

Governing by Network

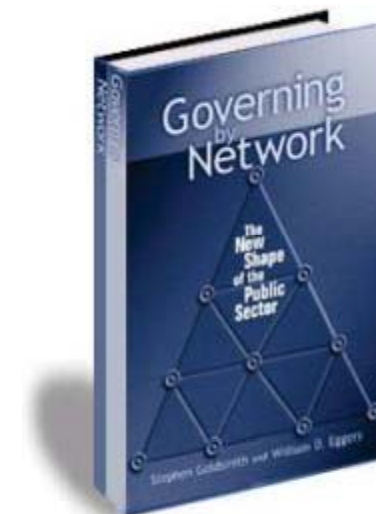
Producing Public Value with Private Actors

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NGA Center for Best Practices

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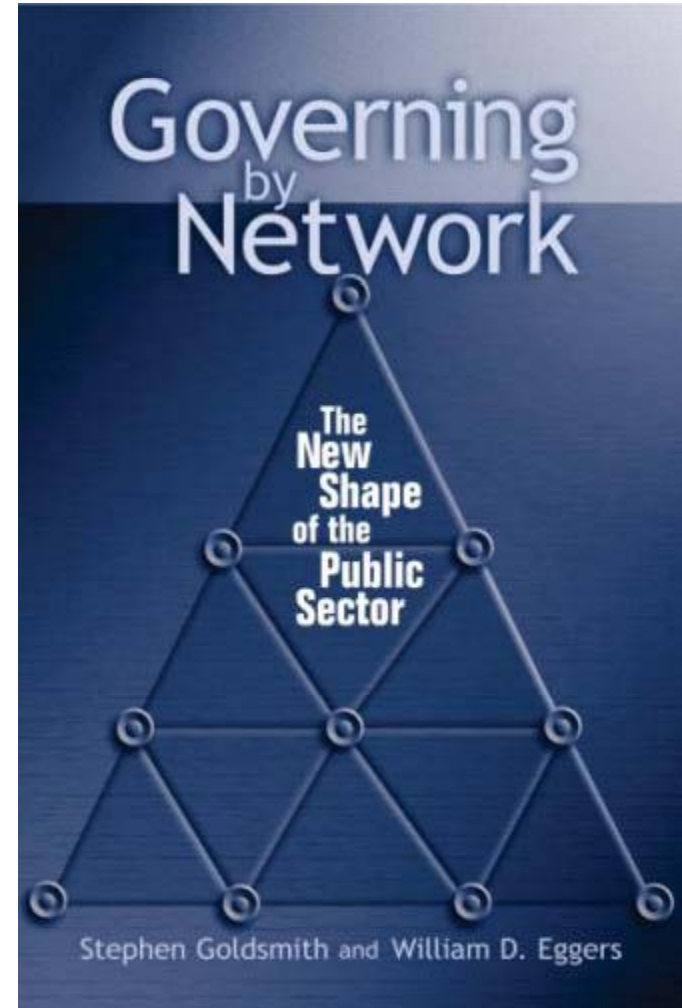


Government Is Changing

1 Government **can't solve complex horizontal problems with vertical solutions**, nor by simply accomplishing bureaucratic activities better.

2 The **role of government is being transformed** from direct service provider to generator of public value.

3 We won't get the results taxpayers deserve nor citizens require until we figure out how to **better manage a government** that does less itself and more through third parties.



Privatization Today: Setting the Scene

- Government is delivering ever-increasing high-quality government services through third-party providers.
- Privatization is no longer about ownership of a public asset:
 - Sell the wastewater plants, contract out the operation of them, or keep the ownership and management?
- Success should not be measured by how much privatization has occurred but by how well government performs as a result:
 - The more units of public value produced per dollar spent, the more successful the trend.
- For government to move forward, private and not-for-profit providers need to contribute public value by providing solutions.



AS OUTSOURCINGS ATTEMPT TO SOLVE MORE COMPLEX PROBLEMS AND BECOME MORE COMPLICATED TO MANAGE, THE STAKES WILL INCREASE

The “Privatization” or “Outsourcing” Debate Reflects a False Choice

The Left

- Government employees should perform all public services
- Private contractors are often corrupt
- Citizens should receive similar services configured by government, not by choice

The Right

- Privatize everything
- Public sector always inefficient
- Private sector always better than public
- Privatizing makes government smaller

Barriers to Privatization: What's Feeding the Public Backlash?

1. Conflicting messages from Washington
2. Private actors making money off public assets
3. Foreign ownership of American assets
4. Unpopular contract terms
 - Non-compete clauses
 - Leases that are too long



Barriers to Privatization: What's Feeding the Public Backlash? (Continued)

5. Government will lose control of policy
6. Fear private owners will raise rates/toll rates
7. Stakeholder / trucker / motorist opposition
8. Union opposition
9. Fear revenue will be wasted
10. Fear of mortgaging the future



Case Studies on Good and Ugly: Advanced Wastewater Treatment

- Cumulative savings over the ten-year term were \$189 million
- Water quality equal to or better than historic standards
- Equipment maintenance equal or better in all cases
- Employee grievances reduced 97% in the first year



Case Studies on Good and Ugly: Atlanta: What went wrong?

- **Inaccurate and lacking baseline data**
 - Not enough information at the start on the state of Atlanta's water infrastructure, or the real costs of service, maintenance and repair. On the other hand, "all of the bidders knew about the lack or quality of data ahead of time before they bid."
- **Contract lacked necessary specifics about performance**
 - Both the city and the company acknowledge the contract lacked specifics. After the 20-year contract was signed, questions lingered about United Water's responsibilities. "There were too many gray areas left in the contract."
- **Process driven by politics, not to maximize value**
 - Governments bad at running enterprises often bad at contracting them

What if Government is Not Good at its Core Business

Benefits Eligibility Modernization

Indiana v. Texas

Indiana

- 10 year, \$1.1bil contract
- Limited project scope to personnel; maintained policies and IT system
- Required vendor to hire state employees
- Hired needed expertise for planning and monitoring
- Made effort to maintain service levels in transition
- Performance-based contract
- Status: in pilot phase; food stamp applications way up; call volume higher than expected

Texas

- 5 year, \$900mil contract
- Bit off a big chunk: new IT, new policies, new employees*
- High-profile transition errors or better enforcement: cut benefits to 28,000 children
- Service quality dropped quickly (e.g. call times); costs rose quickly
- Weak performance requirements and monitoring*
- Status: cancelled contract in March 2007

*State Comptroller's Report Oct 2006

What if Government is Not Good At Its Core Business

Benefits Eligibility Modernization

ACCESS Florida

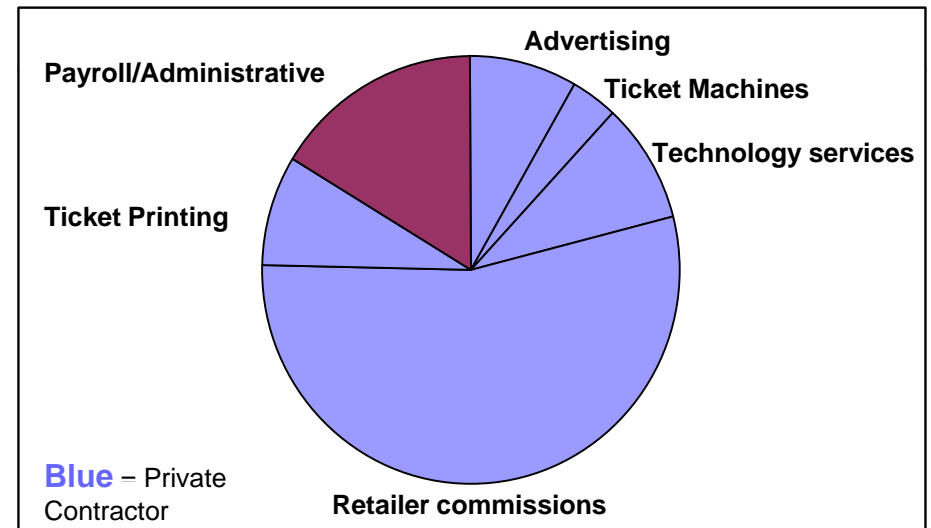
Florida

- In-house modernization motivated by state legislature's threat of competition
- Streamlined process; more options via call center and online front-end for IT system; network of local NGOs
- ~90% automated application rate
- Food stamp households up 16% from Jan07; up 47% from Jun03
- \$83Mil in admin savings through 43% staff reduction (-3,100 employees since Jun03)
- 2008 Legislative Budget Request includes 300 FTE increase due to high workloads*

Why Consider Lottery Privatization?

1. Immediate important use for the funds
2. Private manager accepts revenue risks
3. State becomes regulator not operator
4. Most lotteries already outsourced

Outsourced Functions



Considerations in Lottery Privatization

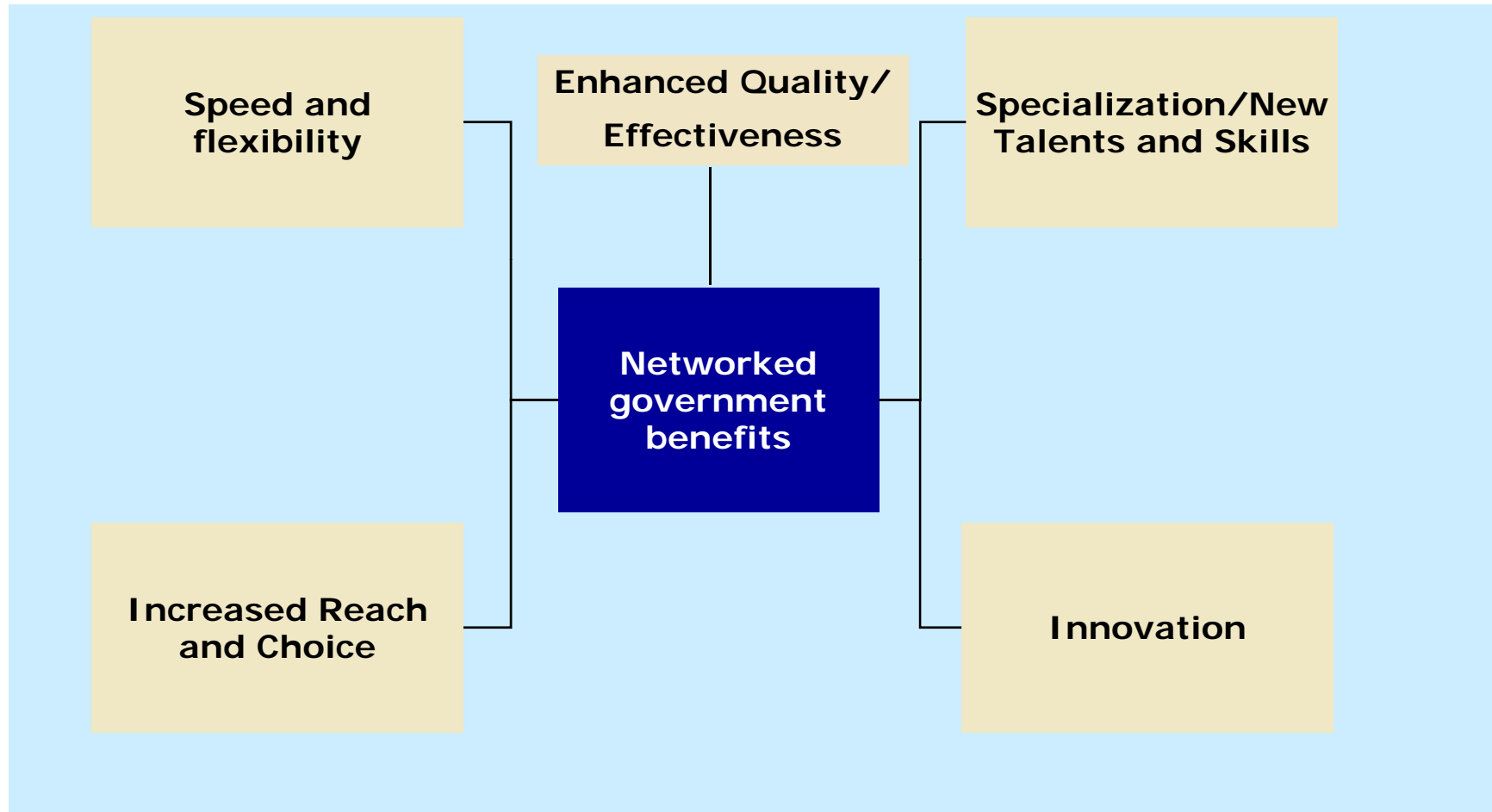
- Not so unusual: States generally don't own race tracks or casinos
- Operator uses its funds for new products and technologies
- Improved operating efficiency
- State can lock in and control revenues
- Advertising must be regulated
- Gambling addictions should be addressed
- Determine how many of the goals can be achieved by further outsourcing but not privatization



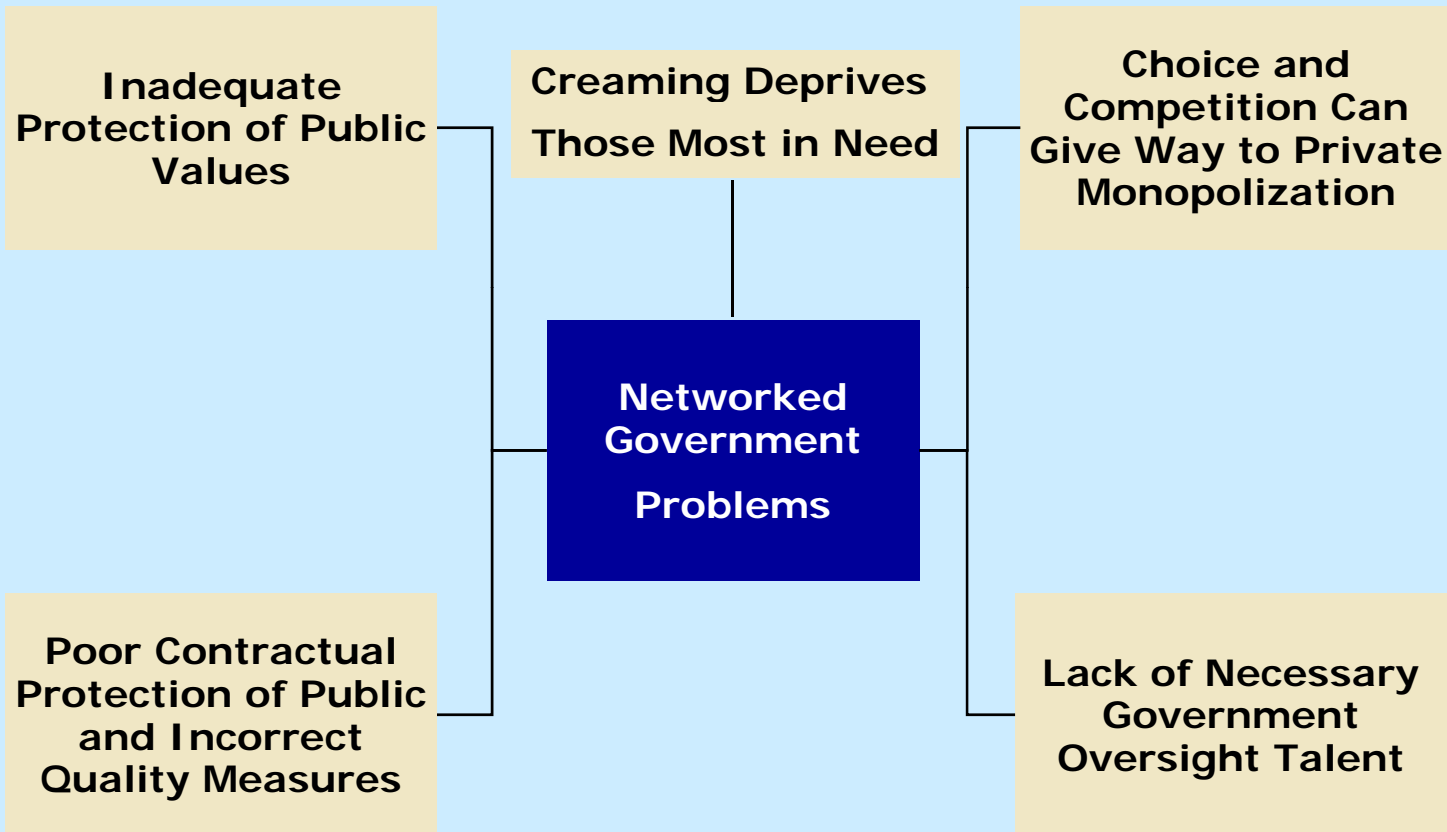
Answer the Question:

Why Do you Want the Money -- Will it Build a Better State?

Advantages Of This Model



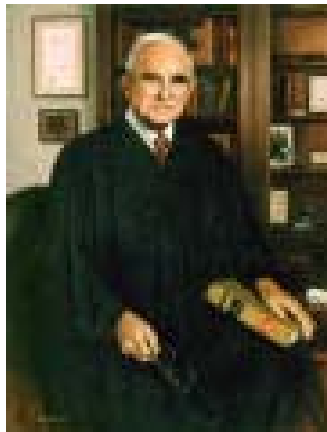
Disadvantages Of This Model



Human Capital Capabilities Needed for Network Management

Position	Hierarchical Responsibilities	Network Governance Responsibilities
CEO/Elected/ Cabinet Official	<ul style="list-style-type: none"> • Allocate Resources • Explain to External Stakeholders 	<ul style="list-style-type: none"> • Maximize public value • Identify core government values and talents
COO/ Director	<ul style="list-style-type: none"> • Protect boss • Limit downstream discretion and mistakes 	<ul style="list-style-type: none"> • Develop and manage relationships and strategy • Understand customer needs
Manager	<ul style="list-style-type: none"> • Enforce Rules • Monitor Inputs 	<ul style="list-style-type: none"> • Relationship Manager • Project Manager
Line Worker	<ul style="list-style-type: none"> • Follow rules 	<ul style="list-style-type: none"> • Solve customer problems
Procurement Officer	<ul style="list-style-type: none"> • Prescribe rules • Enforce impersonal tight processes 	<ul style="list-style-type: none"> • Negotiate • Solicit and incorporate best ideas • Contract for outside advice

Managing the Accountability / Flexibility Tension



Accountability

Flexibility

The Accountability Dilemma: How Can You Get Results with Only Limited Control?

- Example: Explosion of the space shuttle Columbia. Who was responsible?



***Columbia* explodes during re-entry due to damage done to left wing caused by broken foam**

Boeing advised NASA that foam not a risk

NASA ignored its own engineers

Lockheed-Martin built the shuttle

Issue: Preserving Democratic Accountability During Transformation



Rule Enforcement



Value Referee

Helpful Hints If You Are Going to Privatize

1. Use a clear, open & transparent process
2. Recruit top government official as owner
3. Recruit influential outside champions
4. Keep the public and stakeholders informed and on your side
5. Provide for your current workforce
6. Contract oversight: Hold your concessionaires to their obligations
7. Don't lock yourself in -- Consider dividing the operation and financing entities and terms
8. Use privatization revenues for long-term infrastructure needs, not short-term budget fixes
9. Retain public control over decisions about policy
10. Consider competition

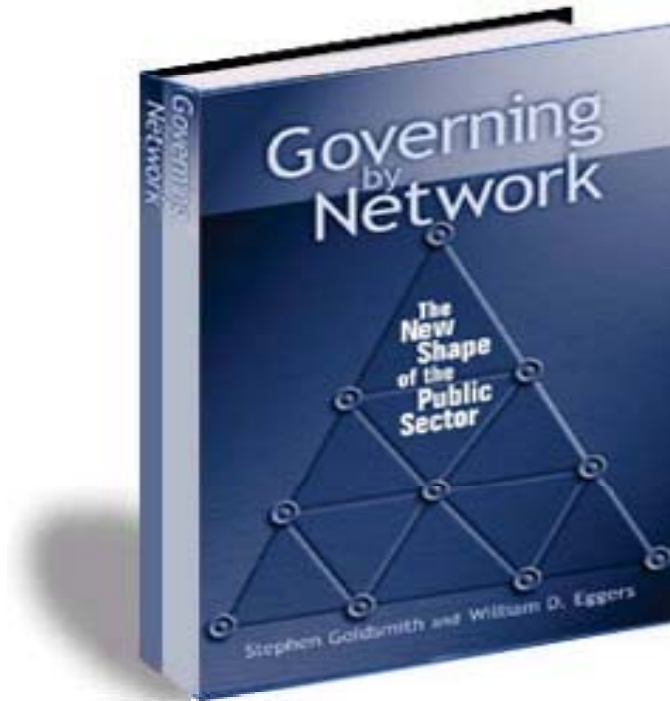


* Incorporating the work of William Eggers

Congestion Pricing: Hints

- **Make it part of an integrated strategy.** If commuters cannot continue their daily lives by using public transport, they will return to their cars.
- **Be clear about the alternatives:** raising fuel taxes or allowing more infrastructure failures to happen by doing nothing.
- **Counter the “just another tax” charge.** Choose carefully where the revenues will go.
- **Pick the right scale and pace.** Pilot project or “big bang?” What makes the most sense to the most people?
- **Use proven technology.** The key to the London scheme was that it used proven technology that was integrated on time and on budget.
- **Focus on customer relationship management.** It should be relatively straightforward to make a payment using cost-efficient channels. Enforcement must be effective and provide a sufficient deterrent to minimize persistent evaders.
- **Don’t lock yourself in.** Have the flexibility to adapt pricing plan to the changing environment.

Government Innovators Network



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