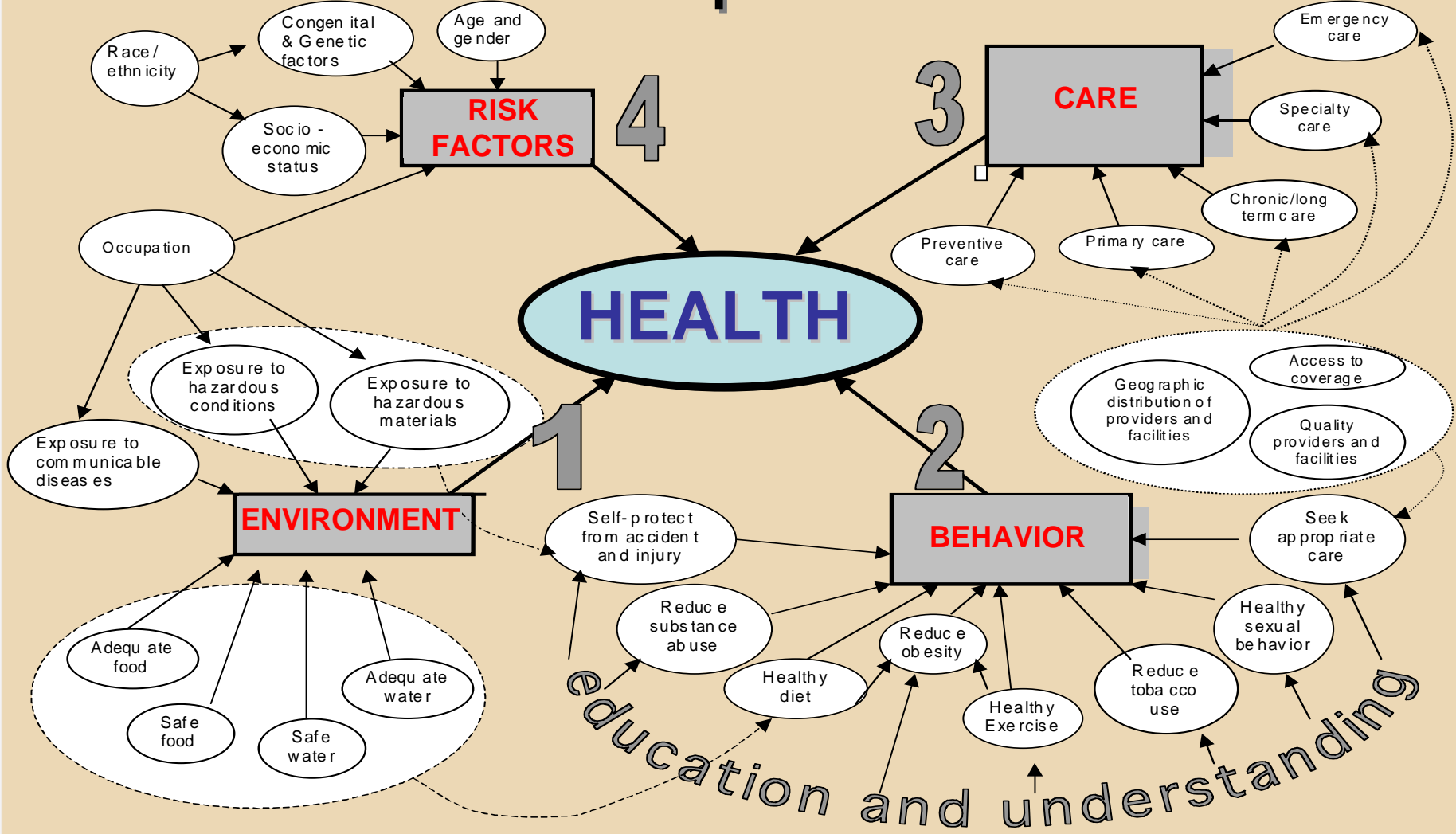
Results Teams' Tasks

- First task: Define 3 key indicators, so you can measure progress. E.g., for “Better Health:”
 - Infant mortality rate
 - Self-perception of health on survey
 - Percentage with health insurance
- Second task: Figure out what really matters. What factors most impact the outcome?



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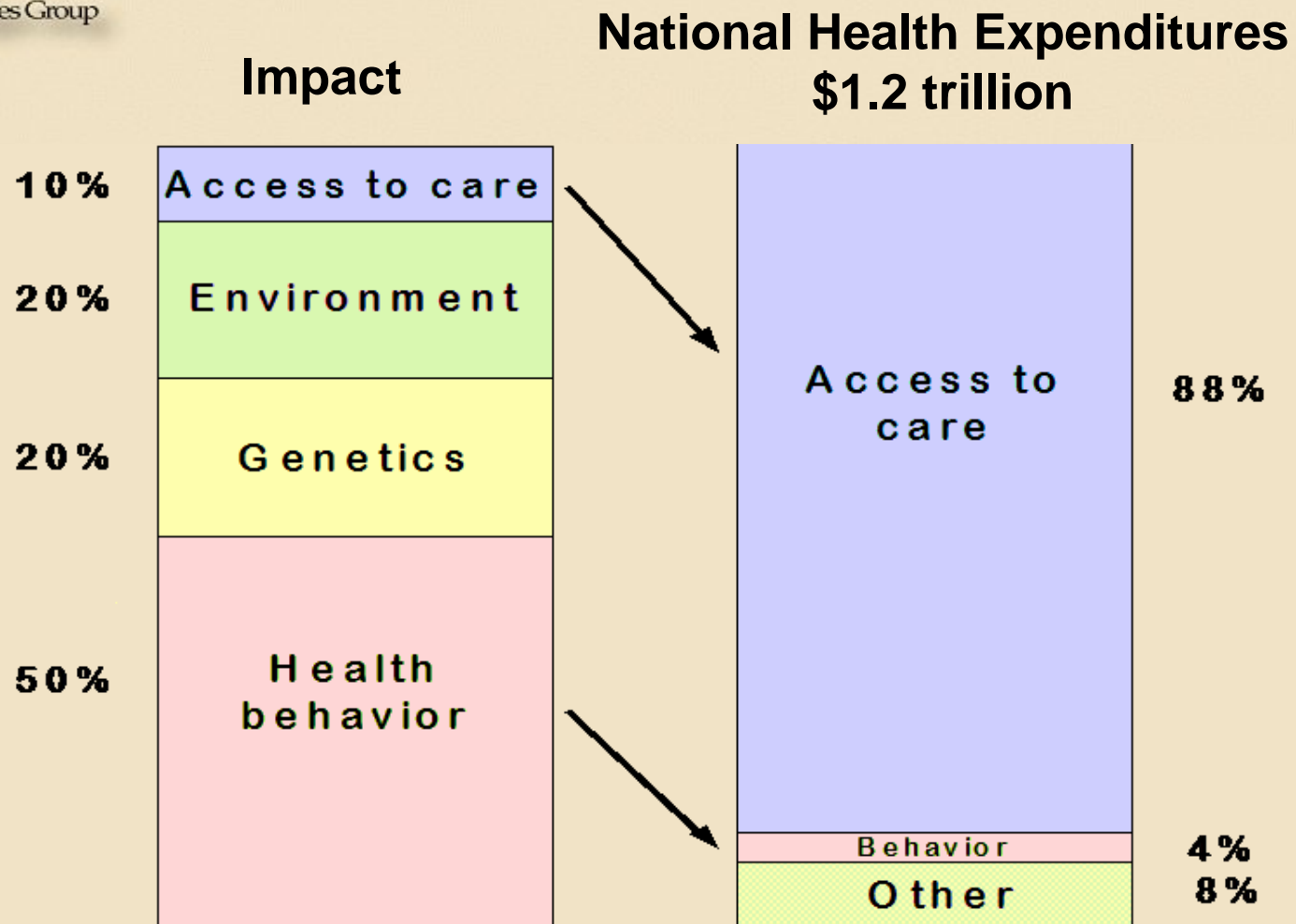
Sample Cause-and-Effect Map for Health



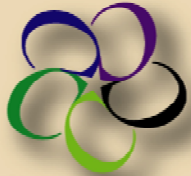


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Health Impact vs. Spending



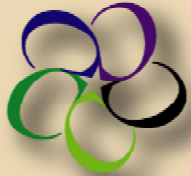
Source: Centers for Disease Control and Prevention, University of California at San Francisco, Institute for the Future



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Possible Health Strategies

- Focus on changing lifestyle choices (smoking, drinking, diet, exercise, drug use, etc.).
- Focus on prevention: pre-natal care, immunizations, educating new parents, etc.
- Focus on minimizing environmental threats to health.
- Electronic health records, to eliminate duplicate tests, increase quality and cut costs.



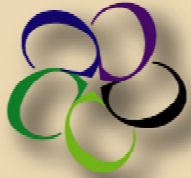
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Results Teams Issue

“Requests for Results”

(If executive is leading the process)

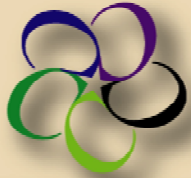
- Requests for Results take the place of Budget Instructions.
- They define the results desired, the basic purchasing strategies, how much money is available, and other guidance (e.g., “We want cross-departmental collaboration.”)
- (This step might not be taken if the legislature uses the process and time is short.)



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“Sellers” Make Offers

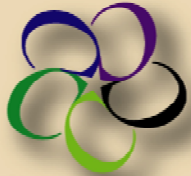
- Offers promise a specific level of performance at a specific price.
- They include proposed measures of performance.
- Offers assume no guarantee of funding based on historic levels.
- Offers are opportunities for programs to propose new, innovative practices.



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Buyers Seek the Most Results for the Money

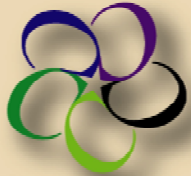
- Results Teams rank order offers
- Start buying from the top
- Draw a line when they run out of money



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

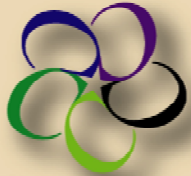
- Sellers get serious when they see they're below the line or near the line.
- In one jurisdiction, 80% of second-round offers were changed.



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Innovative Offers: Examples

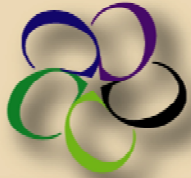
- Iowa: Reinvented the Corrections Department, to drive down recidivism.
- Washington State: Moved \$45 million from ER care to drug and alcohol treatment under Medicaid
- Los Angeles: New method to repave streets, using cold slurry seal.



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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 Leadership Team.



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Leadership Team Makes Final Decisions, Presents Budget

Adjustments are always necessary:

- For political reasons
- Because low-ranked programs are mandated
- Because the leadership wants to shift money from one outcome to another
- Or because the leadership 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

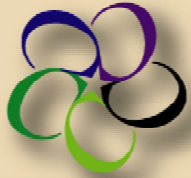


Key Purchases

- *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

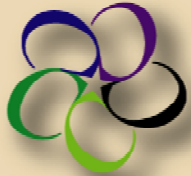
- *Basic Health Plan coverage for 59,800 adults*
- *Health coverage for the medically indigent*
- *Optional Medicaid coverage for workers with disabilities*
- *Optional adult dental, vision, and hearing services*



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The Bottom Line

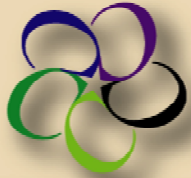
- Focus on the ‘keeps,’ not the cuts
- Buy results, not costs
- Low-value spending is forced out of the budget
- Important new investments go to the front of the queue
- General interest trumps special interests
- Performance accountability
- Continuous reform/improvement
- “Common Sense” communications



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Budgeting for Outcomes Is a Key Step in Buying Better Results, But Just the First Step

- To get better results, you need to transform your bureaucracy permanently, to create a culture of continuous improvement.
- You need to invest in this transformation (training, team-building, technology, consulting, professional development).

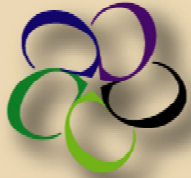


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II. Reinventing Our Public Institutions...

Examples:

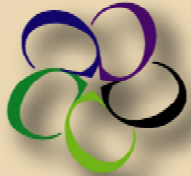
- Consolidate steering and funding, but not rowing
- Let the managers manage: Charter Agencies
- Empower & train employees to do process improvement



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Smart Consolidation

- Consolidate “steering” (policy and direction)
- Consolidate funding streams
- But keep most “rowing” (operations) decentralized and competitive

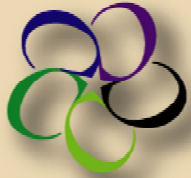


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An Example: Children's Service Councils in Florida

E.g.: The Pinellas County Juvenile Welfare Board:

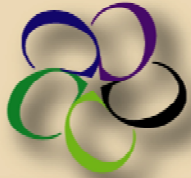
- Combines funding streams; controls \$50 million a year
- Does no “rowing” itself
- Contracts with 60 providers: childcare centers, teen centers, counseling, domestic violence shelters, residential treatment services, after-school activities, programs for at-risk parents...
- Uses performance contracts
- Providers compete; best ones expand, worst lose funding



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“Charter Agencies”

- Governor negotiates “Flexible Performance Agreements” with charter agency directors.
- Agency agrees to produce specific results over 2-3 year time frame, for less money.
- Agreement includes specific rewards and sanctions for performance.
- Agreement specifies new flexibilities granted to charter agency.

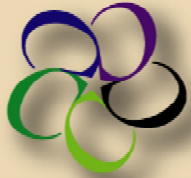


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Potential Flexibilities

Examples from Iowa:

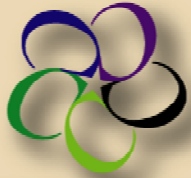
- “Freedom from FTE ceilings or other employment controls.
- “Authority to waive personnel rules and do what makes sense.
- “Authority to waive procurement rules and buy what makes sense.
- “Authority to waive Information Technology rules and buy the computers and software you want.



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Potential Flexibilities (2)

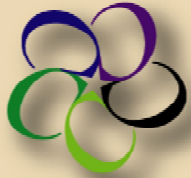
- “Authority to keep half of this year’s unspent money and spend it next year.
- “Authority to keep and spend proceeds from lease or sale of capital assets.
- “Authority to reprogram money between accounts.
- “Authority to waive administrative rules.
- “Access to \$3 million Transformation Grant Fund.
- “Protection for two years from across the board cuts.”



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Charter Agencies: Results

- Saved Iowa taxpayers \$20 million/year for first two years; \$50 million for third.
- Corrections Department: lowered 3-year recidivism rate from 46.7% to 35.4%.
- Revenue Department: improved rate of income tax refunds issued within 45 days from 75% to 94%.
- Human Services: increased children with access to health insurance by 34%.
- Iowa won an “Innovations in American Government” Award

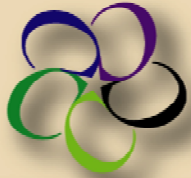


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Employee Empowerment

Tools:

- Self-managed work teams
- Process improvement teams
- Management delayering
- Breaking up functional silos
- Labor-management partnerships
- “Bureaucracy Buster” panels



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Process Improvement in Iowa

Air Quality Construction Permits

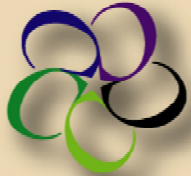
- Old Process: 62 days
- New Process: 6 days

Clean Water Construction Project Loans & Approvals

- Old Process: 28 months
- New Process: 4.5 months

Landfill Permits

- Old Process: 187 days
- New Process: 30 days



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Process Improvement (2)

Leaking Underground Storage Tanks – Corrective Action Decision

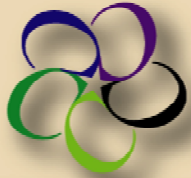
- Old Process: 1,124 days
- New Process: 90 day

Civil Rights Investigations

- Old Process: 9 months/case
- New Process: 4 months/case

Contract Renewal

- Old Process: 23 days
- New Process: 1.1 days

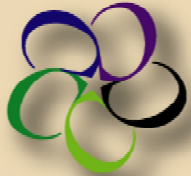


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How Can You Afford to Invest in Improvement???

Iowa used a “Reinvention Savings” line item:

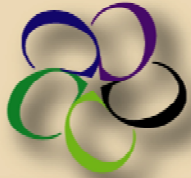
- A negative line item, for a savings of \$88.5 million
- Out of that, an investment of \$25 million
- Projects chosen:
 - Charter Agencies
 - Reinventing the Child Welfare System
 - Changing the State-Local Relationship



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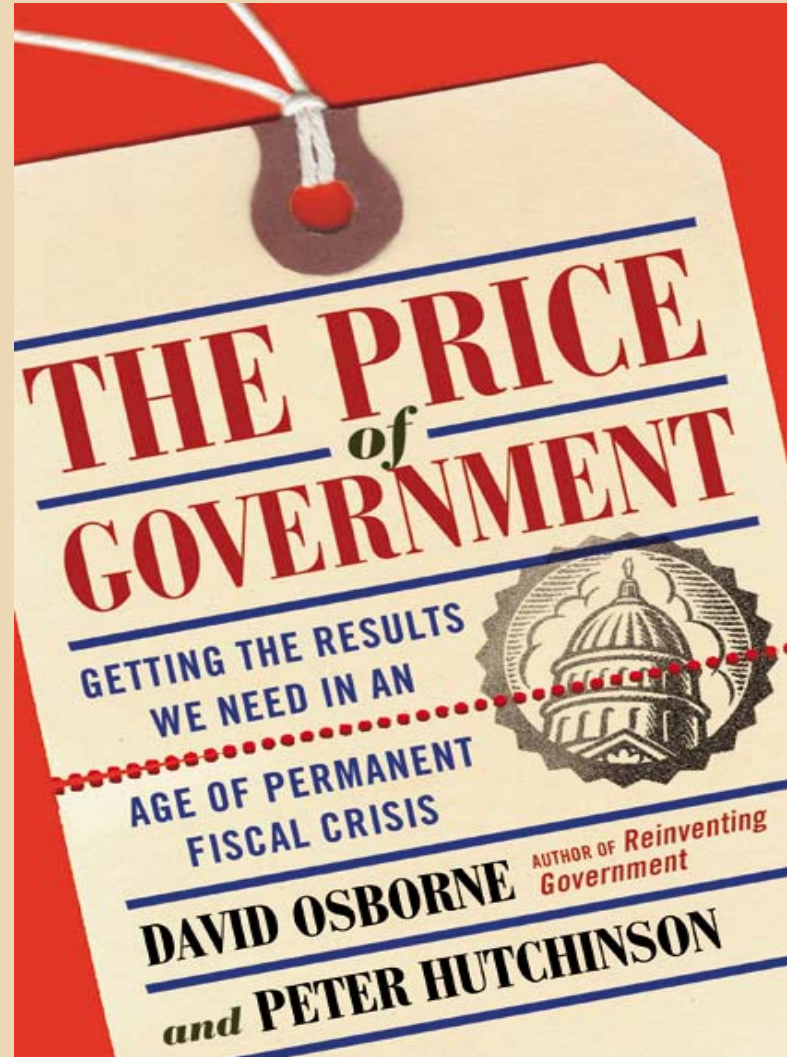
III. Taming Health Care Inflation

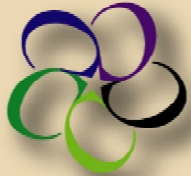
1. Launch a massive effort to maintain *health* by encouraging healthy behavior.
2. Replace fee-for-service payment with managed competition between integrated health plans that charge annual per-patient fees.
3. Incent those plans to shift from fee-for-service payment to doctors and hospitals to lump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



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**There's
More ...**



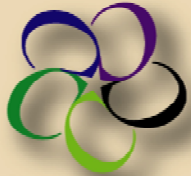


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The Fee-For-Service Problem

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

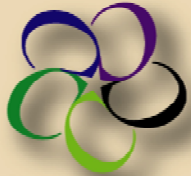
- It rewards those who do more procedures.
- It even rewards those who make mistakes and must readmit patients and/or perform more procedures.
- It punishes those who figure out how to prevent disease or treat it with fewer, more effective procedures--they make less money.



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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.

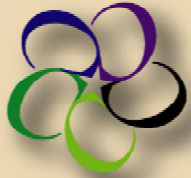


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The Fragmentation Problem

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.



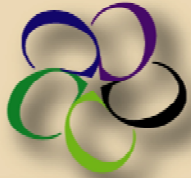
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Solutions:

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.

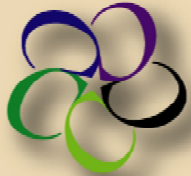


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Solutions:

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

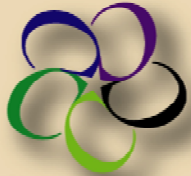
- Between health plans, based on (risk-adjusted) annual fees for care of individuals and families, not fee-for-service reimbursement.
- Within health plans, between provider groups, based on set payments for full cycles of care for medical conditions, not fee-for-service reimbursement.



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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.

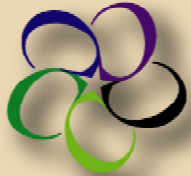


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Wisconsin's State Employee Model

- 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.