



The Ohio Society of CPAs

Ohio Budget Advisory Task Force Issue Paper

Efficiency and Streamlining

ISSUE: Efficiency and Streamlining

Ohio's economic health is in critical condition and the current prognosis is not good. Due to the one-time injection of \$5.8 billion in federal stimulus funds made available by the 2009 American Recovery and Reinvestment Plan and other short-term patches to prop up declining state revenue, Ohio faces up to an-\$8 billion structural deficit for the 2012-13 state operating budget. Plus, all indications are these budget deficits will continue into future years unless structural changes are made. These numbers do not take into account the deficits that will likely be proportionately as staggering for local government entities. The news is equally as bleak across the country. The Center on Budget and Policy Priorities forecasts a cumulative state fiscal gap of \$350 billion by the end of FY 2011. The bottom line: Ohio's state budget crisis is not going away this year or in the foreseeable future. Systemic, structural changes will be needed to ensure that funds are available to support basic and necessary services to the citizens of Ohio.

Given this data, the reality of sustaining taxpayer funded resources across governmental entities at prior levels is not an economically viable option. This new economic reality should – and ultimately must prompt every government entity in our state to ask the question, “What are the core services of state and local government and how much are taxpayers willing to pay for them?” Further, that question should be followed by a process by which all levels of government are held accountable by stakeholders to ensure that these core services are provided in the most efficient and cost effective manner through a stable and predictable revenue stream.

In 2007, the U.S. Census Bureau reported that Ohio led the nation in counties with population loss, including seven of the 34 counties with the biggest population declines. Job loss data from the U.S. Bureau of Labor Statistics is equally bleak. Since the state's monthly jobs number peaked in the spring of 2000 at 5.64 million, Ohio has lost 11.3 percent of its jobs. This ongoing loss of employers, jobs and population requires every government entity, at every level, to operate as efficiently as possible and be accountable for every dollar spent. Protecting longstanding, yet inefficient, practices or introducing new programs without ensuring a positive cost/benefit ratio is irresponsible.

Compounding the demographic difficulties Ohio is facing are the changing economic practices of its citizens. The country will enter the next 15 to 20 years burdened by substantial public debt, possibly leading to higher interest rates, higher taxes, and tighter credit. Consumers have lost a

substantial portion of their wealth and may be hesitant to spend what little discretionary funds they have available which, prior to the recession, helped drive the state and national economy.¹

That said, recessionary periods like the one Ohio is now experiencing creates opportunities to make necessary but difficult changes that otherwise could be off-limits politically. What made sense structurally and economically when Ohio became a state in 1803 or in what has been traditionally viewed as our state's manufacturing heyday of the 1950's and 60's will not support the programs and services necessary in the 21st Century and beyond. Taxpayers would be better served with a top-to-bottom government structure that encourages government collaboration, cooperation and efficiency. Doing so would reduce redundancy by merging easily shared services and/or management of state and local government entities, including school districts. Immediate cost savings could be realized by limiting overhead and/or to creating greater group buying power through economies of scale.

Streamlining of government products and services will not be without its practical and political challenges. As with any significant paradigm shift, it will require long-term time commitment and a willingness to take on both internal and external interests and political forces solely interested in protecting their piece of the status quo. It will require the use of political capital and the willingness to let go of programs and services that are either better delivered by what may be viewed as a competitor, be it another government entity or private service provider or significantly altered or eliminated in its entirety.

State Government

According to the National Governor's Association Center for Best Practices, between 1979 and 2007, state spending grew at an average rate of 6.5 % each year. Only once did it decline—in 1983—by less than 1 %. In contrast, fiscal 2009 general fund expenditures declined 3.4 % from fiscal 2008 levels and enacted budgets for fiscal 2010 show a 5.4 % decrease from 2009.² Not unlike taxpayers across the country, Ohioans are beginning to demand responsible state spending based upon results. Citizens should – and do – expect that tax and fee increases are not the first resort; cutting unnecessary spending by identifying waste, duplication and inefficiency should be the first priority.

¹ National Governors Association Center for Best Practices, The Big Reset, Page 2

² National Governors Association Center for Best Practices, The Big Reset, Page 2

Streamlining Ohio service delivery entities, starting with state government, is a must. In totality there are hundreds of state departments, agencies, and boards and commissions that operate under the umbrella of the State of Ohio. The operations of each are funded by taxes or a fee assessed in exchange for a government provided product or service. Given the horizontal layers of bureaucracy and possible overlap of objectives, operational efficiency should be wrung out from across state government through the use of programmatic performance audits.

Performance audits are a valuable management tool to evaluate whether tax dollars are being spent in an effective, efficient and economically sound manner. To ensure objectivity, true performance audits follow the U.S. General Accounting Office's Government Auditing Standards. These audits measure a program's actual performance against its goals and objectives and help to identify any waste, inefficiency or unneeded duplication of services, and identify best practices used by similar Ohio or out-of-state entities. They can be focused on a particular entity, program or service like compensation and benefits, or can delve into a broader policy area that covers multiple agencies such as state financial assistance to counties or special education.

But it is not just service delivery methods that should be examined. Through performance audits across state government, brick and mortar assets should be reviewed to determine whether the operating costs are being used for their intended purpose and, equally important, whether facilities can be combined, shared, or sold. The state of Georgia owns 15,000 building leases, 1800 properties, and oversees 1.1 million acres of land. A recent study recommends that Georgia pursue a large-scale program to reduce real estate holdings by facility consolidation and sale or leaseback of non-core facilities.³

New research by Deloitte encourages enterprise transformation as an effective cost reduction tool for state government. Through the use of performance audit results as a basis of understanding of current operations, state leaders can identify areas of duplication across programs, agencies and business processes. The study cites examples such as Minnesota's Drive to Excellence initiative, which identified financial management, procurement and human resource management, specifically licensing, regulation and compliance to grants management,

³ Georgia State Senate Budget task Force, page 12

as areas ripe for reform. The estimated saving over a six year period are a not insignificant \$350 million. ⁴

The recently released *Michigan Turnaround Plan* also outlines the need for streamlining of state programs and services. As outlined in their Plan, Business Leaders for Michigan recommend the elimination of duplicate state programs, such as areas where the Michigan Occupational Safety & Health Administration overlaps with the federal Occupational Safety and Health Administration and enacting corrections management and adopting sentencing reforms, which combined would produce an estimated \$400 million in savings.⁵

The use of technology as a means to save money and increase efficiency must also be studied. The State of Ohio processes thousands of paper documents every day, which is a costly and time consuming way to collect and store data. One of the easiest ways to help positively impact the state budget is to increase the number of on-line services. Currently the Department of Taxation and the Department of Job & Family Services are utilizing electronic forms for several initiatives. The expansion of the program across state government would reduce operational costs and increase employee productivity.

Statistics from other states reinforce the validity of “going paperless”. For example, the Illinois Department of Human Services saved \$6 million in administrative costs and \$1.2 million in reduced paper printing and distribution costs in its first year. New Jersey and Pennsylvania have also adopted a paperless government initiative. ⁶

Recommendations:

- **Identify cost and management efficiencies that can be gained, and identify and implement additional cost containment measures of both tangible and intangible assets through the use of programmatic performance audits.**
- **Implement business process reviews to find where duplication of people and processes exist within an organization.**
- **Increase online services and implement a paperless government initiative.**

⁴ Deloitte Research , 2010 Election State Issues Briefing, page 12-13

⁵ Michigan Turnaround Plan, page 28

⁶ National Governors Association Center for Best Practices, The Big Reset, page 9

Local Government:

With 88 counties, 1308 townships⁷, and 700 “special district” governments, such as port authorities and fire, park, etc., districts, local government entities encompass more than cities or villages. Within these thousands of jurisdictions, services are provided for a constituency group, many times without regard for jurisdictional overlap of like-service providers. It makes no sense from a geographic or economic standpoint to have two or more governmental entities providing a service in an area where a joint service provider concept could be utilized. Taxpayers don’t care who responds to their needs; rather they care that concerns are handled in an appropriate timeframe, handled appropriately and in a manner that reflects a prudent use of their taxpayer dollars.

The passage of pending legislation (House Bill 541 and Senate Bill 273) that would authorize municipal corporations and other political subdivisions to enter into agreements to perform services for one another is an important first step for state government to support local government collaboration and the legislation should be expeditiously passed.

Utilization of a shared services concept should be explored across multiple jurisdictions of local government. While the delivery of core services is important, the efficient delivery of core services without regard to turf or political protectionism is the expectation of taxpayers. Through mandatory performance audits and sharing of best practices, operating efficiencies and joint purchasing power can be dramatically increased. In addition, overlapping personnel and regulations increase the chance for competing and conflicting regulatory requirements that waste time and taxpayer dollars, and increase bureaucracy. Consider requiring municipalities, particularly that that are among the smallest in population or geographic size or that geographically overlap with another municipality, to centralize services at all levels, possibly through a merger with an adjacent or overlapping municipality or by agreement with county government. In Euclid, officials are considering joining forces with police departments in Shaker Heights, South Euclid and University Heights to form a single SWAT team. According to Euclid Law Director Chris Frey, the combined SWAT approach will allow the cities to focus their efforts on basic police duties like patrol while the SWAT team handles hostage situations and drug raids.⁸

⁷ Ohio Township Association Web site

⁸The News Herald, April 13, 2010

Extrapolating these cost saving programs across the state should be a priority. In fact, there is precedent for successfully encouraging programmatic and service efficiencies regionally. The *EfficientGovNow* program is a competitive grant awards program that encourages and accelerates government collaboration, cooperation and efficiency through rounds of funding to government collaboration projects. Winning projects are voted on and selected by residents of Northeast Ohio.

Implemented in 2009, the first round of the program attracted more than 255 local governmental entities from across the 16-county region that submitted proposals to implement a broad range of collaborative projects. Examples of proposals that were not among the three award winning submissions are just as impressive. For example, New Russia Township, Oberlin City Schools, and the City of Oberlin submission proposed joint collaboration on fleet management services. With a projected annual savings of \$108,000 out of a \$685,000 total budget, the three entities would save taxpayers 16% each year.

Together, the projects projected one-time savings of nearly \$40 million and anticipated annual savings of more than \$22 million. Taxpayers participated in a robust way, with nearly 13,500 citizens casting their vote. In fact, the program was so popular that a second round of competition is under way, with as much as \$330,000 total in funding to be awarded to as many as four collaborative government projects from throughout Northeast Ohio.⁹

A number of states across the country have taken steps to consolidate local service providers at the management level or beyond. Indianapolis, Indiana is thriving compared to other Midwest cities due in large part to Uni-Gov, a regional agreement by county and multiple city government officials to put aside turf wars to encourage collaboration and minimize duplication of regulation and services to help fuel the regional economy. Under Uni-Gov, which was adopted in the 1970's, many units of Indianapolis area city and county government were consolidated into one civil government, City-County Council. The structure of Uni-Gov was divided into three branches similar to the federal government: the executive branch, the legislative branch, and the judicial branch. While some cities maintain a level of service autonomy, they cannot pass any ordinance that conflicts with, or permits a lesser standard than, any City-County ordinance. This significantly reduces any duplicative regulatory or administrative burden businesses and individuals face.

⁹ Efficient Government Now, <http://www.efficientgovnow.org/>

Given its success, Ohio should explore consolidation of related public entities, regionally or even statewide, for contractual negotiations on supplies, equipment and health insurance or other benefits.

There is no example of inefficiency and duplication of processes and procedures within local government that is more pronounced to taxpayers than the current process of reporting and collecting of municipal income tax. Ohio is one of only seven states that permit taxation of income at the municipal level. Across the state a total of 579 municipalities assess an income tax, many of which employ their own tax administrator and support staff and have diverse filing requirements – again, a process very few states have adopted. The current method of reporting and collecting municipal income tax is a regulatory burden on business and individual taxpayers, increases administrative costs to local government entities and thwarts Ohio's efforts to attract out-of-state employers because it is viewed as a morass of red tape. Serious consideration should be given to requiring centralized administration and collection of municipal income taxes and seeking greater overall uniformity, possibly modeled after the process the State of Ohio uses to collect school district income tax. Alternatively, an increasing number of municipalities already participate in regional reporting and collection through existing non-profit entities such as the Regional Income Tax Authority or Central Collection Agency. Mandating either of these options would ease the burden on taxpayers, save administrative costs at the local level, and assist in making Ohio a more attractive place to locate a family and a business.

Finally, most organizations, be it private or public, do not embrace change mandated to it from an outside organization. However, given that state and federal governments supply significant funding streams to local government entities, the state could – and should - employ the carrot and stick approach similar to that already used by the federal government, possibly by cutting a percentage of the funding given to local government entities that choose to not participate in consolidation and, conversely, fully funding those that do.

Recommendations:

- **Enable and encourage shared services to enhance operating efficiencies through the passage of House Bill 541 and Senate Bill 273.**
- **Incentivize collaboration among local government entities through competitively awarded grants and/or the use of a carrot and stick approach.**
- **Implement statewide or regional reporting and collection of municipal income tax.**

Primary and Secondary Schools:

During the 1800's and first half of the 1900's, when Ohio was a predominantly agrarian state, it may have been logical to have 611 school districts. Given today's technological and transportation advances, that is no longer the case. With the loss of federal education stimulus funds after September 2010 and possible state funding cuts of between 22%-30% in the next state budget, K-12 districts will need to be more aggressive in streamlining services and exploring cost-reduction options that don't jeopardize student achievement.¹⁰ Statewide, all districts should consider additional ways to reduce costs. Merging services and purchasing, and outsourcing functions that are not where it is advantageous are some of the ways expenditures could be reduced.

A recent report by The Brookings Institution Metropolitan Policy Program and Greater Ohio Policy Center found that Ohio ranks 47th in the nation in the share of K-12 spending that goes toward in-classroom instruction and ninth in the share that goes toward administration. Based upon those numbers, Ohio's share of spending on school district administration is 49% higher than the national average.¹¹ Despite that data, districts in Ohio appear hesitant to embrace streamlining and consolidation of administrative functions to save money and eliminating duplicative services.¹² However there are notable examples where districts have embraced merging certain administrative functions. In Wayne County, the Orrville City School District and Rittman Local School District consolidated certain top administrative functions – and share a superintendent and other top administrators all while retaining the individual identity of each of the schools. Between the districts they save an estimated \$270,000 a year.

Shared service agreements across specific departments, including transportation, food service and nutrition, health services, purchasing, finance and payroll, technology services and real estate have also worked. According to the recent Deloitte study referred to previously, in the greater Lawrence, Massachusetts area, 10 school districts banded together to provide special education services, saving approximately \$13 million over the next decade. In Pennsylvania, Cornwall-Lebanon and Northern Lebanon School Districts share the services of one food

¹⁰ National Governors Association Center for Best Practices, February 23, 2010, Page 7

¹¹ Restoring Prosperity: Transforming Ohio's Communities for the Next Economy, page 33

¹² Hannah Report, Feb. 23, 2010, page 5

service director, increasing purchasing power while decreasing each district's time and money.¹³

Other states are taking a much stronger approach. Maine Governor John Baldacci proposed and their Legislature enacted a school district consolidation program in June 2007 that requires smaller school districts to reorganize into larger, more efficient units with the goal of merging back-office operations. Districts that opt out of consolidation receive a 2% reduction in state funding. By November 2008, 75 of Maine's 290 school districts were either eliminated or consolidated, saving the state a projected \$36.5 million annually. In the first four months after enactment, some districts in consolidation reported savings as high as \$2 million by coordinating purchases and merging administrative functions.¹⁴ Mississippi Governor Haley Barbour recently established the Commission on Education Structure, a mixture of legislators, education specialists, business leaders, and other stakeholders, to study the best way to consolidate that state's 152 districts.¹⁵

Recommendations:

- **Consider school district consolidation, including merging Ohio's smallest school districts into adjacent districts.**
- **Study the effectiveness of shared service agreements across inter-district departments.**

Colleges and Universities:

Given Ohio's declining state revenue, there is a decrease in the amount of funding available to support the state's colleges and universities. Parents and students are being asked to shoulder a greater financial burden through increases in tuition and fees. Asking for more money, whether it is indirectly via tax dollars funneled through the General Fund or more directly from the college consumer, should not be the only answer to address shrinking budgets at financially strapped institutions of higher learning. Consumers and taxpayers must demand greater results for state dollars that focuses on funding degree attainment.

¹³ Deloitte Research – 2010 Election State Issues Briefing

¹⁴ Maine Department of Education, School Administrative Reorganization

¹⁵ National Governors Association Center for Best Practices, February 23, 2010 Page 7

A proposal by the Georgia Budget Task Force recommends that a greater emphasis should be placed on shared services between the University and the Technical Schools System, including transferring remedial education from four-year schools to two-year colleges.¹⁶ A top-to-bottom review of administrative costs and purchasing agreements may also generate savings. At the University of Pennsylvania, the purchasing department partnered with a Business Enterprise Network and an upgraded e-procurement system saving \$72.2 million in its first eight years. Maryville University (Mo.) created purchasing consistency by contracting with FedEx/Kinkos for ordering stationery products. The three-year agreement will save more than \$100,000 and help ensure a clear, concise, and consistent visual identity.¹⁷

Just as important to streamlining is a shift to online learning opportunities. For example, the Western Governors University, founded by the governors of 19 U.S. states, delivers, with mentoring support, all of its courses online. Students learn at their own pace, demonstrate competencies through online tests, and receive accredited degrees at about half the cost of brick and mortar schools.¹⁸

Though not funded through the state's General Revenue Fund, capital project expenses should also be assessed to determine that every penny is expended as efficiently as possible. While there are currently three pilot projects that have been approved, the expansion of the use of General Contracting (single prime), rather than multiple prime contracting for construction projects would create flexibility and reduce costs. Ohio State University President E. Gordon Gee has said that the university could save hundreds of millions of dollars on construction projects if it were able to universally utilize single-prime contracting.¹⁹

Recommendations:

- **Study potential academic partnerships among four-year universities and two-year colleges.**
- **Access the effectiveness of online education for possible expansion, which would offer flexibility and less need to brick and mortar infrastructure.**

¹⁶ Georgia State Senate Budget Task Force

¹⁷ 101 Smart Revenue Generators (and Money-saving Ideas), University Business

¹⁸ National Governors Association Center for Best Practices, February 23, 2010 Page 8

¹⁹ Columbus Dispatch, *Gee: Change construction law*, December 8, 2009

- **Align purchasing agreements among and between colleges and universities to maximize economies of scale.**
- **Mandate of the use of single prime instead of multiple prime contractors to ensure the lowest construction costs possible.**