Priority Colorado:

Balancing the Budget While Preserving TABOR and Colorado's Quality of Life

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Reason

Issue Paper # 4-2005
February 2005

This year's big question: do we really need to raise taxes? We believe that if government changed the way it operated, became more performance-orientated and focused on its core missions, then Colorado will make it though this budget crunch without raising taxes. Having a more effective and efficient government will mean less burden on Colorado taxpayers and a higher quality of life.

The purpose of this Issue Paper it to demonstrate potential savings that Colorado lawmakers can utilize to address the current state budget deficit, while achieving greater results for the taxpayers. By no means does this report represent a full-scale comprehensive review. Rather it is an initial review, a prospectus of sorts, based on best practice management and efficiency techniques that have been employed and have worked around the country. Certainly a more comprehensive review is warranted, but this initial survey demonstrates a variety of policy and budgetary options available, and shows that there are options for Colorado's government to balance the budget in a fiscally prudent manner without raising taxes or gutting the Taxpayers Bill of Rights (TABOR).

1. How government budgets.

Traditionally, state budgets focus on general fund increases to a base budget. The argument often is that in order to maintain service levels, agencies need to spend what they did last year and increase spending to account for inflation and or population increases. This moves the discussion to the margins of spending: the annual spending increase requests from agencies. Unfortunately, the other 90 to 95 percent of spending is left out of the debate, and programs are seldom analyzed for their relative merits; it is generally assumed that the activities should continue to receive funding. Good government, however, requires that all "investments" pursued by state government should routinely be assessed for their actual effectiveness, and that only the activities that provide the greatest benefit should be funded, based on the goals and priorities set by the people. By developing a mechanism to identify poor performing programs and misdirected resources, it becomes easier for government officials to identify resources for core priority programs.

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Budgeting in this manner, sometimes referred to as budgeting for outcomes, also shifts the focus on what the state is able to "purchase" and continue to do. The State of South Carolina used budgeting for outcomes for the first time this year; 1,500 different activities were divided into purchasing priorities regardless of the agency performing them. By focusing on the programs that delivered the greatest results, and purchasing those, the administration was able to shave $160 million from the budget (based on a total annual budget of $16.9 billion) resulting in the suspension or elimination of about 67 activities (or 4.4 percent of the total number of activities) previously performed by government.

Essentially, available dollars are spread across the goal and priorities areas (i.e., what the state wants to purchase or achieve). Spending was allocated from the top of the priority list working down until the money ran out. Using this approach, some activities and programs will not be funded or fall below the "spending line." In other words, they do not provide as good a public investment relative to other programs. Some people will disagree with this method of prioritizing spending. However, we believe that it is the most responsible way to spend taxpayers' dollars.

2. There are savings.

The budget shortfall is only about 2 percent of the total state budget—a challenge indeed, but not one that cannot be overcome. There is no such thing as a perfectly efficient organization; this rings especially true in government. In addition, experience tells us that, despite our best efforts, there will always be waste, fraud, and abuse in organizations the size of Colorado's government. As stewards of the taxpayers' trust, lawmakers must make every effort to squeeze out the waste and ensure that limited taxpayer resources are wisely used. Reorganization and realignment, where appropriate, are important tools to help do so.

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In addition, every level of government has programs or activities that cannot demonstrate performance or effectiveness. There are just not enough resources to fund all of the "nice idea" programs and, at the same time, maintain the vital programs with the resources they need. Because failed programs necessarily draw money away from effective programs, programs that cannot demonstrate performance or results that enhance Coloradans quality of life should be terminated. In addition, low priority programs, which do not tackle the state's most pressing challenges, or which duplicate other government, non-profit or private programs should be suspended temporarily during tight budget times. As future budget conditions change, the need for reinstating these programs can be evaluated.

Make no mistake, the budget gap will require lawmakers to make tough decisions that are certain to be resisted by various stakeholder groups with a vested interested in the continuation of a program—regardless of how effective it is. State government should act like families practicing "Kitchen-table Economics"; when revenue does not add up to desired spending, families eliminate unneeded or non-priority spending. Tough decisions must be made but the savings are there. To fail to make necessary cuts is a violation of the taxpayers' trust and, as California demonstrates, leads to disaster.

Savings Tool 1 – Asset Divestiture

Increasingly, governments with budgetary shortfalls are tapping their portfolios of real property assets as a part of the solution for enhanced revenues, reduced expenditures on maintenance, and an increasing taxbase. This would not affect open space parcels.

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Divestiture of unneeded assets is attractive for a variety of reasons. First, divesting an unneeded property does not impact the delivery of a service. When a property does not directly support programmatic goals, the deadwood can be eliminated without undermining service quality.

Second, asset divestiture typically results in a lump-sum payment of cash. Other governmental reforms often have an implementation or "ramp up" phase during which time savings are not seen. With asset sales, a cash payment is made to the government, just like a family selling a house.

Third, divesting state-owned real estate increases the taxbase. State-owned lands do not pay property taxes (taxes which in Colorado benefit schools and local governments) nor do they typically produce sales and income taxes. Moreover, in constrained real estate markets with limited developable land, state-owned property represents a needed source of capital for private economic activity.

Finally, systematically reviewing the state's assets portfolio—and divesting the state of assets which are not efficiently owned by the state—will result in lower maintenance and operations costs, and will free money for other priorities.

State asset sales and realignment can take a variety of forms. In some cases, government entities sell real property outright, in either an "as is" or "entitled" state (with appropriate zoning approval). In other cases, the transactions are established (particularly for enterprises like a golf course or other fee-generating facilities) as a long-term franchise agreement or concession.

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Recent activities in California offer a clear illustration of the potential revenue enhancements that can be gained from a comprehensive review of state land holdings in Colorado. On May 11, 2004, Governor Schwarzenegger signed Executive Order S-10-04, which ordered the California Performance Review to identify potentially high value urban property owned by the state that may warrant disposal.[1] The results, published in November 2004, were staggering. The report identified as much as $ 4.3 billion in underutilized state-owned real property.

The Schwarzenegger asset report acknowledged that much of this value was tied up in properties that would take as much as 5 to 10 years to transact. However, the report also identified property which could be sold over a much shorter term with a market value ranging from $798 and $961 million as fully entitled properties (with necessary zoning approval) or $412 to $482 million if sold "as is" (without zoning entitlements).[2] Among the types of properties identified were:

- unused or underutilized portions of state correctional facilities, state universities, and state hospitals, particularly in high-growth areas;
- state-owned parking garages;
- state-owned transportation right of way;
- old or obsolete state-owned buildings in high-value urban commercial real estate markets (shifting located services to leased facilities funded through sale proceeds)
- state-owned maintenance yards and facilities
- obsolete or unneeded armories
- developable parcels of state-owned vacant land (does not include conservation lands, trust lands, etc.);

It is important to note that in most cases, the properties identified for potential disposal in California provided no direct benefit to the delivery of state programs. For instance, huge buffers exist around state correctional facilities and hospitals. Where once these facilities were located in largely remote areas with low property values, growth has brought both population and commerce into these regions and property values have skyrocketed. What was once a relatively worthless piece of buffer land has become high-value developable land in a housing-starved region. The facilities can continue to operate with smaller buffers.

Recognizing the growing value of the unused lands, the California Department of General Services sought and received permission to entitle and sale a piece of property outside of Chino State Prison and is estimated to have received more than $120 million in the transaction that will provide land for 2,500 new homes in 2004.[3]

A similar transaction occurred in 2001 when a portion of a state-owned developmental center was sold for $149 million.[4]

Other government entities across the United States have had similar experiences.

In June 2003, the Arizona Land Department generated $51.2 million through the sale of two parcels of land, even though the properties appraised for only $27.9 million.[5] In other words, the state generated more than $23 million more than anticipated through the sale of two parcels of state-owned land.

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Orange County, California raised more than $300 million through real asset sales and sale leasebacks over the course of 18 months to help recover from bankruptcy in 1995.[6] The Empire State Development Corporation generated hundreds of millions of dollars in revenues through sales and leasebacks of state-owned properties including the New York Coliseum, state mental health campuses, parking lots, armories, and state-owned golf courses. In one of its first sales, New York divested a golf course for more than $3 million.[7]

While a comprehensive review of the state inventory of real property assets was beyond the scope of this Issue Paper, such a review is needed. A cursory review of state holdings suggest that divesting even a modest portion of state assets could generate substantial new revenues for Colorado, in addition to streamlining the activities of state government. According to the January 2005 agenda of the Commission on Higher Education (CCHE), the Department of Higher Education identified 60 buildings that were vacant or unused in 2004, creating 900,000 square feet of unused structural space with a replacement value of more than $249 million. Some of these buildings are awaiting money for demolition or refurbishments. In some cases, it is unclear what will happen to these buildings, because funds are not committed or available. The CCHE also reveals that another 60 vacant unused or partially unused buildings have been identified across other departments, representing more than 1.2 million square feet of structural space and $40 million in replacement value.[8]

Additionally, Governor Owens should convene, within the Department of Personnel and Administration a Rent-reduction Task Force whose sole purpose is to negotiate lower lease rates for state-occupied buildings.

The state should be careful not to disregard buildings and facilities that are being used. These assets can also be leveraged through a variety of approaches. For instance, state office buildings, particularly older building in higher cost regions, can be sold and replaced with build-to-suit lease facilities in other regions where commercial real estate costs are lower. Additionally, this may enable the program to acquire better, more modern facilities at lower cost. Given the rate of commercial vacancy in Denver, there should be a realistic opportunity for the state to pursue saving, because commercial office space holders will compete for big tenants such as government agencies. Additionally, Governor Owens should convene, within the Department of Personnel and Administration a Rent-reduction Task Force whose sole purpose is to negotiate lower lease rates for state-occupied buildings. A similar effort in California resulted in 233 leases being amended at a savings of $76.5 million since 2001.[9]

Additionally, there is no compelling reason why Colorado state government should own and maintain a permanent fairground facility. With a broad network of county fair complexes around the state, a reasonable and more fiscally prudent approach would be to divest the state fairgrounds and co-locate the State Fair with various counties on a rotating basis.

To maximize the benefits of an asset review, the state should undertake a comprehensive review of the laws and regulations governing asset divestiture in Colorado. Lawmakers should recognize that the incentives are typically very limited for an agency to decide that it no longer needs an asset; the agency neither bears the full cost for keeping the asset, nor does the agency receive much benefit from selling it. Hence, Colorado lawmakers, may wish to create an additional incentive for agencies to identify underutilized assets, by permitting agencies to keep a portion, perhaps 10 percent, of the net proceeds of the disposal, which the agency can use for needed capital upgrades or other one-time expenditures. Given the review authority of the Capital Development Committee in the decisions to sell state property, adequate safeguards exist to ensure that agencies do not declare needed assets as surplus.

Based on the success that other government entities have had in generating revenue through the sale of state owned real property assets, Colorado can expect to generate $50 million through asset sales in FY 2005-06.

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Governor Owens, via executive order, should commission a short-term review of state-owned property. In addition to identifying "low-hanging fruit" of the kind suggested here, the state will also likely uncover other questionable properties under state ownership warranting longer-term realignment. In California, for instance, a review of the state's real estate portfolio made public that the state owns the Los Angeles Coliseum, numerous golf courses, a Malibu Beach House used by MTV, and a number of other questionable facilities.

Action Items

- By Executive Order, Governor Owens should order an immediate review of the state inventory for potentially high value urban property that is unused, underutilized, or not being put to its highest and best use.
- To create an appropriate incentive for identifying underutilized property, amend Colorado statutes to enable an "incentive bonus" whereby agencies and departments receive 10 percent of the net proceeds of any real property sold between now and June 30, 2006.
- A number of other assets, land, and buildings could be divested and put to better use.

Savings Range
$50 million - $150 million

Savings Tool 2 – Getting Back to Core Functions

Over time, government inevitably expands. New agencies, programs, boards, and commissions are formed, often with duplicative, overlapping, or even contradictory missions. Lack of oversight or accountability only adds to this government sprawl and inefficiency.

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In order to make the most of taxpayer dollars, public officials must always monitor the effectiveness of and need for various programs and services. It is particularly important for government to stick to core functions during difficult fiscal climates. There simply is no room in the budget for low-priority programs.

A program may be deemed non-essential or low-priority for many reasons, both objective or subjective:

1. The program is simply unnecessary for performing the core functions of government or is inconsistent with the proper role of government.

2. The program duplicates other government programs.

3. The program performs services that are already adequately provided in the private sector.

4. The program's past or current budgetary growth is not justified.

5. The program performs functions that are better suited to local governments.

For our analysis, we have chosen to focus primarily on the first three reasons.

The budget can be balanced if focus is returned to the core functions of government. Cuts will only be painful to the extent that programs will be cut or eliminated that are not necessary in the first place and, in most instances, only came into being as the result of legislative "generosity" during better economic times or by special interest lobbying. Finally, it can be stated with some degree of confidence that years hence this reevaluation of priorities will be seen as a natural, and even healthy, part of the economic and political cycles.

Action Items

- Create a Colorado Performance Review, modeled after the Texas review, to would conduct an immediate and limited-term review of government functions and priorities.
- Establish a permanent Colorado State Programs Sunset Commission to review systematically the continued relevance and performance achievements of 20 percent of all state programs annually, on a five-year cycle.
- Eliminate all ineffective programs and eliminate or suspend low-priority programs.
- Adopt performance-based budgeting to tie appropriations to agency performance.
- Adopt the South Carolina budget model of establishing priorities and funding the highest-priority government functions with available revenues.

CANDIDATE PROGRAMS FOR SUSPENSION OR ELIMINATION			
Department	Description	Savings	Action
Agriculture	Agricultural Services Division	$2,183,149	Eliminate / Suspend
Governor – Lieutenant Governor - State Planning and Budgeting	Economic Development Programs (incl. International Trade Office, Colorado Tourism Office)	$11,733,519	Eliminate
Governor – Lieutenant Governor - State Planning and Budgeting	Office of Information and Technology	$899,560	Eliminate
Higher Education	Colorado Council on the Arts	$500,000	Eliminate
Higher Education	State Historical Society	$10,000	Eliminate / Privatize / Volunteer
Higher Education	Division of Occupational Education	$8,992,333	Privatize

Human Services	Community Services for the Elderly	$2,373,769	Suspend funding increase (Reduce to FY 02-03 level)
Local Affairs	Division of Housing	$415,222	Eliminate
Local Affairs	Division of Local Government	$1,750,705	Eliminate / Suspend
Natural Resources	Parks and Outdoor Recreation	$2,831,763	Shift to self-supporting user fee

Savings Range
$31.7 million

Savings Tool 3 – Consolidation

Governments typically grow incrementally over time, slowly taking on new functions and creating new entities to handle those functions. Often lacking in the incremental approach is a strategic framework that asks the questions: should government be doing this at all and if so, what organizational structure is best suited to achieve a specific goal?

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Because of incremental, haphazard development, significant overlap and duplication develop. Not only does the duplication waste taxpayer money, it also reduces the accountability of government. When several entities share responsibility, nobody owns the blame for failure.

As lawmakers address the current budget deficit, they should also take the opportunity to improve accountability in government (while saving money) by consolidating and reorganizing agencies to align core functions of state government according to logical and consistent priorities. Cost savings from eliminating duplicate and overlapping programs can be large. By reducing overhead costs and consolidating shared administrative services, budget savings of at least 15 percent of the budget of the consolidated entity can be achieved.

Consolidation has benefits beyond cost savings and increased accountability. Agencies can achieve greater focus on outcomes within their mission areas as their organization becomes more flexible and nimble.

Governor Arnold Schwarzenegger's California Performance Review recommended a comprehensive reorganization plan that would consolidate the state's existing 11 agencies and 79 departments into 11 new "super departments" with aligned functions and consolidated administrative support services.

There is also a need to rigorously review all independent boards and commissions in the executive branch of state government. Such a review should focus on consolidating overlapping entities and eliminating those that do not serve a pressing need of government.

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Over the years, a myriad of commissions and boards has been created to address specific needs in Colorado, but they are rarely, if ever, evaluated to ensure that a need for them still exists or that similar services are not provided by other agencies. Currently, nearly 200 such entities are populated by gubernatorial appointments. Not only do so many entities create extensive overhead costs, they also dilute accountability.

Governor Schwarzenegger's California Performance Review, which recommended eliminating or consolidating 119 boards and commissions, explained the case for board consolidation:

The line between the Governor and the performance of executive branch functions should be as straight as possible…When state goals are pursued through un-elected boards and commissions, government is less accountable than if the tasks had been performed directly. If a program is failing…good government demands that blame be easy to affix and hard to deflect. The current structure of boards and commissions creates the opposite situation. For this reason we pursued a comprehensive review of all boards and commissions within the executive branch.[10]

Action Items

- Every agency in the state has certain fixed costs and overhead necessary to operate. Each agency has to have human resource management, information technology, administrative support, etc.

Colorado could achieve significant savings by consolidating these administrative functions into a single entity, such as the Department of Personnel and Administration, and then requiring all state agencies to opt in to these services or to contract these services to the private sector for improved cost savings. No matter which method an agency chooses, cost efficiencies are guaranteed through this process, allowing resources to be reallocated to other programs. Colorado state government can benefit from the efficient and enhanced services, as well as the significant savings in resources, from the consolidation of shared services.

- Realign programs and agencies along functional "super" categories

Savings Range
$150 - $219 million

CANDIDATES FOR CONSOLIDATION			
Department/Agency	Description	Savings	Solution
Agriculture	Commissioner's Office and Administrative Services	$148,792	Consolidate administrative functions. (w/ Personnel and Administration)
Agriculture	Conservation Board	$99,665	Consolidate (w/ Natural Resources)
Corrections	Management	$17,401,293	Consolidate administrative functions (w/ Personnel and Administration)
Corrections	Support Services	$3,141,834	Consolidate (w/ Personnel and Administration)
Education	Management and Administration	$3,152,561	Consolidate administrative functions (w/ Personnel and Administration)
Health Care Policy and Financing	Executive Director's Office	$3,002,619	Consolidate administrative functions (w/ Personnel and Administration)

Higher Education	Department of Higher Education	$88,195,916	Consolidate (w/ Education)
Human Services	Department of Human Services	$69,825,528	Consolidate (w/ Depts. Of Health Care Policy and Financing, Labor and Employment)
Human Services	Executive Director's Office	$3,247,213	Consolidate administrative functions (w/ Personnel and Administration)
Human Services	Division of Youth Corrections	$14,147,459	Consolidate (w/ Depts. Of Corrections, Public Safety)
Human Services	Office of Self Sufficiency - Administration	$73,245	Consolidate administrative functions (w/ Personnel and Administration)
Human Services	Mental Health and Alcohol and Drug Abuse Services - Administration	$63,246	Consolidate administrative functions (w/ Personnel and Administration)
Human Services	Adult Assistance Programs - Administration	$5,351	Consolidate administrative functions (w/ Personnel and Administration)
Labor and Employment	Department of Labor and Employment	$0	Consolidate (w/ Depts. Of Health Care Policy and Financing, Human Services)
Labor and Employment	Division of Oil and Public Safety	$0	Consolidate (w/ Depts. Of Agriculture, Regulatory Agencies)
Law	Administration	$166,838	Consolidate administrative functions (w/ Personnel and Administration)
Local Affairs	Executive Director's Office	$148,690	Consolidate administrative functions (w/ Personnel and Administration)
Local Affairs	Property Taxation	$263,834	Consolidate (w/ Department of Revenue)
Military and Veterans Affairs	Executive Director and Army National Guard (excluding National Guard Tuition Fund)	$427,215	Consolidate administrative functions (w/ Personnel and Administration)
Natural Resources	Executive Director's Office	$884,882	Consolidate administrative functions (w/ Personnel and Administration)

Personnel and Administration	Department of Personnel and Administration	$1,259,015	Consolidate (w/ Depts. Of Revenue, Treasury)
Public Health and Environment	Air Quality Control Division	$0	Consolidate (w/ Natural Resources)
Public Health and Environment	Water Quality Control Division	$0	Consolidate (w/ Natural Resources)
Public Health and Environment	Hazardous Materials and Waste Management Division	$0	Consolidate (w/ Natural Resources)
Public Health and Environment	Executive Director's Office	$36,969	Consolidate administrative functions (w/ Personnel and Administration)
Public Health and Environment	Local Health Services	$216,200	Consolidate (w/ Health Care Policy and Financing, Human Services)
Public Health and Environment	Laboratory Services	$16,952	Consolidate (w/ Health Care Policy and Financing, Human Services)
Public Health and Environment	Consumer Protection	$143,539	Consolidate (w/ Depts. Of Agriculture, Regulatory Agencies)
Public Health and Environment	Disease Control and Environmental Epidemiology Division	$529,162	Consolidate (w/ Health Care Policy and Financing, Human Services)
Public Health and Environment	Prevention Services Division	$827,164	Consolidate (w/ Health Care Policy and Financing, Human Services)
Public Health and Environment	Health Facilities and Emergency Medical Services Division	$179,453	Consolidate (w/ Health Care Policy and Financing, Human Services)
Public Safety	Department of Public Safety	$8,521,502	Consolidate (w/ Corrections)
Public Safety	Executive Director's Office	$387,722	Consolidate administrative functions (w/ Personnel and Administration)
Regulatory Agencies	Department of Regulatory Agencies	$154,858	Consolidate (w/ Agriculture)

Regulatory Agencies	Executive Director's Office	$35,034	Consolidate administrative functions (w/ Personnel and Administration)
Revenue	Executive Director's Office	$1,933,371	Consolidate administrative functions (w/ Personnel and Administration)
Treasury	Department of Treasury	$678,835	Consolidate (w/ Depts. Of Personnel and Administration, Revenue)
Treasury	Administration	$110,201	Consolidate administrative functions (w/ Personnel and Administration)

The new "Department of Commerce, Agriculture, and Consumer Services":

- Department of Regulatory Agencies into the Department of Agriculture
- Division of Oil and Public Safety (from the Department of Labor and Employment) into the Department of Agriculture
- Division of Consumer Protection (from the Department of Local Affairs) into the Department of Agriculture

The new "Department of Natural Resources and Environment":

- Conservation Board (from the Department of Agriculture) into the Department of Natural Resources
- Air Quality Control Division (from the Department of Public Health and Environment) into the Department of Natural Resources
- Water Quality Control Division (from the Department of Public Health and Environment) into the Department of Natural Resources
- Hazardous Material and Waste Management Division (from the Department of Public Health and Environment) into the Department of Natural Resources

The new "Department of Finance and Personnel":

- Department of Personnel and Administration into the Department of Revenue
- Department of Treasury into the Department of Revenue
- Division of Property Taxation (from the Department of Local Affairs) into the Department of Revenue

The new "Department of Health and Human Services":

- Department of Human Services into the Department of Health Care Policy and Financing
- Department of Labor and Employment into the Department of Health Care Policy and Financing
- Division of Local Health Services (from the Department of Public Health and Environment) into the Department of Health Care Policy and Financing
- Laboratory Services (from the Department of Public Health and Environment) into the Department of Health Care Policy and Financing
- Disease Control and Environmental Epidemiology Division (from the Department of Public Health and Environment) into the Department of Health Care Policy and

Financing
- Prevention Services Division (from the Department of Public Health and Environment) into the Department of Health Care Policy and Financing
- Health Facilities and Emergency Medical Services Division (from the Department of Public Health and Environment) into the Department of Health Care Policy and Financing

The new "Department of Education":

- Department of Higher Education into the Department of Education

The new "Department of Public Safety and Corrections":

- Department of Public Safety into the Department of Corrections
- Division of Youth Corrections (from the Department of Human Services) into the Department of Corrections

Savings Tool 4 – Sentencing Reform[11]

In 1984 Colorado had fewer than 4,000 adult prisoners. By October 2004 the number had grown to over 19,800. That is more than a 400-percent increase in 20 years. The largest growth area has been that of "non-violent offenders"—typically those convicted of drug crimes. In fact, more than 20 percent of all inmates are in prison for non-violent drug-related offenses. This population accounted for 22 percent of new commitments in Fiscal Year 2003.[12] Since 1985 the percentage of prisoners locked up for non-violent drug offenses has nearly quadrupled.

In fact, more than 20 percent of all inmates are in prison for non-violent drug-related offenses.

On average, it costs over $28,000 a year to keep an inmate in Colorado's prisons for the year. Offenders housed in non-prison settings cost from $3,477 (for parole) to $11,027 (for community intensive supervision program).[13]

Given that 20 percent of Colorado's prison population consists of non-violent drug offenders, there are approximately 3,900 of these inmates, which cost the state approximately $109 million a year. Approximately 50 percent of these inmates were convicted of simple possession.[14] This group of inmates is ripe for alternative sentencing.

Action Items
- Create a separate set of felony sentencing guidelines and halve the presumptive sentencing ranges for non-violent drug offenses.
- Downgrade simple use and possession of controlled substances from felony crimes to misdemeanors.

Savings Range15
$28.25 million - $41.6 million

Savings Tool 5 – Medicaid Reform

Medicaid continues to eat up a large portion of many state budgets. As a result, states are turning toward Medicaid reform to help balance their budgets. Recently-elected Missouri Gov. Matt Blunt proposed saving $626 million in state and federal funds by increasing income-eligibility for parents from 75 percent to 30 percent over the federal poverty level. In addition, he proposed cutting podiatry, dental care and rehabilitation services for beneficiaries. Furthermore, he wants to require small co-payments and deductibles for some services. Thus, Governor Blunt's plan makes more families eligible for Medicaid, and does so by asking Medicaid beneficiaries to make small payments for most services, and to take over the responsibility of paying for a few services.

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Compared to other states, Colorado's Medicaid picture is not especially bad. Colorado has a low portion of its population on Medicaid. But that does not mean that there is not room for improvement or savings.

Based on FY 2000 data, Colorado has the 14th highest per-enrollee spending in the nation at $4,624—23 percent above the national average of $3,762; for all major categories, Colorado's average spending is higher than the national average. However, Colorado ranks 31st in per-capita spending on mental health.

Currently, Colorado is one of 23 states which provides Medicaid coverage to seniors and people with disabilities even though they are eligible for State Supplemental Payments; Colorado does so by extending eligibility beyond 74 percent of the federal poverty line (FPL). In addition, Colorado offers many optional services that states can choose to provide in additional to the minimum federal service levels.

Action Items

- Reduce state Medicaid and non-Medicaid mental health spending by implementing a strict preliminary assessment to limit eligibility for mental health services to only persons with certain biologically-based mental health problems. Place stricter limits on maximum days authorized for inpatient psychiatric and residential substance abuse services (similar to those found in private health insurance).
- Reduce state Medicaid long-term care spending by instituting a strict assessment to qualify Medicaid enrollees for nursing home admission, home health, and other long term care services.
- Reduce Medicaid per-enrollee costs by placing limits on maximum units of services covered for certain healthcare services, particularly prescription drugs, hospitalizations, emergency room visits, and mental health services.
- Increase co-pays to the maximum allowed by federal law and institute a nominal deductible for Medicaid enrolled adults who are not pregnant. (Federal law prohibits cost-sharing for children and pregnant women in Medicaid).
- Give the DHCPF the authority to adjust eligibility criteria to ensure that the total Medicaid budget does not exceed the appropriations. Many states already do so.
- Reduce eligibility for State Supplemental Payments for disabled from 79 percent to 74 percent of FPL, the minimum required by federal law.
- Eliminate certain non-mandatory Medicaid services, increase co-pays or limit utilization to the most medically needy.

Savings Range
$45 million - $90 million

Savings Tool 6 – Realigning Education Strategies

For 2005-2006, the Governor is requesting a total budget of $3.6 billion, including $2.6 billion in general funds. The budget includes the following increases:

- Increase of $79.5 million for the state's share of district funding.
- $1.8 million categorical.
- $2.9 million testing and assessment under No Child Left Behind.
- $77,138 Colorado School for the Deaf and the Blind.

The majority of the education revenues are not subject to TABOR restrictions because of Amendment 23 or because the revenue comes from the State Education Fund, which is explicitly exempt from TABOR restrictions.

Reform of Amendment 23 would allow the legislature more discretion over education funding during periods of budget shortfalls. For example, in California Proposition 98 is a constitutional amendment that requires minimum funding levels for K-12 education. Proposition 98 places great demands for K-12 funding on the state budget and funds education at even higher level than Amendment 23. However, Proposition 98 does allow the legislature to suspend some of the growth required by Proposition 98 during times of severe budget shortfalls. For example, education spending growth can be limited to cover increases in inflation and enrollment rather than the larger spending increases tied to the overall California state revenue. Similarly, Colorado could change Amendment 23 to tie base per-pupil education spending to enrollment growth and inflation and suspend the 1 percent additional required growth during budget shortfalls.

Action Items

- Enact between a 5-8 percent decrease in the Department of Education's Management and Administration budget for FY2006.
- Suspend the comprehensive health program.
- Maintain the library system at the FY 2004-2005 funding level.

Savings Range
$3.28 million - $4.3 million

Savings Tool 7 – Procurement and Collections Reform

Government procurement is rapidly changing. Technology has enabled dramatic improvement in how government purchases goods and services. Colorado has made strides in modernizing procurement strategies; however, there remains much opportunity and savings to be realized.

The California Performance Review identified thirteen different procurement strategies to modernize and improve government procurement. Even a cursory review of Colorado's procurement practices uncovers some needs for change or modernization and where initiatives should be expanded to find additional efficiencies and savings.

In 2003, Senate Bill 03-058 amended the procurement code to allow for alternative procurement methods, including reverse auctioning. We were unable to ascertain to what extent reverse auctioning has been implemented, if at all. The California Performance Review estimates that the reverse auction procurement method can achieve savings of 5-20 percent.[16] Given that Colorado awarded over $328 million in bids in 2004, expanded use of reverse auctioning could translate into 5-year savings of $16.4 - $65.7 million.

Currently, state agencies are required to purchase furniture from the Colorado Correctional Industries. A state auditor report found the furniture was costly and poor quality. The requirement should be suspended, allowing agencies greater flexibility to find savings opportunities and/or higher quality furniture.

Currently, state agencies are required to purchase furniture from the Colorado Correctional Industries.

Debts owed the state need to be collected. As of January 2004 there were 326,600 debts totaling approximately $332 million owed to the state.[17] Over the last four fiscal years, the Central Collections unit has only recovered an average of $12.3 million.[18] Using private contractors under a "share in revenue" contract whereby the contractor receives payment based on their amount of money recovered can reduce the debts owed to the state.

In May 1996, Jersey City, New Jersey, turned over the operation of its water system to United Water. When the system was run by the city, the actual amount of water being paid for was only 66 percent. The new contract provides financial incentives for the contractor to increase the percentage. If the percentage rises to 70–75 percent, United Water keeps 5 percent of the increased collections. If the percentage rises to 75–80 percent, the water company keeps 10 percent of the increase in collections, and if the collection rate exceeds 80 percent, the company's percentage rises to 25 percent of the increase in collections.19

Action Items

- Expand the use of performance-based contracting. Savings range from 15 percent to over 18 percent are possible.
- Expand the use of reverse auctioning.
- Suspend statutory requirement to procure furniture from the Colorado Correctional Industries.
- Share in revenue contracts to recover long-term debt owed to the state.

Savings Range
$15 million - $30 million

Tool 8 – Competitive Sourcing

Colorado spends billions of dollars in each bi-annual budget carrying out work that is also produced by the private sector. Competition in services involves the examination of an activity of an agency to determine whether it should continue to be carried out within the agency or should be purchased from an outside entity. Put simply, "should the agency 'make' or should it 'purchase' this activity?"

Colorado spends billions of dollars in each bi-annual budget carrying out work that is also produced by the private sector.

Government reform experts David Osborne and Peter Hutchinson said in their recent book, The Price of Government, "the fastest way to save money and increase value is to force public institutions to compete."

Steven Goldsmith, the former Mayor of Indianapolis, described this process as "the Yellow Pages Test." If a service provided by government is also listed in the yellow pages of the phone book as being provided by at least two private sector firms, the service is a strong candidate for competition.

As a rule of thumb, competition can typically lower costs 15 to 30 percent while maintaining or improving service levels—and that is key to the challenges Colorado faces.

As a rule of thumb, competition can typically lower costs 15 to 30 percent while maintaining or improving service levels—and that is key to the challenges Colorado faces.

The goal of lawmakers confronting the state deficit should not be to reduce service delivery. Instead, the goal should be to increase the value to taxpayers by providing more and better services for less money.

According to many studies by the federal government, academic researchers and others, outsourcing on a competitive basis historically has resulted in cost savings in the range of 5 to 50 percent depending on the scope and type of service.20 Recently the federal government reported that competitive sourcing resulted in a 12-to-1 return on investment. So, for every dollar spent on preparing and holding public-private competitions, the federal government saved twelve! Over a two-year period the government saved more than $2.6 billion.

However, the Colorado Supreme Court has interpreted the state personnel laws so that any job that traditionally had been performed by a state employee may not be opened to competitive sourcing.

Colorado is falling far behind other states and the federal government in its ability to adjust costs and to introduce competition. Since 1999 the state of Florida has initiated over 138 competition initiatives for various state services, including human resources, highway maintenance, computer help desk, Medicaid billing administration, and food service at state prisons.

The state has saved hundreds of millions of dollars with these and other initiatives and has helped the state avoid deficits and return over $8 billion in taxes to citizens in the same time.

The Colorado Constitution, Article XII, section 13(8), states that state employees in the merit system "shall hold their respective positions during efficient service or until reaching retirement age…" Although the plain language of the Constitution seems to protect individual employees from losing their jobs, the Colorado Supreme Court has ruled that the state government may not contract out work, even if no state employee loses his job.[21]

Before taxpayers are asked to send more of their tax dollars to Denver, the Legislature should offer the voters a constitutional Initiative to subject state services to competition. The case for amending the Constitution (in order to rectify the Colorado Supreme Court's erroneous ruling) can be put in terms of real dollars: how much the state is not saving because of the Court's creation of restrictions on competitive sourcing.

Competitive sourcing does take time to initiate. While savings can and are achieved in the first year, it, more importantly, leads to long-term structural reform and continued savings over the years. Once competition is allowed, the potential savings could be significant, as the following table details.

Savings Range
$24.27 million – $48.55 million[22]

CANDIDATES FOR COMPETITION
SUMMARY OF RECOMMENDATIONS

CANDIDATES FOR COMPETITION			
Agency	Activity	Low Savings	High Savings
Corrections	Institutions - Maintenance	$ 2,964,690	$ 5,929,380
Corrections	Institutions - Housing and Security	$ 19,379,736	$ 38,759,473
Corrections	Institutions - Food Service	$ 4,071,493	$ 8,142,986
Corrections	Institutions – Laundry	$ 553,562	$ 1,107,125
Corrections	Support Services	$ 3,141,834	$ 6,283,668
Corrections	Inmate Programs	$ 4,253,155	$ 8,506,310
Education	Library Programs	$ 143,969	$ 287,939
Education	Public School Transportation	$ 5,538,334	$ 11,076,668
Human Services	Office of Information Technology Services	$ 2,586,368	$ 5,172,736
Human Services	Office of Operations	$ 2,562,892	$ 5,125,785
Human Services	Office of Self Sufficiency - Child Support Enforcement	$ 653,431	$ 1,306,862
Human Services	Division of Vocational Rehabilitation	$ 519,859	$ 1,039,718
Judicial	Courts Administration (State Court Administrator's Office)	$ 580,696	$ 1,161,392

Judicial	Administrative Special Purpose	$ 2,341,648	$ 4,683,295
Judicial	Integrated Information Services	$ 648,775	$ 1,297,550
Personnel and Administration	State Fleet Program	$ 1,729,609	$ 3,459,218
Personnel and Administration	Division of Human Resources	$ 8,749,139	$ 17,498,278
Personnel and Administration	Central Services	$ 8,159,076	$ 16,318,152
Personnel and Administration	Division of Information Technology	$ 5,209,069	$ 10,418,139
Personnel and Administration	Finance and Procurement – Collection	$ 168,997	$ 337,993
Public Health and Envir.	Laboratory Services	$ 24,218	$ 48,435
Public Safety	Colorado State Patrol - Executive and Capitol Complex Security Program	$ 186,353	$ 372,706
Public Safety	Colorado Bureau of Investigation (except Investigative Services)	$ 1,706,971	$ 3,413,942
Revenue	Cash and Document Processing	$ 1,521,194	$ 3,042,388
Revenue	Information Technology Division	$ 787,433	$ 1,574,866
Revenue	Taxation Business Group (except Tax Conferee and Special Purpose)	$ 2,721,310	$ 5,442,620
		$ 80,921,167	$ 161,842,334

SUMMARY OF RECOMMENDATIONS			
		Low End Savings	High End Savings
Part 1	Asset Divestiture	$50 million	$150 million
Part 2	Competitive Sourcing	$24.27 million	$48.55 million
Part 3	Consolidation	$150 million	$219 million
Part 4	Sentencing Reform	$28.25 million	$41.6 million
Part 5	Getting Back to Core Functions	$31.7 million	$31.7 million

Part 6	Medicaid Reform	$45 million	$90 million
Part 7	Realigning Education Strategies	$3.28 million	$4.3 million
Part 8	Procurement and Collections Reform	$15 million	$30 million
Total Savings		$347.5 million	$615.15 million

3. Colorado vs. California

TABOR is often unfairly scrutinized and berated. In fact, taxpayers in Colorado should consider themselves lucky. They do not have to look very far to see how much worse things could be in the absence of this protective measure.

In the decade before TABOR was enacted, Colorado's government grew at more than twice the rate of inflation plus population growth. In the decade after passage of TABOR, government continued to grow, only at a much more stable rate—tracking the combined growth rate of inflation and population. Some $3.25 billion in tax dollars were refunded over five years (1997-2001), amounting to about $800 per capita—$3,200 for an average family of four.

Some $3.25 billion in tax dollars were refunded over five years (1997-2001), amounting to about $800 per capita—$3,200 for an average family of four.

Compare that situation to what California taxpayers are suffering. In 1998, the state was running a $12 billion surplus. Rather than provide refunds, the state spent every penny and more. Between 1998 and 2003 revenues increased 26 percent—while spending increased 45 percent.

Instead of saving (or refunding) record-breaking one-time surpluses produced by the stock bubble of the late 1990s, the state went on an unsustainable spending spree in 1999, 2000, and 2001, in many cases committing one-time revenues to ongoing expenditures—the equivalent of winning a $500 lottery and buying a new car with a $350 per month payment . As a result, California faced a monumental budget deficit that reached a peak of $34 billion dollars by some estimates. Even with the recall of Gov. Davis and the election of Gov. Arnold Schwarzenegger the state continues to struggle, facing a current deficit estimated at $9.1 billion

Had a TABOR-like law constrained California's spending, the state would not face the problem it does now. Spending would have been restrained during the stock boom and prevented the state from committing beyond ongoing obligations. It would have largely avoided the crippling deficits it now faces. Likewise, Colorado's experience and current situation would likely be very different if TABOR had not been enacted; without a constitutional restraint, spending increases would have continued at pre-TABOR rates, leaving the state in far worse fiscal condition than it is now.

Had a TABOR-like law constrained California's spending, the state would not face the problem it does now.

The challenge Colorado faces is serious and deserves real answers, not budget gimmicks and phantom savings. TABOR is not the cause of the problem, but rather has averted more serious problem.

Endnotes

[1] Full text of Executive Order S-10-04, signed on May 11, 2004, is available at http://www.governor.ca.gov/state/govsite/gov_pressroom_main.jsp

[2] *High Value Urban Properties in the State's Portfolio: A Report to the Governor in Accordance with Executive Order S-10-04,* California Performance Review, http:// http://cpr.ca.gov/pdf/86244_WebBk2.pdf

[3] Editorial by the Honorable Bill Leonard, Member, California State Board of Equalization, "Time for a State Estate Sale: Auctioning off Part of Vast Land, Property Holdings Could Ease Fiscal Crisis," *Orange County Register,* March 3, 2004.

[4] Carl DeMaio, George Passantino, Geoffrey Segal, et al. *California Citizen's Budget: A 10-Point Plan to Balance the California Budget and Protect California's Quality of Life,* p. 80 (Reason Foundation and Performance Institute, Apr. 2003), http://www.rppi.org/cacitizensbudget.html

[5] Mike Padgett, "Land Auction Exceeds State's Expectations," *Phoenix Business Journal,* June 25, 2003, http://phoenix.bizjournals.com/phoenix/stories/2003/06/23/daily26.html

[6] Telephone Interview with William Lange, founder of LFC Group of Companies, which coordinated the real estate sales and services to Orange County, California during the County bankruptcy proceedings, Feb. 2, 2005, http://www.lfc.com

[7] Telephone Interview with John Buttarazzi, managing partner of Liberty Hall Advisers and former Senior Vice President for the Privatization Group of the Empire State Development Corporation.

[8] Colorado Commission on Higher Education, January 6, 2005 Agenda, http://www.state.co.us/cche/agenda/agenda05/jan05/jan05ivc.pdf

[9] Department of General Services, Real Estate Services Division, Professional Services Branch, Leasing Section, "Cost Savings Through Negotiation of Facility Space-Lease Contracts " (Sacramento, Calif.: June 17, 2004); California Performance Review, INF-10, *Issues and Recommendations*, p. 749.

[10] *Form Follows Function*, California Performance Review, p. 123 (Aug. 3, 2004).

[11] For more detailed information see Mike Krause, *Getting Smart on Crime: Time to Reform Colorado's Drug Offense Sentencing Policies*, Independence Institute, (Golden: Independence Institute, 2005), http://www.independenceinstitute.org/articles/IP_1_2005.pdf.

[12] State of Colorado, Dept. of Corrections, *Statistical Report for Fiscal Year 2003* (2004), pp. 36-37.

[13] State of Colorado, Dept. of Corrections, *Statistical Report for Fiscal Year 2002* (2003), p. 28.

[14] *Id.*, p. 70; Colorado Department of Corrections, "Profile of Drug Offenders in Colorado Department of Corrections" (2001).

[15] The range represents the savings achieved by eliminating prison incarceration for 1,700 inmates and instead using community intensive supervision programs (annual costs of $18.75 million) or parole (annual costs of $6 million). Because some prisoners would be best put in intensive supervision, and others would be best put in parole, the saving achieved would be somewhere within the stated range, depending on what percentage of prisoners were put in which program.

[16] State of California, California Performance Review http://report.cpr.ca.gov/cprrpt/issrec/stops/proc/so77.htm

[17] State of Colorado, Office of the State Auditor, *Central Collections Services, Department of Personnel & Administration, Performance Audit* (May 2004), p. 2.

[18] *Id.*, p. 1.

[19] William D. Eggers, *Performance Based Contracting: Designing State of the Art Contract Administration and Monitoring Systems,* Reason Foundation How to Guide No. 17 (Los Angeles: May 1997), p. 1.

[20] Over 100 studies of cost savings from privatization are reviewed in John Hilke, *Cost Savings from Privatization: A Compilation of Study Findings*, Reason Foundation How-to Guide No.6 (Los Angeles: 1993), http://www.rppi.org/htg06.pdf. For an overview of research on cost savings in federal privatization, see General Accounting Office, *DOD Competitive Sourcing: Savings Are Occurring, but Actions Are Needed to Improve Accuracy of Savings Estimates* (Washington: GAO/NSIAD-00-107, Aug. 8, 2000); General Accounting Office, *DOD Competitive Sourcing: Some Progress but Continuing Challenges Remain in Meeting Program Goals* (Washington: GAO/NSIAD-00-106, Aug. 8, 2000); Center for Naval Analysis, *Long-run Costs and Performance Effects of Competitive Sourcing* (Washington: 2001), http://www.cna.org/research/studies/comsourc.html

[21] *Colorado Association of Public Employees v. Department of Highways,* 809 P. 2d 988, 991 (Colo. 1991); *Horrell v. Department of Administration*, 861 P.2d 1194, 1196 (Colo. 1993).

[22] This assumes an average savings rate between 15 and 30 percent for approximately one-third of the competition activities. If all initiatives could be completed and savings realized in one year savings between $80.9 million and $161.8 million could be achieved.

Apendix A

EXECUTIVE DEPARTMENT

STATE OF CALIFORNIA

EXECUTIVE ORDER S-10-04
by the
Governor of the State of California

WHEREAS, on behalf of all Californians, the State of California owns and leases real property assets used for diverse public purposes, including, but not limited to, university campuses, highways, parks, correctional facilities, flood control levies, water storage and conveyance facilities, mental health hospitals, developmental centers, veterans homes, state fairs, fire stations, forensic laboratories, and office buildings; and

WHEREAS, a partial listing of these assets includes:

º 33 university campuses encompassing 6,300 buildings and 69 million square feet of structural space;

º 50,000 lane-miles of highways and 12,000 bridges;

º 33 adult prisons, nine institutions for youthful offenders, and four correctional hospitals;

º 11 forensic laboratories and one DNA laboratory;

º Two public health laboratories;

º 238 forest fire stations and 28 air attack and helitack bases;

º 277 park units covering nearly 1.5 million acres, and 228 wildlife reserves encompassing approximately one million acres;

º 210 Department of Motor Vehicle and 139 Highway Patrol offices;

º 32 million square feet of leased and owned office space managed by the Department of General Services, and millions more square feet managed by other state entities;

º Four mental health hospitals with more than four million square feet of facilities and five developmental centers with approximately five million square feet of space; and

WHEREAS, these real property assets are the infrastructure necessary to carry out the services, activities, and programs that California provides to its citizens and visitors, and those programmatic needs drive California's investment in and management of real property assets; and

WHEREAS, California's inventory of real property assets is collectively valued in the hundreds of billions of dollars, and includes priceless parcels of California's breathtaking natural resources, which must be protected for this and all future generations; and

WHEREAS, California state government is entrusted with managing the entirety of this asset inventory in a way that maximizes the public benefits without unnecessary expense; and

WHEREAS, this responsibility for management and efficient stewardship includes ensuring proper utilization and maintenance of the assets, acting judiciously to increase the holdings in the inventory as necessary to meet increased needs for services to the public, and acting prudently to decrease the inventory when assets are surplus to the needs of serving the public; and

WHEREAS, California's real property asset management structure is spread across more than 40 boards, conservancies, commissions, and departments that acquire, trade, develop, and dispose of real property assets for various state programs; and

WHEREAS, California's decision-making process regarding the utilization of real property assets lacks statewide coordination, with nearly a hundred board members and department directors who govern the decisions regarding what property is added to and deleted from California's asset inventory; and

WHEREAS, there is no one set of laws, policies, or processes that comprehensively governs and coordinates the activities affecting California's asset inventory; and

WHEREAS, all properties purchased with funds derived from, or secured by, any tax or fee revenue are owned by the State of California, and are to be managed to benefit the citizens of California with the entities that have jurisdiction over these assets acting as stewards of the state's property for the people of California; and

WHEREAS, this disjointed system of real property asset management is deficient because it:

º Hinders statewide strategic planning;

º Inhibits the use of a consistent approach to determine whether the acquisition of a real property asset has a clearly identifiable public purpose and benefit;

º Inhibits the use of a consistent approach to determine whether the utilization of a real property asset meets statewide programmatic needs;

º Inhibits efforts to set coordinated statewide priorities for spending on real property assets;

º Leads to inconsistent and inequitable operational costs paid from departmental budgets for the use of real property assets;

º Allows some decisions to escape proper due diligence reviews and thereby increases the risk that the state will acquire low priority properties or properties with undiscovered costs and liabilities;

º Leads to inconsistent state policies in dealing with the public and other governments in real estate transactions;

º Contributes to an inefficient use of resources to manage, maintain, and govern California's real property assets;

º Has prevented the creation of a single system for accurately listing and tracking all of California's assets.

NOW, THEREFORE, I, ARNOLD SCHWARZENEGGER, Governor of the State of California, by virtue of the power and authority vested in me by the Constitution and statutes of the State of California, do hereby issue this order to become effective immediately:

1. The California Performance Review, in coordination with the State and Consumer Services Agency and the Department of General Services shall review all existing statutory and regulatory authorities and current laws and processes that govern the acquisition, use, management, and disposal of state real property assets. They shall make recommendations to the Governor regarding necessary reforms to improve the management of the state's portfolio of real assets.

2. All state agencies, departments, boards, and commissions under the authority of the Governor shall review all real property assets which are currently under their jurisdiction, as well as real property leased by the state. As part of this review, all state entities shall provide complete reporting of their property inventory in compliance with guidelines to be issued by the Department of General Services. The Department of General Services shall record these inventories in the Statewide Property Inventory.

3. All state agencies, departments, boards, and commissions shall review the current and anticipated programmatic need for the state-owned and leased property that they occupy or have under their stewardship, identify and report any property surplus to their current or future needs, and ensure that information is developed that completely and adequately describes and justifies existing and future programmatic needs for real property assets, including, but not limited to the information developed in compliance with the requirements of the California Infrastructure Planning Act (Government Code sections 13100-13104).

4. Concurrent to this review of laws and policies, the California Performance Review shall identify potentially high value urban properties owned by the State of California, which may be underutilized or which may not reflect a highest and best use, and which may warrant realignment or disposal. The California Performance Review shall prepare a report and recommendation to the Governor by June 30th 2004.

5. All state entities under the Governor's executive authority shall cooperate fully with the State and Consumer Services Agency, Department of General Services and the California Performance Review and identify departmental resources currently performing activities related to asset management and provide assistance and personnel as needed to implement this Executive Order. Agency secretaries and other cabinet-level positions will be responsible for ensuring compliance with the provisions of this Executive Order. For those departments that do not have cabinet-level representation, department directors or executive officers shall be responsible for ensuring compliance with the provisions of this Executive Order.

6. Other entities of state government not under the Governor's direct executive authority, including constitutional officers, the legislative and judicial branches, and the University of California, California State University, and California Community Colleges are requested to actively participate in this effort.

7. The California Performance Review, in coordination with the State and Consumer Services Agency, Department of General Services and the Department of Finance are hereby directed to coordinate the implementation of this Executive Order and may issue management memos, as necessary.

IN WITNESS WHEREOF I have here unto set my hand and caused the Great Seal of the State of California to be affixed this the eleventh day of May 2004.

/s/ Arnold Schwarzenegger

Governor of California

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JON CALDARA is President of the Institute.

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His advice and counsel has been sought by South Carolina Gov. Mark Sanford and Indiana Gov. Mitch Daniels where he is working with the Government Efficiency and Financial Planning group inside the Office of Management and Budget. In addition, he served as an advisor to Gov. Jeb Bush's (Florida) Center for Efficient Government. Segal has worked closely with legislators and staff in California, Virginia, New York, Pennsylvania, Oregon, Kentucky, Indiana, Maine, South Carolina, and Texas in efforts to reduce government spending without destroying the important social net of services in that state.

Segal has presented his research at numerous conferences around the world and has appeared in front of numerous city and county councils as well as testified to the States of California, New York, Florida, and Virginia as well as the United States Senate. He has written dozens of articles for leading publications including Investor's Business Daily, Atlanta Journal-Constitution, and New York Sun. Segal is also a contributing editor to Budget & Tax News.

George Passantino is Director of Government Affairs for Reason Foundation. This year, George Passantino served as a full-time Director of the historic California Performance Review established by Governor Arnold Schwarzenegger. In this effort, George helped lead a multi-pronged, top-to-bottom review of state government, including its organizational structure and policy priorities. In early August, CPR delivered a comprehensive reform agenda and reorganization plan to Governor Arnold Schwarzenegger that will increase accountability and create the first truly 21st Century Government.

Prior to joining Reason in 1997, George served as a legislative consultant to the California State Legislature. To his credit is a wide range of high-profile legislative accomplishments, including the 1996 passage of California's version of Megan's Law, which has helped thousands of parents protect their children from dangerous sex offenders. He has advised governments at the local, state, and federal level. George is a much sought after speaker and writer, having presented his views on government reform to a wide range of audiences, including the Council on Excellence in Government, the National Council of State Legislatures, Financial Executives International, and dozens of trade associations, business groups, and regional economic development collaboratives. George's views have also appeared in media across the nation, including The Wall Street Journal, The New York Times, the Los Angeles Times, and National Public Radio.

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Snell frequently comments on education issues on radio and television media including recent appearances on the Fox News Channel, ABC's "Wall Street Journal Report," and numerous regional news programs. Ms. Snell has published numerous articles and op-eds on school choice in newspapers including the Las Vegas Review Journal, Orange County Register, and the Los Angeles Daily News and frequently speaks about this issue.

Tarren R. Bradgon serves as the Director of Health Reform Initiatives at the Maine Heritage Policy Center. During 2001 and 2002, he served as the Special Assistant to the President of the Maine Senate, Senator Richard Bennett. In this capacity, he provided policy research, analysis and advice on a variety of policy areas, focusing on healthcare and tax policy. In 2002, he worked extensively on the legislation and eventual enactment of the Maine Consumer Choice Health Plan, a state-administrated consumer choice insurance exchange of several private health plans that will be available to Maine individuals and small businesses. From 1996 through 2000, he served in the Maine House of Representatives representing District 119, part of Bangor. He is the youngest person ever to be elected to the Maine House, being sworn in when he was just eleven days past the constitutional requirement of twenty-one years of age. During his tenure in the house, he served on the Joint Standing Committee on Health and Human Services. He worked for three years at non-profit child welfare agency overseeing community relations and licensing compliance for the 260 employee, $11 million organization.

This paper is a joint project between the Independence Institute and the Reason Foundation.