the sky isn't falling

Proven Strategies for Budget Reconciliation

By Geoffrey F. Segal and Adam B. Summers

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THE SKY ISN'T FALLING: PROVEN STRATEGIES FOR BUDGET RECONCILIATION

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Executive Summary

This November, Coloradoans will make a critical decision about the future fiscal responsibility and tax policy in their state. Colorado, through its Taxpayer's Bill of Rights (TABOR), has emerged as one of the leaders in cutting taxes and restraining the growth of government that has nearly bankrupted many other states—returning $3.25 billion to taxpayers between 1997 and 2001. As a result, half of the states in the nation have followed its lead and introduced similar measures.

Proponents of Referenda C and D are arguing that the state is in dire straits and needs more money to survive. They paint a scary picture indeed; one in which hospitals, schools and libraries will close, where 911 emergency services will shut down and police and fire departments will be left without the tools and resources needed to function. While fear mongering may be a brilliant communications and public relations strategy, it is not an accurate depiction of the situation. It presupposes that every dollar spent by the state of Colorado is both spent well and importantly. While the services in Colorado may be performed efficiently, there is always room for improvement. In addition, over the years the state has taken on new responsibilities and started new programs. Rarely do old programs get phased out or eliminated. There certainly must be *some* functions government can stop providing.

The states of Washington and South Carolina have developed a budget process that identifies all government services by activity, rather than by agency, and categorizes them according to a set of pre-established goals. Special teams of policy experts, state agency employees, private citizens, and other stakeholders analyze and rank the activities in order of priority and effectiveness. The administration then "purchases" (funds) the activities from the top of the list down until all available revenues have been used up, leaving the lowest-priority activities for better economic times and eliminating duplicative, poor-performing, unnecessary, or otherwise wasteful activities. Texas engages in performance-based budgeting and utilizes a Sunset Advisory Commission to recommend eliminating programs that are duplicative or have outlived their purpose. The federal government has developed the Program Assessment Rating Tool (PART) to evaluate programs based on their purpose, strategic design, management, and results.

A cursory view of the Colorado state budget reveals several items that are not priorities of government that should be considered for suspension, reduction, or even elimination. The

following are just a few examples that would equate to at least 10 percent of the amount needed to offset the added tax revenues called for by Referendum C:

- Reduce economic development programs such as International Trade and Tourism offices and the Colorado Tourism Office in half - $6,000,000 in savings.
- Suspend state funding of the Colorado Council on the Arts - $500,000 in savings.
- Increase Medicaid copayments to federal allowable levels – approximately $10,000,000 in savings.
- Reduce state funding of the State Fair by one-half - $4,000,000 in savings.
- End Agricultural Markets Division (marketing subsidies) - $400,000 in savings.

Again, these five program changes get Colorado more than 10 percent of the funding that proponents of Referenda C and D say Colorado needs to provide vital services. A rigorous review will find numerous other low-priority programs.

Quite simply, the sky is ***not*** falling. If there are high-priority programs and services in need of funding, there are plenty of savings to be found to pay for them. Colorado should take a more rational approach to budgeting by following the example of so many private individuals and families—and, increasingly, other governments—and fund government services by prioritizing wants and needs. The adoption of performance-based budgeting and an activity-based prioritization funding model would help Colorado decisionmakers to more easily identify the governmental activities most important to Coloradoans and make difficult trade-off and cost-benefit decisions. It would result in the provision of better, more efficient services while allowing Colorado to protect taxpayers and maintain fiscal responsibility.

Colorado's Budget at a Glance

As we mentioned above, there are surely some functions that government can stop providing. Unfortunately the budgeting process doesn't work that. Traditional state budgeting focuses only on the ***increase*** to a base budget and rarely are the 'big picture' questions asked. The argument is simple; that in order to maintain current service levels agencies need to spend what they did last year and an increase to account for inflation and population increases. Put simply, 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 seldom is analyzed for their relative merits—it is generally assumed that the activities should continue to receive funding.

In Colorado that debate takes place at the 3.1 percent ***increase*** to all funds (3.5 percent for the general fund) this year. This year's budget request from the governor ***does increase spending*** by over $414 million ($192 million general fund.) With a $414 million spending increase, the sky cannot be falling. Despite these facts, the governor and proponents of Referenda C and D are arguing that without passage, drastic budget cuts will have to be made. Only in government does an increase in spending of this size represent a cut.

The difference is between what they want to spend and what they can spend under the rules set up by TABOR. State government should act like families—when revenue does not add

up to **desired** spending, families don't get to go ask for more money. Rather, they eliminate unneeded or non-priority spending. In times like these, tough decisions must be made. Frankly that's why elected officials are elected—to make tough decisions. Experience and common sense suggests that there are opportunities to reduce or eliminate spending. Not every program or activity can be a priority or critical to Coloradoans' quality of life.

As Dee Hodges, the president of the Maryland Taxpayers Association noted, "TABOR works because it forces state and local governments to live within a budget, to set public priorities, to make wiser choices, and to find ways to meet state goals—not by spending more—but by spending smarter."[1] In essence, TABOR makes state government act more like the families they represent.

Frankly, TABOR has saved Colorado from itself. Throughout the 1990s state tax revenues were up significantly. Because of restrictions, Colorado lawmakers were forced to give some of that windfall back to the taxpayers. When the recession hit in 2002, Colorado's revenues dropped to $7.8 billion, however, they were only allowed to keep and spend $7.9 billion the year before and were required to refund over $1 billion. Thus, the state's revenue deficit was significantly lower, by the tune of $928 million. This of course assumes that lawmakers would have spent all additional revenue at their disposal—and given the current debate there is no reason to assume they wouldn't have.

Compare that to California. In 1998, the state was running a $12 billion surplus. Rather than provide refunds, the state spent every penny it brought in -- and then some. Between 1998 and 2003, revenues increased 26 percent—while spending increased 45 percent in the same period. Instead of saving record-breaking one-time surpluses (or refunding them as Colorado was forced to do) produced by the stock bubble of the late 1990s, California went on an unsustainable spending spree in 1999, 2000, and 2001. As a result, California faced a monumental budget deficit of between $26 and $34 billion dollars.

Had California had a TABOR of its own, spending would have been constitutionally restrained during the stock boom. California would be in much better fiscal condition, having largely avoided crippling deficits. It led to the recall of a sitting governor, and having learned their lesson, Californians will vote on a similar measure this November 8th.

Likewise, Colorado's experience and current situation would likely be very different if TABOR had not been enacted. In other words, had there been no check on spending, expenditures would have continued at pre-TABOR rates, leaving the state in far worse fiscal condition. Dramatic cuts would have been needed during the recession years severely hamstringing the state's recovery.

Given the current fiscal condition, and the understanding of what a spending "cut" truly is, Colorado could have had it much worse. In the event that Referenda C and D fail, the question is whether or not Colorado state government can continue to provide adequate services to its citizens. Will the government be so starved of revenues that it'll be forced to close schools and libraries or lay off police and firefighters?

The simple and clear answer is that Colorado will survive just fine without massive service disruption or a negative impact to Coloradoans quality of life. It can be done—the only

question is how to get there. The easy road is a simple "across-the-board" cut. The more difficult, yet more productive road requires targeted or systemic "surgical strikes" based on program performance and priority based spending.

Across-the-board cuts are generally ill-advised—they treat and affect the highest performing and most important services equally with low performing and less important services. By focusing on performance and priorities, policymakers can target their cuts—ridding taxpayers of poor performing, non-essential, and non-core services.

Several states and the federal government provide a road map of sorts to show how focusing on priorities and performance "surgical" budget cuts can be found resulting in more than enough savings. In addition these efforts have produced recommendations for program realignment through reduction or even elimination that actually improve the quality and effectiveness of services that are provided. The end result being a higher quality of life for fewer resources.

While Colorado's situation is different from the states discussed in this paper the guiding principles are the same. Differences do not prohibit the implementation of the programs or efforts. Simply looking at the wide divergence between the case studies here suggests that differences can be put aside and success can be achieved.

Priorities of Government

Several states (and more cities and counties) are changing their views about government budgeting. Priority or outcome-based spending treats spending as an investment—the type and amount of investment should change yearly as results, performance, and needs change. Budgeting this way shifts the focus on the investments and what can be accomplished with available resources—when resources run out, spending stops. Using this model, deficits are nearly impossible.

Should Referenda C and D fail, it may not be practical to fully re-start Colorado's budget process using this model. However, a modified approach could be employed for the short term to reevaluate spending and make recommendations for spending reductions. Regardless, Colorado should shift to this budgeting process in the next full budget cycle.

Washington State

The Priorities of Government (POG) model was first employed by Governor Gary Locke in the State of Washington in 2002.[2] At the time, Washington was facing a potential $2.4 billion budget shortfall (approximately 10 percent of the size of the General Fund Operating budget). Significant changes were needed to plug the hole in the budget. In an effort to make the most of limited resources and ensure that the most important governmental functions were properly funded, the Locke administration called for a top-to-bottom evaluation of what services the government provides and how.

The administration identified a set of key results that citizens expect from government. The Locke administration established the following ten goals for state government:

1. Improve student achievement in elementary, middle, and high schools.
2. Improve the quality and productivity of our workforce.
3. Improve the value of postsecondary learning.
4. Improve the health of Washington citizens.
5. Improve the security of Washington's vulnerable children and adults.
6. Improve the economic vitality of business and individuals.
7. Improve statewide mobility of people, goods, information, and energy.
8. Improve the safety of people and property.
9. Improve the quality of Washington's natural resources.
10. Improve cultural and recreational opportunities throughout the state.

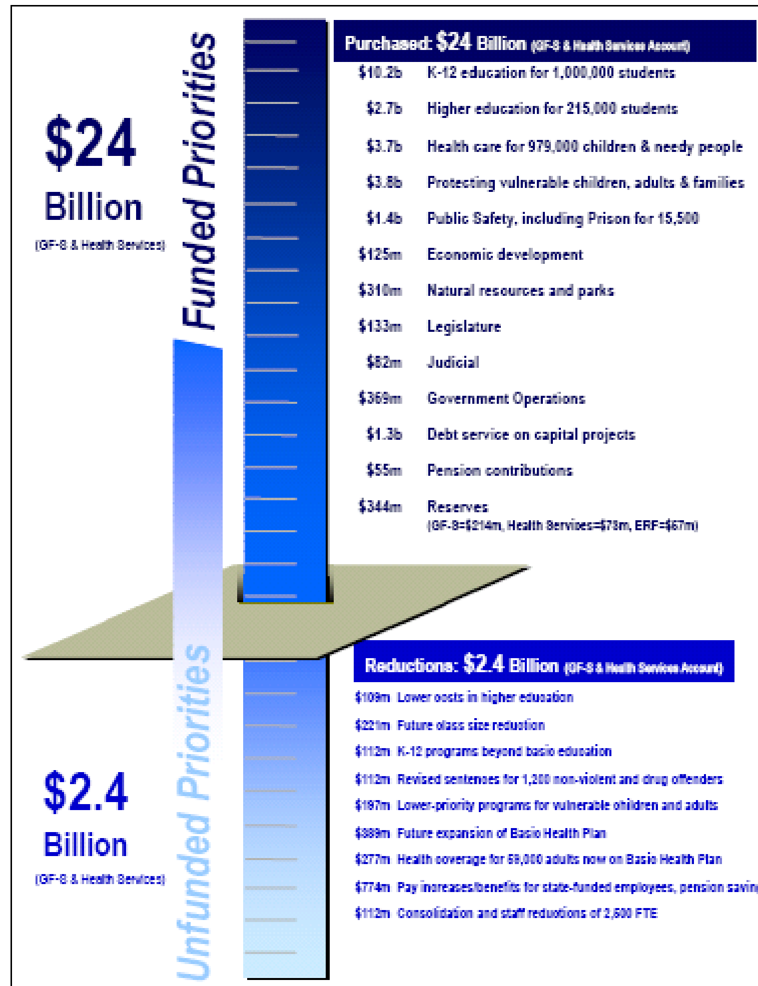
An eleventh goal has since been added to address government management: "Strengthen government's ability to achieve its results efficiently and effectively."[3]

Result teams were formed to analyze government activities in each of the ten result areas. In Washington, result teams are comprised of six to eight subject-matter experts from state agencies, and are led by the Office of Financial Management. These teams analyzed and ranked government activities according to how well they achieved the desired outcomes as outlined in the ten governmental goals. The result teams were aided by a 10-member "guidance team" comprised of leaders of the public, private, and nonprofit sectors. The guidance team was tasked with overseeing the prioritization process and reviewing the work of the result teams.

In order to aid in the decision-making process, result teams were each given a dollar allocation to serve as an upper spending limit for their purchase plans. Washington reached a couple of key conclusions regarding the allocation limit:

- The prioritization process is often more meaningful when the allocation is less than the amount currently spent in that area.
- A dollar constraint encourages creativity, keeps proposals grounded in financial reality, and forces people to articulate priorities and choices.[4]

The priority rankings established by the result teams were then used to develop the 2003-05 biennial executive budget proposal. Activities were funded from the top of the list down until the spending limit was reached. The following figure illustrates the spending priorities that were established.



Source: Washington Office of Financial Management

Since politicians, special interests, and bureaucrats often focus on narrow interests and spending priorities, ignoring the larger picture and the sacrifices necessary to accommodate those desires, perhaps the greatest benefit of POG is simply making budgetary priority and trade-off decisions clear to all. As a U.S. Government Accountability Office report of innovative state performance budgeting efforts noted:

> *One Washington legislator said that POG provided decision makers with proposed priorities in a clear and easily understood format that encouraged constructive debate. . . . Legislative officials said that the greatest contribution of POG was that it provides a strong, clear means of communicating budgetary trade-offs to both decision makers and the public.*[5]

The POG approach to budgeting has several other advantages over the traditional incremental "line-item" approach:

- POG focuses on achieving *results* and developing statewide strategies for realizing goals, instead of focusing narrowly on agency "silos."
- POG illustrates not only which programs are cut, but which programs are funded.

- POG presents trade-offs and cost-benefit decisions in a way that is clear and easy for decisionmakers and citizens alike to understand.
- POG makes performance information more relevant and useful to budget decisions.
- POG allows decisionmakers to reward programs and activities that best serve state goals and helps reduce waste by identifying ineffective and duplicative programs and services.
- POG helps identify statutory limitations that are obstructing more effective service delivery.

Examples of Items Reduced or Not Purchased by Goal Area, Governor's Spending Plan, FY 2003-05:

- Anti-Bullying/Harassment Training - $486,000
- Nonviolence and Leadership Training - $292,000
- Pacific Science Center - $2,448,000
- Employment and Day Programs - $13,178,000
- Optional Health Benefits: Dental, Vision, Hearing - $51,767,000
- Health Insurance – Childless Adults (Below 200% of Poverty Level) - $127,403,000
- Department of Labor and Industries Training and Outreach - $10,000,000
- Consolidate Horse Racing and Gambling Commissions - $1,399,000
- Department of Ecology Governmental Relations - $17,000
- Support the Arts as Basic Education - $943,000
- Governor's Internship Program - $165,000

South Carolina

Under Gov. Mark Sanford's leadership, the governor's office offered a new approach to budgeting—largely modeled after Washington state. As described above, it is a process that focuses on outcomes and achieving state priorities and goals. Over fifteen hundred different activities performed by the state government were divided into eight general goals for the state, regardless of the agency performing them. These goals included:

1. Improve K-12 student performance.
2. Improve our higher education system and cultural resources.
3. Improve the conditions for economic growth.
4. Improve the health of our citizens.
5. Improve protections and well-being for our children and adults.
6. Improve the safety of people and property.
7. Improve the quality of our natural resources.
8. Strengthen government's ability to achieve results efficiently and effectively.[6]

By focusing on the programs that delivered the greatest results, the state was able to more effectively establish spending priorities and "purchase" the services that are most needed and most effective. This approach shifted the making of spending decisions away from a bureaucratic self-preservation and the *status quo* and toward a model that focuses on

delivering the services that citizens demand and encourages innovative thinking. By utilizing this activity-based prioritization process, the administration was able to shave over $160 million from the budget (based on a total proposed annual budget of $17.6 billion), resulting in the suspension or elimination of about 67 activities (or 4.4 percent of the total number of activities) currently performed by government.[7]

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 state "ran out of money." 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. As the administration explained in its FY 2005-06 Executive Budget, "This is not to say that these [below the spending line] activities do not have merit – most, if not all, of them do and could perhaps continue to exist without our tax dollars funding them. However, budgeting should be about weighing the relative merits of activities and funding the ones that provide the greatest benefit."[8]

Some examples of the $162 million in savings from lower-priority activities include the following:

- Surplus funds and non-core expenses identified by cabinet agencies ($24.5 million)
- Duplicative administrative costs that can be saved from restructuring ($20.1 million)
- Pharmacy reimbursements above the Southeastern average ($16.5 million)
- General fund pay increases to higher education and non-state employees ($13 million)
- Annual debt payments that can be saved by prepaying bonds ($12.8 million)
- Additional lottery ads and retailer commissions above the national average ($12.3 million)
- Surplus build-up in funding for endowed chairs ($10 million)
- Non-competitively awarded pass-through funds ($9.4 million)
- Redevelopment Authority subsidies ($3.1 million)
- Vacant office space and other real estate expenses ($2.4 million).[9]

South Carolina's Priority Budgeting Process

Step 1: Establishing major goals. Eight broad goals of the state's government were initially set forth by the administration.

Step 2: Developing agency activity inventories. All state agencies were charged with cataloging their activities and explaining not only what activities or services are performed, but also why they are performed, for whom they are performed, what each activity costs, and what the agency expects to achieve by performing the activity. The Budget and Control Board's Office of State Budget then sorted the activities according to the appropriate goal area.

Step 3: Establishing performance measures and strategies for achieving results. "Results teams" comprised of private citizens, agency employees, legislative staff, advocates, and other stakeholders were responsible for developing the indicators and strategies for success upon which governmental activities would be evaluated and, ultimately, ranked.

Step 4: Holding budget hearings. Crucially, budget hearings were held by goal area, rather than by agency. This encouraged cooperation and an exchange of ideas across agencies focused on achieving similar objectives, providing a level of communication and brainstorming unavailable under the old budget process. In addition, budget hearings were open to the public and citizens were encouraged to participate.

Step 5: Ranking activities and recommending savings. The results teams were then charged with ranking the activities based on which ones they felt would most effectively and efficiently meet their assigned statewide goal. Thus, a preliminary budget is created for each goal area.

Step 6: Forming a final purchasing plan. Finally, the administration is able to put together a final purchasing plan and executive budget based upon the recommendations of the results teams. Funds are first allocated to mandatory expenditures such as debt service and the property tax relief fund, and then distributed among the eight goal areas. Activities are purchased from the top of the rankings down until all available funds have been depleted. A final evaluation is performed to ensure that activities below the "spending line" cannot be funded or should not be funded instead of certain activities above the line.

Some will disagree over which activities should receive which priority rankings, particularly those that fall just above or just below the spending line. However, we believe that this activity-based prioritization budgeting method is the most effective way to allocate finite resources and achieve the most bang for the taxpayers' bucks.

Performance Assessment and Sunset Commissions

Blue ribbon commissions are nothing new to government. A few states, however, have used performance reviews and sunset commissions more effectively than most.

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.

In order to make the most of taxpayer dollars, public officials must continuously monitor the effectiveness and need for its various programs and services. Performance reviews and/or sunset commissions have one thing in mind—find savings and quality improvements throughout state (and federal) government to deliver better value to taxpayers. Their stories are instructive and their model is easily replicable in short order.

Texas

For more than a dozen years, the state of Texas has used a Sunset Advisory Commission to conduct a regular assessment of state agencies. Its primary function is to determine if that agency is still needed.

The commission was created to counter the natural growth of government. Over time new programs and activities are added, gradually increasing the size and scope of governments reach. Seldom do legislative bodies ask the basic question: do an agency's functions continue to be needed? Most programs and functions may have been good ideas at some point—usually created to solve a problem. Yet, rarely are programs reevaluated to see if the need still exists.

Since the first review took place, 47 agencies have been abolished and another 11 agencies have been consolidated. Estimates from reviews conducted between 1982 and 2003 indicate a potential 21-year revenue-generation savings of $736.9 million. For every dollar spent on the Sunset process, the State has received $37 in return.[10]

The following are examples of agencies that have been abolished:

- Texas Aerospace Commission
- Texas Department of Economic Development
- Riding Stables Chapter
- Texas Energy Coordination Council
- Texas Hospital Equipment Financing Council
- Antiquities Committee
- Good Neighbor Commission

The following agencies were consolidated:

- Texas Department of Aging and Texas Department of Human Services
- Texas Advisory Board of Occupational Therapy Examiners and Texas Board of Physical Therapy Examiners

In addition to the Sunset Commission, Texas also uses a biannual "Performance Review" conducted by the State Comptrollers' Office to find savings and efficiencies. In 2003, their report identified savings of $1.7 billion in general revenue funds for the next biennium. The recommendations included everything from bringing agency staff and management ratios in line with those found in the private sector, to completely wiping some agencies as they exist today from the bureaucratic books.

Some of their recent findings:

- Eliminate the State Aircraft Pooling Board - $20,688,000
- Increase State Employees Copayments for Health Care - $205,200,000
- Health and Human Services Commission should contract with a pharmacy benefit manager (PBM) to bring the most advanced cost management techniques to the Texas Vendor Drug program - $390,474,000
- State law should establish a pilot program to encourage public school districts to form shared financial management services cooperatives

California

Upon entering office, Governor Arnold Schwarzenegger embarked on a top-to-bottom review of California state government. The California Performance Review CPR was modeled after Texas' similar efforts and produced a 7-inch-thick report providing a blueprint for a new model of government. It was a complete overhaul of the executive branch—as well as 1,000 concrete recommendations on improving the way the state operates.

These recommendations range from the mundane—like ordering all state forms to be written in plain, understandable language—to the very large—like selling state assets, using more toll roads and putting more state functions out to competition. In its entirety the CPR identified more than $32 billion in savings that could be achieved over five years.

The following are just a few recommendations from the CPR. While not all of the 1,000-plus recommendations are appropriate for Colorado, there are lessons to be learned from the type and breadth of the findings

- Consolidate State Cashiering and Taxing Agencies - $35,359,000 (5 years)
- Reduce State Requirements on State Leases - $14,250,000
- Allowing Self-Certification of Sole Proprietorships and Micro businesses - $950,000
- Implement Biennial Vehicle Registration - $1,259,000,000 (5 years)
- Book Travel Online – $14,900,000
- Consolidating Technology Contracts - $1,093,000
- Better Utilize Digital Photo Technology - $1,130,000
- Improve Employee Suggestion Program - $1,707,000
- Implement Strategic Sourcing - $96,064,000

Federal Government

While there has been some interest in utilizing performance information in the budgeting process at the federal level for decades, one of the more significant recent attempts to incorporate this tool was embodied in the Government Performance and Results Act of 1993 (GPRA). GPRA requires agencies to develop performance measures and collect information to evaluate federal program effectiveness and efficiency. It, furthermore, requires agencies to publish activity-based strategic and annual plans so that results can better be linked to appropriations decisions.

The Office of Management and Budget (OMB) took things a step further when it developed its Program Assessment Rating Tool (PART) to evaluate programs based on their purpose, strategic design, management, and results. OMB takes these assessments into account while reviewing agency budget requests and the results are reported in the President's budget submission to Congress.

The PART analysis is a methodological, standardized, and evidence-based evaluation offering hard data on whether federal programs are doing what taxpayers are paying for them to do and assessing whether they are being managed properly.[11] In each of the last three years, PART reviews have examined one-fifth of the federal government—over three years, nearly two-thirds of the federal government have been reviewed—and the administration expects to complete reviews of the remainder of programs by 2007 when the president submits his fiscal year 2008 budget proposal to Congress.[12]

PART investigates the most important aspects of performance. It enables managers to paint an in-depth picture of just what exactly they are achieving, or if they are achieving anything at all. Agencies are scored as either "Effective," "Moderately Effective," "Adequate," "Ineffective," or "Results Not Demonstrated." The Management Scorecard does use similar ratings. However, at the federal level, PART represents a clear link between the rating and an agency's budget. According to the GAO, "OMB, through its development and use of PART, has more explicitly infused performance information into the budget formation process and increased the attention paid to evaluation and performance information."[13]

In fiscal year 2005, "effective" programs enjoyed an average increase of 7.18 percent to their budget. "Adequate" programs saw an average budget decrease of 1.64 percent, while "ineffective" programs were cut by a dramatic average of 37.68 percent. In addition, 15 federal programs were eliminated for failing to perform resulting in savings over $1 billion.

Oftentimes, PART recommendations address program performance and management issues, rather than funding issues. In fact, 82 percent of PART recommendations for fiscal year 2004 concerned program assessment, design, and management; only 18 percent were directly related to funding concerns.[14] As a January 2004 GAO report notes, PART recommendations illustrated program deficiencies—and offered solutions—in agencies such as the Department of Health and Human Services and the Department of Labor:

> *OMB and HHS officials agree that the Foster Care program as it is currently designed does not provide appropriate incentives for the permanent placement of children; the program*

financially rewards states for keeping children in foster care instead of the original intent of providing temporary, safe, and appropriate homes for abused or neglected children until children can be returned to their families or other permanent arrangements can be made. The PART assessment provided support for OMB's recommendation that legislation be introduced that would create an option for states to participate in an alternate financing program that would "better meet the needs of each state's foster care population."

Performance information included in the PART for the Department of Labor's (DOL) Community Service Employment for Older Americans program helped to shape OMB's recommendation to increase competition for the grants. OMB concluded that although the Older Americans Act of 2000 amendments authorize competition for grants in cases in which grantees repeatedly fail to perform, the programs' 10 national grantees have historically been the sole recipients of grant funds regardless of performance. OMB recommended that DOL award national grants competitively to strengthen service delivery and open the door to new grantees.[15]

Other programs marked for improvement by virtue of their "ineffective" PART scores for FY 2006 include the following:

Department of Education
- Even Start
- Federal Perkins Loans
- Safe and Drug Free Schools State Grants
- TRIO Upward Bound
- Vocational Education State Grants

Department of Health and Human Services
- Health Professions
- Substance Abuse Prevention and Treatment Block Grant

Department of Housing and Urban Development
- Community Development Block Grant (Formula)
- Project-Based Rental Assistance
- Rural Housing and Economic Development

Department of Labor
- Migrant and Seasonal Farmworkers
- Trade Adjustment Assistance
- Youth Activities

Department of the Treasury
- Earned Income Tax Credit (EITC) Compliance

Environmental Protection Agency
- Alaska Native Villages

- Pesticide Enforcement Grant Program.[16]

Indiana

While director of U.S. OMB, Indiana Governor Mitch Daniels oversaw the design and implementation of PART. It is no surprise then that the Governor is pursuing a similar initiative in Indiana. While it has not officially been rolled out, the "PART-like" program will follow the general guidelines of PART and produce similar results, relatively speaking.

In addition, the administration has embarked on an aggressive cost cutting exercise in which "no cut was too small." In just six months the state was able to find over $150 million in savings.

- Department of Administration divestiture of surplus vehicles - $808,207
- Indiana Economic Development Corporation consolidation of regional offices - $1,500,000
- Department of Corrections merged several co-located facilities - $910,000
- Elimination of a layer of executive management with the Department of Environmental Management - $400,000
- Department of Homeland Security merged the Department of Fire and Building Services, SEMA, and the Counter Terrorism Council - $524,375
- Department of Agriculture ceased operating a Bed and Breakfast - $100,000
- Department of Transportation eliminated a management level at district locations - $1,500,000 - $2,000,000

Besides making these budget cuts, Governor Daniels and the General Assembly enacted a truly balanced budget. In fact, the rate of growth in the biennial appropriations was just over 2 percent—the lowest in more than 50 years. Despite this slow rate of growth, the state continues to prosper.

What Colorado Should Do

The one common factor in all of these programs is that politics was, to the extent possible, taken out of the debate by focusing on performance and results. Yet, the implementation did not go as smoothly. In too many cases, current political systems restrict the ability of lawmakers to fully enact performance programs.

Lawmakers should take a cue from the federal government to cope with the challenge of agreeing on cuts to make. The process that best suits their needs has recently been employed to identify and enact military base closures.

Immediately after the election, the governor and legislature should create a Commission on Budget Reconciliation to propose reductions or elimination in funding to programs to meet

TABOR requirements. In addition, the commission should provide ongoing oversight to ensure progress toward enacting budget changes.

The commission should immediately review the recently passed budget, as well as the reports from the Joint Budget Committee, State Treasurer and State Auditor's Office. The commission should submit a plan within 60 days.

This commission would function similarly to the federal Base Realignment and Closure Commission (BRAC) which made politically unpopular decisions regarding the closure of military bases. BRAC recommendations are presented to Congress as a non-amendable package, to be voted up or down. Doing so depoliticizes the decisions, removes the influence of individual special interests, and requires legislators to review the proposal as a whole.

It would behoove the state to implement a similar process in which groups of recommendations are considered for a straight up or down vote—free from political wrangling and special interests.

Over the years, a myriad of commissions and boards has been created to address specific needs in Colorado, but they have rarely, if ever, been 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—there clearly are some opportunities for consolidation and elimination that could save millions for Colorado taxpayers.

In the end, Colorado will survive should Referenda C and D fail. Vital services and programs will survive—citizens and taxpayers will continue to receive services as if nothing changed. Yes, some programs will face reduction or possibly even elimination. The processes and tools employed by the federal government and countless states provide a road map to follow toward a more efficient, effective, and performance based government.

About the Authors

Geoffrey F. Segal is the director of government at Reason Foundation, a nonprofit think tank advancing free minds and free markets. He is also editor of Reason's Annual Privatization Report.

Segal recently served as an advisor to Florida Gov. Jeb Bush's Center for Efficient Government. In addition, his counsel has recently been sought out by 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. Segal is also an advisor to the Cost Cutting Caucus in the Virginia House of Delegates.

Segal is a highly skilled policy analyst with a strong, diversified background in policy research and project analysis focusing on public-private partnerships, competition, government efficiency, government spending and waste, transparency, accountability, and government performance.

Segal has worked closely with legislators in California, New York, Florida, Virginia, Pennsylvania, Oregon, Kentucky, Indiana, Ohio, Washington D.C., Colorado, Minnesota, Maryland, Maine, North and South Carolina, Hawaii, Arizona, and Texas in efforts to reduce government spending, improve government performance, and enhance accountability in government programs.

Segal has testified to the United States Senate and numerous state legislatures and agencies. He has written dozens of articles for leading publications including *Investor's Business Daily*, *Atlanta Journal-Constitution*, *Indianapolis Star*, *Orange County Register*, *Los Angeles Daily News*, and *New York Sun*. Segal is also a contributing editor to *Budget & Tax News*.

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